

STERLING FINANCIAL CORP /WA/
Form DEF 14A
March 27, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
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Sterling Financial Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**111 North Wall Street
Spokane, Washington 99201**

March 27, 2009

Dear Fellow Shareholder:

It is my pleasure to invite you to attend the Annual Meeting of Shareholders of Sterling Financial Corporation. The Annual Meeting will be held in the Eric A. Johnston Auditorium of the Cheney Cowles Center, 2316 West First Avenue in Spokane, Washington, on Tuesday, April 28, 2009, at 10:00 a.m., local time.

The formal Notice of Annual Meeting of Shareholders and the proxy statement are attached and describe the proposals to be voted on at the Annual Meeting. The Board of Directors believes the proposals are in the best interests of Sterling and its Shareholders and, accordingly, recommends that you vote **FOR** each of the proposals. We will also report on Sterling's operations and respond to questions of general interest to Shareholders.

It is important that you be represented at the Annual Meeting regardless of the number of shares you own or whether you are able to attend the Annual Meeting in person. We urge you to complete, sign and date your proxy card today and promptly return it in the postage-paid envelope provided, even if you plan to attend the Annual Meeting. This will not prevent you from voting in person, but will ensure that your vote is counted if you are unable to attend.

Your continued support is sincerely appreciated.

Sincerely,

/s/ Harold B. Gilkey
Harold B. Gilkey
Chairman of the Board, President
and Chief Executive Officer

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111 North Wall Street

Spokane, Washington 99201

**NOTICE OF ANNUAL MEETING
OF SHAREHOLDERS**

The Annual Meeting of Shareholders of Sterling Financial Corporation (Sterling) will be held in the Eric A. Johnston Auditorium of the Cheney Cowles Center, 2316 West First Avenue, Spokane, Washington, on Tuesday, April 28, 2009, at 10:00 a.m., local time, for the following purposes:

1. To elect five Directors of Sterling for terms ending in the year 2010;
2. To ratify the appointment of BDO Seidman, LLP as the independent registered public accounting firm for Sterling for the fiscal year ending December 31, 2009;
3. To consider and approve an advisory (non-binding) resolution approving Sterling s executive compensation; and
4. To transact such other business that may properly come before the Annual Meeting or any adjournment or postponement thereof.

These matters are more fully described in the attached proxy statement. Only Shareholders of record at the close of business on February 27, 2009, the record date, will be entitled to vote at the Annual Meeting or any adjournment or postponement thereof.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on April 28, 2009. The 2009 Proxy Statement, 2009 Proxy Card and Annual Report to Shareholders for the year ended December 31, 2008 are also available at www.sterlingfinancialcorporation-spokane.com.

YOUR VOTE IS IMPORTANT REGARDLESS OF THE NUMBER OF SHARES YOU OWN, OR WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. EVEN IF YOU EXPECT TO ATTEND THE ANNUAL MEETING, WE URGE YOU TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

By Order of the Board of Directors,

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

Spokane, Washington

March 27, 2009

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STERLING FINANCIAL CORPORATION

111 North Wall Street

Spokane, Washington 99201

PROXY STATEMENT

Annual Meeting of Shareholders

To be Held April 28, 2009

Date, time, place and purpose of Sterling's Annual Meeting

The 2009 annual meeting of Shareholders of Sterling Financial Corporation (Sterling), including any postponements or adjournments thereof (the Annual Meeting), will be held at 10:00 a.m., local time, on April 28, 2009, in the Eric A. Johnston Auditorium of the Cheney Cowles Center, 2316 West First Avenue, Spokane, Washington. At the meeting, Sterling's Shareholders, as of February 27, 2009 (the Record Date), will be asked to elect each of the nominees for the Board of Directors, and to ratify the appointment of BDO Seidman, LLP (BDO) as the independent registered public accounting firm for Sterling for 2009 and to consider and approve an advisory resolution approving Sterling's executive compensation. This proxy statement is first being sent to holders of Sterling common stock on or about March 27, 2009, and is accompanied by a proxy that is being solicited by the Sterling Board of Directors for use at the Annual Meeting.

Record date; outstanding shares; shares entitled to vote

Only holders of record of Sterling common stock at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. Each holder of Sterling common stock is entitled to one vote for each share of Sterling common stock owned as of the Record Date. As of the Record Date, there were 52,395,085 shares of Sterling common stock outstanding.

Quorum; vote required

Under Washington law, any Shareholder action at a meeting requires that a quorum exist with respect to that action. A quorum for the actions to be taken at the Annual Meeting will consist of a majority of the outstanding shares of Sterling common stock entitled to vote, present in person or by proxy at the Annual Meeting. Shareholders of record, including brokers holding customers' shares of record, who are present at the Annual Meeting in person or by proxy and who abstain from voting are considered present and entitled to vote, and will count toward a quorum.

If a quorum exists at the Annual Meeting, those nominees for election to the Board of Directors who receive the greatest number of affirmative votes cast for Directors will be elected as Directors. If a quorum exists, the affirmative vote by the holders of a majority of the common stock present in person or represented by proxy and entitled to vote is required to approve other matters to be acted upon at the Annual Meeting. Abstentions and broker non-votes will have no impact on the election of Directors or other proposals. Proxies and ballots will be received and tabulated by American Stock Transfer & Trust Company, Sterling's transfer agent.

Voting of proxies

The Board of Directors requests that you complete, date and sign the proxy card accompanying this proxy statement and promptly return the card in the enclosed postage-paid envelope. Unless contrary instructions are specified, all properly signed proxies received by Sterling and not revoked before the vote at the Annual Meeting will be voted: 1) FOR the election of the five Directors nominated by the Board of Directors; 2) FOR the ratification of the appointment of BDO as the independent registered public accounting firm for Sterling for 2009; 3) FOR the advisory resolution approving Sterling's executive compensation; and 4) in accordance with the best judgment of the proxy agents on any other matters properly brought before the Annual Meeting. If the Annual Meeting is postponed or adjourned, your proxy will still be effective and may be voted at the rescheduled meeting. You will still be able to change or revoke your proxy until it is voted.

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If you own your shares in street name, that is, through a brokerage account or in another nominee form, you must provide instructions to the broker or nominee as to how your shares should be voted. Otherwise, your shares may not be voted and will be recorded as broker non-votes. Your broker or nominee will usually provide you with the appropriate instruction forms at the time you receive this proxy statement. If you own your shares in this manner, you cannot vote in person at the Annual Meeting unless you receive a proxy to do so from the broker or the nominee and you bring the proxy to the Annual Meeting.

If you are a participant in Sterling's 401(k) Employee Savings and Investment Plan and Trust, your completed proxy will serve as voting instructions to the plan trustee. However, your voting instructions must be received at least five days prior to the Annual Meeting to count. In accordance with the terms of the plan, if you fail to instruct the plan trustee how to vote your plan shares, the trustee will not vote your plan shares, except as required by law.

How to revoke your proxy

You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the Annual Meeting:

Deliver to Sterling a written notice bearing a date later than the date of the proxy card, stating that you revoke the proxy;

Sign and deliver to Sterling a proxy card relating to the same shares and bearing a later date; or

Attend the meeting and vote in person, although attendance at the meeting will not, by itself, revoke a proxy. Also, please note that if you have voted through your broker, bank or other nominee and you wish to change your vote, you must follow the instructions received from such entity to change your vote.

Voting electronically via Internet or telephone

A large number of banks and brokerage firms provide Shareholders whose shares are registered in the name of such firms the opportunity to vote via the Internet or by telephone. The voting form sent to a beneficial owner will provide instructions if such options are available.

Expenses of proxy solicitation

The expense of preparing, printing and mailing this proxy statement and the proxies solicited hereby will be borne by Sterling. Proxies will be solicited by Sterling by mail or electronically and may also be solicited on behalf of Sterling by directors, officers and other employees of Sterling, without additional remuneration, in person or by telephone or facsimile transmission. Sterling will also request brokerage firms, banks, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares of Sterling common stock as of the Record Date and will reimburse such entities for the cost of forwarding the proxy materials in accordance with customary practice.

Recommendation of the Board of Directors

The Board of Directors of Sterling believes the proposals described herein are in the best interests of Sterling and its Shareholders and, accordingly, recommends that the Shareholders vote FOR the proposals identified in the Notice.

Dissenters' Rights

There are no dissenters' rights applicable to any matters to be considered at the Annual Meeting.

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Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on April 28, 2009.

The 2009 Proxy Statement, 2009 Proxy Card and Annual Report to Shareholders for the year ended December 31, 2008 are also available at www.sterlingfinancialcorporation-spokane.com.

You may request additional copies of the proxy materials without charge by sending a request via e-mail to investor.relations@sterlingsavings.com, calling 1-800-336-6610 ext. 1477, or by making a request online at www.sterlingfinancialcorporation-spokane.com. You may request to receive paper copies of the proxy materials for all future meetings or only for the 2009 Annual Meeting of Shareholders.

Shareholders of record as of the Record Date are encouraged and cordially invited to attend the 2009 Annual Meeting of Shareholders. Directions to attend the Annual Meeting where you may vote in person can be found on our website at www.sterlingfinancialcorporation-spokane.com.

PROPOSAL 1: ELECTION OF DIRECTORS

The Board of Directors currently consists of ten Directors. The Board of Directors has nominated current Directors Katherine K. Anderson, Ellen R.M. Boyer, William L. Eisenhart, Donald J. Lukes and Michael F. Reuling to serve a one-year term ending at the annual meeting of Shareholders in the year 2010, or when their respective successors have been duly elected and qualified. Directors James P. Fugate, Harold B. Gilkey, James B. Keegan, Jr., Robert D. Larrabee and William W. Zuppe continue to serve the remainder of the three-year terms that they were elected to serve prior to Sterling's amendment of its Articles of Incorporation at the 2008 Annual Meeting of Shareholders to eliminate staggered terms for Directors and require the annual election of all Directors.

Each nominee for election as a Director at the Annual Meeting has consented to serve if elected. Sterling has no reason to believe that any of the nominees will be unable to serve. Should any nominee become unable to serve as a Director for any reason, the Board of Directors shall designate a substitute nominee. Unless instructions to the contrary are specified on the proxy card, proxies will be voted in favor of the persons who have been nominated by the Board of Directors.

The Board of Directors recommends that Shareholders

vote FOR the election of each of the nominees.

BOARD OF DIRECTORS OF STERLING FINANCIAL CORPORATION

HAROLD B. GILKEY

Mr. Gilkey, 69, has served as Chairman of the Board and Chief Executive Officer (CEO) of Sterling since its inception in 1992, as President of Sterling since February 2008, and served as Chairman of the Board and CEO of Sterling's wholly owned subsidiary, Sterling Savings Bank (Sterling Savings) from its inception in 1981 until October 2003, and continues to serve as a Director of Sterling Savings. Mr. Gilkey co-founded Sterling Savings in 1981. Additionally, he is Chairman of the Board and CEO of Golf Savings Bank, a subsidiary of Sterling, and a Director of INTERVEST-Mortgage Investment Company (INTERVEST), a wholly owned subsidiary of Sterling Savings. Mr. Gilkey brought to Sterling Savings over 20 years of commercial and mortgage banking experience. He served as President of Bancshares Mortgage Company of Spokane, Washington, and Senior Vice President of Old National Bank of Spokane, Washington. Prior to that, Mr. Gilkey was employed by Bank of America for 12 years. Mr. Gilkey serves on the Federal Home Loan Bank of Seattle Board of Directors. Mr. Gilkey is a past Director of the Washington Savings League and Chairman of the Savings Association Insurance Fund Industry Advisory Committee, an advisory committee of the Federal Deposit Insurance Corporation. Mr. Gilkey received a Bachelor's degree in Business Administration from the University of Montana in 1962 and a Master of Business Administration degree from the University of Southern California in 1970. His term will expire in 2011.

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WILLIAM W. ZUPPE

Mr. Zuppe, 67, has served as a Director of Sterling since its inception and served as Chairman and as a member of the Board of Sterling Savings from October 2003 until January 2009. Mr. Zuppe served as President and Chief Operating Officer of Sterling since its inception until December 2007 and served as Director, President and Chief Operating Officer of Sterling Savings from 1981 until October 2003, when he was promoted to lead Sterling Savings as Chairman of the Board and Chief Executive Officer. Mr. Zuppe co-founded Sterling Savings in 1981. Mr. Zuppe also served on the Board of Directors of Golf Savings Bank from July 2006 until December 2007. Mr. Zuppe brought to Sterling Savings 18 years of mortgage lending experience as Vice President of Bancshares Mortgage Company and Manager of Loan Administration of Sherwood & Roberts, Inc. of Walla Walla, Washington, a mortgage banking company. Mr. Zuppe is past Chairman of the Board for America's Community Bankers, a national trade association. He is past Chairman of the Washington Savings League Board of Directors and past member of the Federal Reserve Board Thrift Institutions Advisory Council. His term will expire in 2010.

KATHERINE K. ANDERSON

Ms. Anderson, 50, has served as a Director of Sterling since her appointment on December 17, 2007. She has served as the Chief Financial Officer for the Seattle Opera since 2005. Ms. Anderson previously operated her own consulting practice, providing interim chief financial officer services to companies in a variety of industries. She has been a licensed CPA since 1986. Ms. Anderson received her Bachelor's degree from Humboldt State University in 1984. She is also a graduate of the Pacific Coast Banking School at the University of Washington. If reelected, her term will expire in 2010.

ELLEN R.M. BOYER

Ms. Boyer, 49, has served as a Director of Sterling since her appointment on December 17, 2007. She currently holds the position of Chief Operating Officer and Chief Financial Officer at Kibble & Prentice, where she has been employed since 2002. Kibble & Prentice is an insurance and financial services company that provides a single source for property casualty insurance, employee benefits, retirement plan services, executive benefits and business continuation services. Ms. Boyer previously served as the Chief Financial Officer for several technology companies in the Pacific Northwest. Ms. Boyer received her Bachelor's degrees from Oregon State University in 1982. If reelected, her term will expire in 2010.

WILLIAM L. EISENHART

Mr. Eisenhart, 56, has served as a Director of Sterling since his appointment in January 2004. He serves as an independent financial consultant to privately held and publicly traded companies on investment banking matters. Previously, Mr. Eisenhart was a Managing Director at Dain Bosworth, Inc., in Seattle, Washington, a Partner in Corporate Finance for Cable Howse & Ragen in Seattle, Washington, and Vice President of Corporate Finance at Goldman, Sachs & Company in New York City. Currently, he serves as a member of the Finance Committee of the YMCA of Greater Seattle, and is Co-Chair of Harvard College Schools and the Scholarship Committee of Western Washington. Mr. Eisenhart received a Bachelor's degree from Harvard College and a Master of Business Administration degree from the University of Chicago. If reelected, his term will expire in 2010.

JAMES P. FUGATE

Dr. Fugate, 76, has served as a Director of Sterling since 1989. He is the retired Superintendent of Auburn School District No. 408. Dr. Fugate is a former director of Central Evergreen Savings & Loan Association. He is on the Board of Governors of the Auburn Regional Medical Center and serves as the Chairman of the Board. Dr. Fugate received a Bachelor's and Master's degree from Central Washington State University. He received his Ph.D. from the University of Idaho in 1970. His term will expire in 2010.

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JAMES B. KEEGAN, JR.

Mr. Keegan, 60, has served as a Director of Sterling since March 1, 2007. Mr. Keegan served as a Director and Vice-Chairman of the Board of Northern Empire Bancshares and as a Director and Chairman of the Board of Sonoma National Bank from 1982 and 1984, respectively, until Sterling's acquisition of Northern Empire Bancshares and Sonoma National Bank on February 28, 2007. He has been a partner in Keegan & Coppin Company, Inc., a Santa Rosa real estate brokerage and development firm, since 1976. His term will expire in 2010.

ROBERT D. LARRABEE

Mr. Larrabee, 74, has served as a Director of Sterling since its inception and as a Director of Sterling Savings since 1983. Mr. Larrabee is the owner of Merchant Mortuary Group in Clarkston, Washington. He is also a former Director of Laurentian Capital Corporation, a former Director of Lewis and Clark Savings & Loan Association and a past President of the Board of Regents of the University of Washington. Mr. Larrabee received a degree in Mortuary Science from The California College of Mortuary Science in 1958. His term will expire in 2010.

DONALD J. LUKES

Mr. Lukes, 60, has served as a Director of Sterling since January 2006. He retired in 2005 as a principal with the law firm of Witherspoon, Kelley, Davenport & Toole, P.S. Mr. Lukes joined Witherspoon Kelley in 1987 after having served as General Counsel and Senior Vice President of Citicorp's mortgage banking business. He has served as a Director and President of the Board of the Friends of Seven (Public Television); a Commissioner of the Chase Youth Commission; a Director of Goodwill Industries of the Inland Northwest; President of the Hamblen School Parent-Teacher Group and General Counsel to the Friends of the Centennial Trail. Mr. Lukes received his Bachelor of Arts degree from the University of Montana and his Juris Doctorate from St. John's University School of Law in June 1978. If reelected, his term will expire in 2010.

MICHAEL F. REULING

Mr. Reuling, 62, has served as a Director of Sterling since his appointment in December 2006. He has been a self-employed real estate development consultant in Boise, Idaho since retiring as Vice Chairman of Albertson's, Inc. in 2001. Mr. Reuling received a Bachelor's degree from Carleton College in Northfield, Minnesota in 1968 and a Juris Doctorate from the University of Michigan in Ann Arbor, Michigan in 1971. If reelected, his term will expire in 2010.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed BDO Seidman, LLP to serve as the independent registered public accounting firm for Sterling and its subsidiaries for the year ending December 31, 2009, and any interim periods. Shareholders are being asked to ratify such appointment. BDO has advised Sterling that it will have in attendance at the Annual Meeting one or more representatives who will be available to respond to appropriate questions presented at the Annual Meeting. Such representatives will have an opportunity to make a statement at the Annual Meeting if they desire to do so. If the appointment of BDO is not ratified by the required number of votes, the Board will review its future selection of independent registered public accounting firms.

The Board of Directors unanimously recommends that Shareholders vote FOR

the ratification of the appointment of BDO as the

independent registered public accounting firm for Sterling for 2009.

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S FEES

Audit Fees: The aggregate fees and expenses billed by BDO for professional services rendered for the audit of Sterling's annual financial statements, the reviews of the financial statements included in Sterling's periodic reports filed with the Securities and Exchange Commission (the SEC) on Forms 10-Q, SEC registration statement services, and the audits of the financial statements of Sterling's subsidiaries were \$677,000 and \$747,000 for the years ended December 31, 2007 and 2008, respectively. Fees for 2007 and 2008 include the integrated audit of Sterling's consolidated financial statements and management's assessment of internal controls over financial reporting as required by the Public Company Accounting Oversight Board and the SEC.

Audit-Related Fees: The aggregate fees and expenses billed by BDO for audit related services rendered during 2007 and 2008 were \$30,000 and \$54,000, respectively. Types of services in this category were primarily audits of the employee benefit plans and consultation on accounting standards.

Tax Fees: The aggregate fees billed by BDO for tax services rendered during 2007 and 2008 were \$35,060 and \$49,000, respectively. Types of tax services provided by BDO primarily consisted of advice related to preparing Sterling's corporate tax returns and tax consulting projects.

All Other Fees: There were no other services provided by BDO during 2007 and 2008.

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

It is the responsibility of Sterling's Audit Committee to pre-approve all audit and non-audit services provided by BDO. The Audit Committee has adopted a policy authorizing certain permissible audit and non-audit services to be performed by BDO with subsequent reporting and oversight required by the Audit Committee. Permissible services, not pre-approved pursuant to this policy, require specific review and approval prior to the engagement by the Audit Committee, or a designated member. Specific pre-approval of such permissible services with estimated fees of \$2,500 or less may be waived via the *de minimis* exception rule. Procedures are in place to ensure the Audit Committee chairman is notified in the event the *de minimis* rule is used. All services rendered by and fees paid to BDO are reported to and monitored quarterly by the Audit Committee. The Audit Committee considers whether the provision of related audit services are compatible with maintaining the independent registered public accounting firm's independence. To assist the Audit Committee in its oversight responsibilities, the pre-approval policy identifies the three basic principles of independence with respect to services provided by the independent registered public accounting firm, as well as the non-audit services the independent registered public accounting firm is prohibited from providing. One hundred percent of all services provided by BDO in each of the last two fiscal years were pre-approved by the Audit Committee.

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AUDIT COMMITTEE REPORT

During 2008, Directors William L. Eisenhart, Ellen R.M. Boyer, and James B. Keegan, Jr. served on the Audit Committee, with Director William L. Eisenhart serving as Chairman. In February 2009, Michael F. Reuling was appointed to replace Mr. Keegan. As more fully described in the Audit Committee Charter, the Audit Committee is responsible for overseeing Sterling's accounting and financial reporting processes, including the quarterly reviews and the annual audit of Sterling's consolidated financial statements by BDO, Sterling's independent registered public accounting firm. BDO currently serves as Sterling's independent registered public accounting firm and has conducted the integrated audit of Sterling's financial statements and internal control over financial reporting for 2008. The Sarbanes-Oxley Act of 2002 requires the Audit Committee to be directly responsible for the appointment, compensation and oversight of the audit work of the independent registered public accounting firm. The Audit Committee has appointed BDO to serve as the independent registered public accounting firm to conduct an audit of Sterling's financial statements and internal control over financial reporting for the fiscal year ending December 31, 2009, and all interim periods. BDO has advised Sterling that it will have in attendance at the Annual Meeting one or more representatives who will have an opportunity to make a statement if they desire to do so and who will be available to respond to appropriate questions presented to the Secretary of Sterling in advance of the Annual Meeting. As part of fulfilling its responsibilities, the Audit Committee has reviewed and discussed Sterling's audited financial statements with management. The Audit Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended. Finally, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Rule 3526 (Communication with Audit Committees Concerning Independence) of the Public Company Accounting Oversight Board (PCAOB) and has discussed with the independent registered public accounting firm that firm's independence.

Based on its review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements for 2008 be included in Sterling's 2008 Annual Report on Form 10-K filed with the SEC.

Submitted by the Audit Committee of the Board of Directors of Sterling Financial Corporation.

William L. Eisenhart, Chairman

Ellen R.M. Boyer

Michael F. Reuling

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PROPOSAL 3: ADVISORY VOTE ON EXECUTIVE COMPENSATION

The American Recovery and Reinvestment Act of 2009 (ARRA), signed into law on February 17, 2009, includes a provision requiring Capital Purchase Program (CPP) participants, during the period in which any obligation arising from assistance provided under the CPP remains outstanding, to permit a separate shareholder vote to approve the compensation of executives as disclosed pursuant to the compensation rules of the Securities and Exchange Commission. This requirement applies to any proxy, consent, or authorization for an annual or other meeting of the participant s shareholders. Under this legislation, the shareholder vote is not binding on the board of directors of the CPP participant, and may not be construed as overruling any decision by the participant s board of directors.

Therefore, shareholders are being given the opportunity to vote on an advisory (non-binding) resolution at the Annual Meeting to approve Sterling s executive compensation policies and procedures as described below in the Compensation Discussion and Analysis, the compensation tables, and related discussion in Sterling s 2009 Proxy Statement. This proposal, commonly known as a say-on-pay proposal, gives Shareholders the opportunity to endorse or not endorse Sterling s executive pay program.

The purpose of Sterling s compensation policies and procedures is to attract and retain experienced, highly qualified executives critical to Sterling s long-term success and enhancement of shareholder value. The Board of Directors believes Sterling s compensation policies and procedures achieve this objective, and therefore recommend Shareholders vote FOR the proposal through the following resolution:

RESOLVED, that the Shareholders approve the compensation of Sterling s executive officers, as described in the Compensation Discussion and Analysis and the tabular disclosure and accompanying narrative disclosure regarding named executive compensation in Sterling s 2009 Proxy Statement.

Because your vote is advisory, it will not be binding upon the Board. However, Sterling s Personnel Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

The Board of Directors unanimously recommends that Shareholders vote FOR this Proposal.

Table of Contents**INFORMATION CONCERNING THE BOARD OF DIRECTORS AND ITS COMMITTEES****Board Composition**

Our Board of Directors is responsible for the supervision of the overall affairs of Sterling. During fiscal 2008, individuals serving on the Board included Harold B. Gilkey, William W. Zuppe, Katherine K. Anderson, Donald N. Bauhofer, Ellen R.M. Boyer, William L. Eisenhart, James P. Fugate, James B. Keegan, Jr., Robert D. Larrabee, Donald J. Lukes and Michael F. Reuling. Mr. Bauhofer resigned from the Board effective October 24, 2008.

To assist in carrying out its duties, the Board has delegated authority to the Audit Committee, the Personnel Committee and the Nominating Committee. For more information relating to the duties and composition of these committees, please see the sections below entitled Committees of the Board of Directors.

Following our 2009 Annual Meeting of Shareholders, the Board will consist of ten Directors. In the interim period between Annual Meetings of Shareholders, the Board has the authority under Sterling's Bylaws to fill vacancies and may increase or decrease the size of the Board by amending the Bylaws. The Directors are elected annually after their current terms expire.

Attendance of Directors

The Board of Directors of Sterling held seven meetings during 2008. Each Director attended at least 75% of such meetings and those of the Board committees on which the Director served during the year. It is Sterling's policy that members of the Board of Directors should attend all annual meetings of Shareholders except for absences due to causes beyond the reasonable control of the Directors. At the 2008 Annual Meeting of Shareholders of Sterling Financial Corporation, all of the Directors were in attendance.

Committees of the Board of Directors

The Board of Directors of Sterling has established Audit, Personnel and Nominating Committees. The following table shows which committees, if any, that each Director serves on.

Committee Membership

Name	Audit	Personnel	Nominating
Katherine K. Anderson		X	X
Ellen R.M. Boyer	X		
William L. Eisenhart	X*		
James P. Fugate		X	
Harold B. Gilkey			
James B. Keegan, Jr.			
Robert D. Larrabee		X*	
Donald J. Lukes			X*
Michael F. Reuling	X		X
William W. Zuppe			

* Committee Chairman

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Audit Committee. The Audit Committee has been established in accordance with the rules of the SEC for the purpose of overseeing Sterling's accounting and financial reporting processes, the audits of the financial statements, as well as compliance with legal and regulatory requirements. The Audit Committee reviews the independent registered public accounting firm's qualifications, independence and performance, and oversees and monitors the performance of Sterling's internal audit function. The Audit Committee is responsible for the retention, supervision and termination of the independent registered public accounting firm and for resolving any disagreements between management and the independent registered public accounting firm. The independent registered public accounting firm reports directly to the Audit Committee. The Audit Committee is also responsible for reviewing the adequacy of the authority, responsibilities and functions of Sterling's internal audit department. The Audit Committee is not responsible for conducting reviews of auditing or accounting procedures. Management has primary responsibility for Sterling's financial reporting process and for preparing Sterling's financial statements. Sterling's independent registered public accounting firm is responsible for performing an independent audit of the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). The Audit Committee serves a board-level oversight role in which it provides advice, counsel and direction to management and the independent registered public accounting firm on the basis of the information it receives, discussions with the independent registered public accounting firm, and the experience of the Audit Committee's members in business, financial and accounting matters.

During 2008, Directors William L. Eisenhart, James B. Keegan, Jr. and Ellen R.M. Boyer served on the Audit Committee, with Director Eisenhart serving as Chairman. Michael F. Reuling was appointed to the Audit Committee and Director Keegan resigned from the Audit Committee in February of 2009, following the determination that, because of the business Mr. Keegan's company, Keegan & Coppin Company, Inc., engages in with Sterling, Mr. Keegan was no longer independent under the NASDAQ Stock Market (NASDAQ) rules. The Audit Committee held nine meetings during 2008. Each of the current members of the Audit Committee have been determined by the Board to be independent and financially literate as required by the NASDAQ Rules and the SEC. Members of the Audit Committee have reviewed and discussed with management and the independent registered public accounting firm the periodic reports of Sterling prior to filing such reports with the SEC. No member of the Audit Committee has participated in the preparation of the financial statements of Sterling or its subsidiaries at any time during the past three years. The Board has determined that Ms. Boyer is an audit committee financial expert as defined by the SEC. The Audit Committee operates under a written charter reviewed and approved annually by Sterling's Board of Directors. Sterling's Audit Committee Charter is publicly available on Sterling's website at www.sterlingfinancialcorporation-spokane.com.

Personnel Committee. The Personnel Committee reviews and makes recommendations to the Board of Directors with respect to personnel policies that include, but are not limited to, compensation for executive officers of the holding company, as well as employee compensation and benefit programs. The Personnel Committee held two meetings during 2008 and currently consists of Robert D. Larrabee (Chairman), Katherine K. Anderson and James P. Fugate, each of whom has been determined by the Board to be independent as that term is defined by the rules of the NASDAQ and the SEC.

Nominating Committee. The Nominating Committee recommends to the Board of Directors a slate of nominees for election by the Shareholders at each annual meeting of Sterling. At the request of the Board, the Nominating Committee recommends, for approval by the Board, nominees to fill vacancies or new positions on the Board as they may occur or be created from time to time, all in accordance with Sterling's Bylaws. The Nominating Committee identifies potential nominees from various sources, including recommendations from Directors and officers of Sterling. The Nominating Committee will consider nominees recommended by Shareholders upon submission in writing to the Chairman of the Board of Directors the names of such nominees, together with their qualifications for service as Directors of Sterling. Individuals recommended by Shareholders are evaluated in the same manner as other potential nominees. The Nominating Committee reviews and discusses recommendations received for Director candidates and evaluates the qualifications of such candidates before selecting a slate of nominees to be recommended to the Board. Qualifications that the Nominating Committee will consider in evaluating Director candidates include contacts within Sterling's market area, skills, experience, time availability and such other criteria as the Nominating Committee shall determine to be relevant. The

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Nominating Committee held two meetings in 2008, and currently consists of Donald J. Lukes (Chairman), Katherine K. Anderson and Michael F. Reuling, each of whom has been determined by the Board to be independent as that term is defined by the rules of the NASDAQ and the SEC. The Nominating Committee operates under a written charter approved by Sterling's Board of Directors. Sterling's Nominating Committee Charter is publicly available on Sterling's website at www.sterlingfinancialcorporation-spokane.com.

Compensation of Directors

During 2008, Directors of Sterling who are not employees of Sterling were paid a quarterly fee of \$12,000, except for the Chairman of the Audit Committee, who received a quarterly fee of \$13,000. Directors receive reimbursement for travel and other expenses incurred in connection with Board business.

In 2008, Sterling began awarding an annual grant of 1,000 shares of restricted stock to each non-employee Director, with such shares vesting 25% per year over four years, for so long as such individual is a Director of Sterling. The following table sets forth information with regard to compensation earned by non-employee Directors in 2008. Compensation earned by employee Directors is included in the Executive Compensation section of this proxy.

Director Compensation Table

Name(1)	Fees Earned or Paid in	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in pension Value and Nonqualified Compensation Earnings	All Other Compensation	Total
	Cash \$(2)	\$(3)	(\$)	(\$)	(\$)	\$(4)	(\$)
Katherine K. Anderson	48,000	4,077	0	0	0	300	52,377
Donald N. Bauhofer	36,000	0(6)	0	0	0	300	36,300
Ellen R.M. Boyer	48,000	4,077(7)	0	0	0	300	52,377
William L. Eisenhart	52,000	4,077	0	0	0	300	56,377
James P. Fugate	48,000	4,077	0	0	0	300	52,377
James B. Keegan, Jr.	48,000(5)	4,077	0	0	0	300	52,377
Robert D. Larrabee	48,000	4,077	0	0	0	300	52,377
Donald J. Lukes	48,000(5)	4,077(7)	0	0	0	300	52,377
Michael F. Reuling	48,000	4,077	0	0	0	300	52,377
William W. Zuppe	48,000(8)	122,306(9)	0	0	0	15,750(10)	186,056

(1) Includes only Directors who served during 2008. Director Gilkey is omitted from this table because he is a named executive officer who received no separate compensation for his services as a Director during 2008.

(2) Includes cash payments made to Directors of Sterling Financial Corporation for meetings attended during 2008.

(3) Represents the dollar amount recognized for purposes of financial statement reporting in the year indicated for awards and grants made in previous fiscal years. Figures are calculated pursuant to the provisions of FAS 123(R). Valuation assumptions can be accessed in Note 13 of the Notes to Consolidated Financial Statements in Sterling's 2008 Annual Report on Form 10K.

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