

COLUMBIA BANKING SYSTEM INC  
Form 10-Q  
August 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015.

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-20288

COLUMBIA BANKING SYSTEM, INC.  
(Exact name of issuer as specified in its charter)

Washington 91-1422237  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

1301 A Street 98402-2156  
Tacoma, Washington (Zip Code)  
(Address of principal executive offices)  
(253) 305-1900  
(Issuer's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock outstanding at July 31, 2015 was 57,734,127.



TABLE OF CONTENTS

	Page
PART I — FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets - June 30, 2015 and December 31, 2014</u>	1
<u>Consolidated Statements of Income - three and six months ended June 30, 2015 and 2014</u>	2
<u>Consolidated Statements of Comprehensive Income - three and six months ended June 30, 2015 and 2014</u>	3
<u>Consolidated Statements of Changes in Shareholders' Equity - six months ended June 30, 2015 and 2014</u>	4
<u>Consolidated Statements of Cash Flows - six months ended June 30, 2015 and 2014</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	60
Item 4. <u>Controls and Procedures</u>	60
PART II — OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	61
Item 1A. <u>Risk Factors</u>	61
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	61
Item 3. <u>Defaults Upon Senior Securities</u>	61
Item 4. <u>Mine Safety Disclosures</u>	61
Item 5. <u>Other Information</u>	61
Item 6. <u>Exhibits</u>	62
<u>Signatures</u>	63

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

Columbia Banking System, Inc.

(Unaudited)

	June 30, 2015	December 31, 2014
(in thousands)		
<b>ASSETS</b>		
Cash and due from banks	\$ 172,139	\$ 171,221
Interest-earning deposits with banks	5,564	16,949
Total cash and cash equivalents	177,703	188,170
Securities available for sale at fair value (amortized cost of \$1,907,403 and \$2,087,069, respectively)	1,914,445	2,098,257
Federal Home Loan Bank stock at cost	11,803	33,365
Loans held for sale	4,220	1,116
Loans, net of unearned income of (\$49,359) and (\$59,374), respectively	5,611,897	5,445,378
Less: allowance for loan and lease losses	69,257	69,569
Loans, net	5,542,640	5,375,809
FDIC loss-sharing asset	9,344	15,174
Interest receivable	27,483	27,802
Premises and equipment, net	170,380	172,090
Other real estate owned	20,617	22,190
Goodwill	382,537	382,537
Other intangible assets, net	26,924	30,459
Other assets	229,923	231,877
Total assets	\$ 8,518,019	\$ 8,578,846
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 3,207,538	\$ 2,651,373
Interest-bearing	3,836,835	4,273,349
Total deposits	7,044,373	6,924,722
Federal Home Loan Bank advances	45,549	216,568
Securities sold under agreements to repurchase	92,230	105,080
Other borrowings	—	8,248
Other liabilities	99,653	96,053
Total liabilities	7,281,805	7,350,671
Commitments and contingent liabilities		
Shareholders' equity:		
	June 30, 2015	December 31, 2014
(in thousands)		
Preferred stock (no par value)		
Authorized shares	2,000	2,000
Issued and outstanding	9	9
Common stock (no par value)		
Authorized shares	115,000	63,033
Issued and outstanding	57,709	57,437
Retained earnings	243,888	234,498
Accumulated other comprehensive income	2,789	5,621

Edgar Filing: COLUMBIA BANKING SYSTEM INC - Form 10-Q

Total shareholders' equity	1,236,214	1,228,175
Total liabilities and shareholders' equity	\$8,518,019	\$8,578,846
See accompanying Notes to unaudited Consolidated Financial Statements.		

1

---

Table of Contents

## CONSOLIDATED STATEMENTS OF INCOME

Columbia Banking System, Inc.

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in thousands except per share amounts)			
Interest Income				
Loans	\$71,744	\$67,004	\$142,566	\$132,545
Taxable securities	7,260	6,382	14,786	13,134
Tax-exempt securities	3,010	2,671	6,052	5,289
Deposits in banks	26	30	53	44
Total interest income	82,040	76,087	163,457	151,012
Interest Expense				
Deposits	740	729	1,488	1,481
Federal Home Loan Bank advances	154	115	313	229
Other borrowings	136	119	282	238
Total interest expense	1,030	963	2,083	1,948
Net Interest Income	81,010	75,124	161,374	149,064
Provision for loan and lease losses	2,202	2,117	3,411	4,039
Net interest income after provision for loan and lease losses	78,808	73,007	157,963	145,025
Noninterest Income				
Service charges and other fees	15,874	13,790	30,743	26,726
Merchant services fees	2,340	2,040	4,380	3,910
Investment securities gains, net	343	296	1,064	519
Bank owned life insurance	1,206	976	2,284	1,941
Change in FDIC loss-sharing asset	(1,494	) (5,050	) (1,344	) (9,869
Other	3,193	2,575	7,102	5,408
Total noninterest income	21,462	14,627	44,229	28,635
Noninterest Expense				
Compensation and employee benefits	38,446	31,064	77,546	62,402
Occupancy	8,687	8,587	16,680	16,831
Merchant processing	1,079	998	2,056	1,978
Advertising and promotion	1,195	950	2,126	1,719
Data processing and communications	4,242	3,680	9,226	7,200
Legal and professional fees	2,847	2,303	5,354	4,472
Taxes, licenses and fees	1,427	1,051	2,659	2,231
Regulatory premiums	1,321	1,073	2,542	2,249
Net cost (benefit) of operation of other real estate owned	(563	) (97	) (1,809	) 49
Amortization of intangibles	1,718	1,480	3,535	3,060
Other	8,072	6,675	15,290	12,959
Total noninterest expense	68,471	57,764	135,205	115,150
Income before income taxes	31,799	29,870	66,987	58,510
Income tax provision	9,853	8,643	20,680	17,439
Net Income	\$21,946	\$21,227	\$46,307	\$41,071
Earnings per common share				
Basic	\$0.38	\$0.40	\$0.80	\$0.79

Edgar Filing: COLUMBIA BANKING SYSTEM INC - Form 10-Q

Diluted	\$0.38	\$0.40	\$0.80	\$0.77
Dividends paid per common share	\$0.34	\$0.24	\$0.64	\$0.36
Weighted average number of common shares outstanding	57,055	52,088	56,999	51,600
Weighted average number of diluted common shares outstanding	57,069	52,494	57,012	52,463

See accompanying Notes to unaudited Consolidated Financial Statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Columbia Banking System, Inc.

(Unaudited)

	Three Months Ended June 30,	
	2015	2014
	(in thousands)	
Net income as reported	\$21,946	\$21,227
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of \$6,457 and (\$4,992)	(11,341 )	8,768
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of \$124 and \$107	(219 )	(189 )
Net unrealized gain (loss) from securities, net of reclassification adjustment	(11,560 )	8,579
Pension plan liability adjustment:		
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of (\$35) and (\$13)	63	24
Pension plan liability adjustment, net	63	24
Other comprehensive income (loss)	(11,497 )	8,603
Total comprehensive income	\$10,449	\$29,830
	Six Months Ended June 30,	
	2015	2014
	(in thousands)	
Net income as reported	\$46,307	\$41,071
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) from securities:		
Net unrealized holding gain (loss) from available for sale securities arising during the period, net of tax of \$1,119 and (\$9,041)	(1,965 )	15,887
Reclassification adjustment of net gain from sale of available for sale securities included in income, net of tax of \$386 and \$188	(678 )	(331 )
Net unrealized gain (loss) from securities, net of reclassification adjustment	(2,643 )	15,556
Pension plan liability adjustment:		
Net unrealized loss from unfunded defined benefit plan liability arising during the period, net of tax of \$159 and \$0	(280 )	—
Amortization of unrecognized net actuarial loss included in net periodic pension cost, net of tax of (\$51) and (\$26)	91	48
Pension plan liability adjustment, net	(189 )	48
Other comprehensive income (loss)	(2,832 )	15,604
Total comprehensive income	\$43,475	\$56,675
See accompanying Notes to unaudited Consolidated Financial Statements.		



Table of Contents

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Columbia Banking System, Inc.

(Unaudited)

	Preferred Stock		Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
	(in thousands)						
Balance at January 1, 2015	9	\$2,217	57,437	\$985,839	\$234,498	\$ 5,621	\$1,228,175
Net income	—	—	—	—	46,307	—	46,307
Other comprehensive loss	—	—	—	—	—	(2,832 )	(2,832 )
Issuance of common stock - stock option and other plans	—	—	21	519	—	—	519
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	282	1,836	—	—	1,836
Purchase and retirement of common stock	—	—	(31 )	(874 )	—	—	(874 )
Preferred dividends	—	—	—	—	(66 )	—	(66 )
Cash dividends paid on common stock	—	—	—	—	(36,851 )	—	(36,851 )
Balance at June 30, 2015	9	\$2,217	57,709	\$987,320	\$243,888	\$ 2,789	\$1,236,214
Balance at January 1, 2014	9	\$2,217	51,265	\$860,562	\$202,514	\$ (12,044 )	\$1,053,249
Net income	—	—	—	—	41,071	—	41,071
Other comprehensive income	—	—	—	—	—	15,604	15,604
Issuance of common stock - cashless exercise of warrants	—	—	1,140	—	—	—	—
Activity in deferred compensation plan	—	—	—	(1 )	—	—	(1 )
Issuance of common stock - stock option and other plans	—	—	21	425	—	—	425
Issuance of common stock - restricted stock awards, net of canceled awards	—	—	233	1,224	—	—	1,224
Purchase and retirement of common stock	—	—	(24 )	(601 )	—	—	(601 )
Preferred dividends	—	—	—	—	(37 )	—	(37 )
Cash dividends paid on common stock	—	—	—	—	(18,783 )	—	(18,783 )
Balance at June 30, 2014	9	\$2,217	52,635	\$861,609	\$224,765	\$ 3,560	\$1,092,151

See accompanying Notes to unaudited Consolidated Financial Statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Columbia Banking System, Inc.

(Unaudited)

	Six Months Ended June 30,	
	2015	2014 (1)
	(in thousands)	
Cash Flows From Operating Activities		
Net Income	\$46,307	\$41,071
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan and lease losses	3,411	4,039
Stock-based compensation expense	1,836	1,224
Depreciation, amortization and accretion	14,630	17,057
Investment securities gain, net	(1,064)	(519)
Net realized (gain) loss on sale of other assets	(289)	453
Net realized gain on sale of other real estate owned	(2,992)	(2,972)
Write-down on other real estate owned	793	2,554
Net change in:		
Loans held for sale	(3,104)	(15)
Interest receivable	319	23
Interest payable	(105)	(20)
Other assets	1,579	3,062
Other liabilities	3,292	(2,589)
Net cash provided by operating activities	64,613	63,368
Cash Flows From Investing Activities		
Loans originated and acquired, net of principal collected	(175,260)	(201,162)
Purchases of:		
Securities available for sale	(37,070)	(22,804)
Premises and equipment	(4,805)	(8,383)
Federal Home Loan Bank stock	(1,440)	—
Proceeds from:		
FDIC reimbursement on loss-sharing asset	4,009	3,982
Sales of securities available for sale	72,166	30,704
Principal repayments and maturities of securities available for sale	135,102	83,788
Sales of premises and equipment, Federal Home Loan Bank stock and loans held for investment	30,871	1,095
Sales of other real estate and other personal property owned (1)	11,553	15,932
Payments to FDIC related to loss-sharing asset	(487)	(2,217)
Net cash provided by (used in) investing activities	34,639	(99,065)
Cash Flows From Financing Activities		
Net increase in deposits	119,651	25,594
Net decrease in sweep repurchase agreements	(12,850)	—
Proceeds from:		
Federal Home Loan Bank advances	1,319,000	1,168,000
Federal Reserve Bank borrowings	1,010	50
Exercise of stock options	519	425
Payments for:		
Repayment of Federal Home Loan Bank advances	(1,490,000)	(1,094,000)
Repayment of Federal Reserve Bank borrowings	(1,010)	(50)
Common stock dividends	(36,851)	(18,783)

Edgar Filing: COLUMBIA BANKING SYSTEM INC - Form 10-Q

Preferred stock dividends	(66	)	(37	)
Repayment of other borrowings	(8,248	)	—	)
Purchase and retirement of common stock	(874	)	(601	)
Net cash provided by (used in) financing activities	(109,719	)	80,598	)
Increase (decrease) in cash and cash equivalents	(10,467	)	44,901	)
Cash and cash equivalents at beginning of period	188,170		179,561	
Cash and cash equivalents at end of period	\$177,703		\$224,462	
Supplemental Information:				
Cash paid during the period for:				
Cash paid for interest	\$2,188		\$1,968	
Cash paid for income tax	\$7,281		\$8,200	
Non-cash investing and financing activities				
Loans transferred to other real estate owned	\$7,836		\$7,841	

(1) Reclassified to conform to the current period's presentation. The reclassification was limited to removing the separate line item for "Sales of covered other real estate owned" and including the prior period activity in the line item for sales of other real estate and other personal property owned.

See accompanying Notes to unaudited Consolidated Financial Statements.

Table of Contents

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Columbia Banking System, Inc.

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The interim unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The consolidated financial statements include the accounts of Columbia Banking System, Inc. (“we”, “our”, “Columbia” or the “Company”) and its subsidiaries, including its wholly owned banking subsidiary Columbia State Bank (“Columbia Bank” or the “Bank”) and West Coast Trust Company, Inc. (“West Coast Trust”). All intercompany transactions and accounts have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the six months ended June 30, 2015 are not necessarily indicative of results to be anticipated for the year ending December 31, 2015. The accompanying interim unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the Company’s 2014 Annual Report on Form 10-K.

Our results of operations for the three and six month periods ended June 30, 2015 include the acquisition of Intermountain Community Bancorp (“Intermountain”) for the entire period. However, the results of operations for the prior year periods do not include the acquisition. See Note 3, Business Combinations, for further information regarding this acquisition.

Significant Accounting Policies

The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2014 Annual Report on Form 10-K. There have not been any changes in our significant accounting policies compared to those contained in our 2014 Form 10-K disclosure for the year ended December 31, 2014.

2. Accounting Pronouncements Recently Issued

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, on July 9, 2015, the FASB voted to approve a one year delay of the effective date and to permit companies to voluntarily adopt the new standard as of the original effective date. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company’s consolidated financial statements.

3. Business Combinations

On November 1, 2014, the Company completed its acquisition of Intermountain. The Company paid \$131.9 million in total consideration to acquire 100% of the equity interests of Intermountain. The primary reason for the acquisition was to expand the Company’s geographic footprint into the state of Idaho, consistent with its ongoing growth strategy. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the November 1, 2014 acquisition date. Initial accounting for deferred taxes was incomplete as of June 30, 2015. The amount currently recognized in the financial statements has been determined provisionally as the final Intermountain Community Bancorp tax return has not yet been completed. The application of the acquisition method of accounting resulted in recognition of goodwill of \$38.6 million and a core deposit intangible of \$10.9 million, or 1.75% of core deposits. The goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. The goodwill is not deductible for income tax purposes.

Table of Contents

The table below summarizes the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	November 1, 2014 (in thousands)
Purchase price as of November 1, 2014	\$ 131,935
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash and cash equivalents	\$