CASCADE BANCORP
Form 10-Q
November 04, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended: *September 30, 2004*

|_| 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: *0-23322*

CASCADE BANCORP
(Exact name of Registrant as specified in its charter)

Oregon	**93-1034484**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1100 NW Wall Street
Bend, Oregon 97701
(Address of principal executive offices)
(Zip Code)

(541) 385-6205
(Registrant s telephone number, including area code)

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 |X| No |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |X| No |_|

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. *16,714,506 shares of no par value Common Stock as of October 31, 2004.*

CASCADE BANCORP & SUBSIDIARY
FORM 10-Q
QUARTERLY REPORT
SEPTEMBER 30, 2004

INDEX

PART I

Item 1. FINANCIAL STATEMENTS

Cascade Bancorp & Subsidiary

Condensed Consolidated Balance Sheets

September 30, 2004 and December 31, 2003

(Unaudited)

	September 30, 2004	December 31, 2003
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 29,497,471	$ 34,930,921
Interest bearing deposits with Federal Home Loan Bank	28,016,003	38,789,177
Federal funds sold	26,250,000	14,800,000
Total cash and cash equivalents	83,763,474	88,520,098
Investment securities available-for-sale	41,039,722	33,609,058
Investment securities held-to-maturity	659,474	661,686
Federal Home Loan Bank stock	2,409,400	2,295,600
Loans, net	788,677,687	577,801,194
Premises and equipment, net	21,459,993	13,828,138
Accrued interest and other assets	31,011,220	17,996,170
Total assets	$ 969,020,970	$ 734,711,944
LIABILITIES & STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Demand	$ 362,387,891	$ 245,378,530
Interest bearing demand	388,317,967	332,792,532
Savings	35,804,739	28,715,391
Time	51,394,633	44,268,539
Total deposits	837,905,230	651,154,992
Borrowings	38,575,205	13,864,605
Accrued interest and other liabilities	10,247,000	7,936,653
Total liabilities	886,727,435	672,956,250
Stockholders equity:		
Common stock, no par value;		
20,000,000 shares authorized;		
16,710,670 issued and outstanding (15,776,593 in 2003)	31,507,284	19,147,285
Retained earnings	50,323,207	42,100,708
Unearned compensation on restricted stock	(187,110)	(280,665)

	September 30, 2004	December 31, 2003
ASSETS		
Accumulated other comprehensive income	650,154	788,366
Total stockholders equity	82,293,535	61,755,694
Total liabilities and stockholders equity	$ 969,020,970	$ 734,711,944

See accompanying notes.

Cascade Bancorp & Subsidiary

Condensed Consolidated Statements of Income

Nine Months and Three Months ended September 30, 2004 and 2003

(Unaudited)

	Nine months ended September 30,		Three months ended September 30,	
	2004	**2003**	**2004**	**2003**
Interest income:				
Interest and fees on loans	$ 35,309,564	$ 29,184,134	$ 12,827,118	$ 9,894,326
Taxable interest on investments	766,080	781,046	306,641	222,788
Nontaxable interest on investments	65,067	44,126	21,689	21,073
Interest on federal funds sold	73,384	83,760	13,778	39,562
Interest on interest bearing deposits with Federal Home Loan Bank	121,043	107,019	32,580	107,019
Dividends on Federal Home Loan Bank stock	62,842	94,757	19,654	29,633
Total interest income	36,397,980	30,294,842	13,221,460	10,314,401
Interest expense:				
Deposits:				
Interest bearing demand	2,235,313	1,771,281	783,666	640,660
Savings	86,015	84,036	30,445	24,321
Time	572,059	713,451	189,474	210,803
Borrowings	413,538	434,795	186,557	118,018
Total interest expense	3,306,925	3,003,563	1,190,142	993,802
Net interest income	33,091,055	27,291,279	12,031,318	9,320,599
Loan loss provision	2,750,000	2,075,000	1,200,000	675,000
Net interest income after loan loss provision	30,341,055	25,216,279	10,831,318	8,645,599
Noninterest income:				
Service charges on deposit accounts	5,048,211	4,473,939	1,702,250	1,556,755
Mortgage loan origination and processing fees	1,232,216	2,900,442	369,993	1,094,375
Gains on sales of mortgage loans, net	560,617	1,840,551	120,246	771,357
Mortgage loan servicing fees (net of amortization of mortgage servicing rights and impairment, if any)	52,258	(1,721,347)	(57,704)	(526,885)
Gain on sale of investment securities available-for-sale	181,720	59,873		59,873
Other income	2,680,432	2,299,934	1,010,385	809,619
Total noninterest income	9,755,454	9,853,392	3,145,170	3,765,094
Noninterest expense:				
Salaries and employee benefits	13,210,885	11,546,862	4,488,475	4,361,794
Net occupancy and equipment	2,508,811	2,091,243	833,689	761,444
Other expenses	5,972,849	4,494,061	2,135,622	1,495,425

	Nine months ended September 30,		Three months ended September 30,	
Total noninterest expense	21,692,545	18,132,166	7,457,786	6,618,663
Income before income taxes	18,403,964	16,937,505	6,518,702	5,792,030
Provision for income taxes	6,950,051	6,497,697	2,395,562	2,206,918
Net income	$ 11,453,913	$ 10,439,808	$ 4,123,140	$ 3,585,112
Basic earnings per common share	$ 0.69	$ 0.66	$ 0.25	$ 0.23
Diluted earnings per common share	$ 0.66	$ 0.64	$ 0.24	$ 0.22

See accompanying notes.

Cascade Bancorp & Subsidiary

Condensed Consolidated Statements of Changes in Stockholders Equity

Nine Months Ended September 30, 2004 and 2003 (Unaudited)

	Comprehensive income	Common stock	Retained earnings	Unearned compensation on restricted stock	Accumulated other comprehensive income (loss)	Total stockholders equity
Balance at December 31, 2002		$ 18,253,082	$ 32,172,221	$	$ 762,412	$ 51,187,715
Comprehensive income:						
Net income	$ 10,439,808		10,439,808			10,439,808
Other comprehensive income, net of tax:						
Unrealized gains on securities available-for-sale, net of reclassification adjustment for net gains on sales of investment securities available-for-sale included in net income of approximately $37,000 (net of income taxes of approximately $23,000)	9,259				9,259	9,259
Comprehensive income	$ 10,449,067					
Cash dividends paid			(3,017,301)			(3,017,301)
Stock options exercised (122,446 shares)		551,344				551,344
Balance at September 30, 2003		$ 18,804,426	$ 39,594,728	$	$ 771,671	$ 59,170,825
Balance at December 31, 2003		$ 19,147,285	$ 42,100,708	$ (280,665)	$ 788,366	$ 61,755,694
Comprehensive income:						
Net income	$ 11,453,913		11,453,913			11,453,913
Other comprehensive loss, net of tax:						
Unrealized losses on securities available-for-sale, net of reclassification adjustment for net gains on sales of investment securities available-for-sale included in net income of approximately $113,000 (net of income taxes of approximately $69,000)	(138,212)				(138,212)	(138,212)
Comprehensive income	$ 11,315,701					
Amortization of unearned compensation on restricted stock				93,555		93,555
Issuance of stock to acquire Community Bank of Grants Pass (772,752)		11,699,399				11,699,399
Cash dividends paid			(3,231,414)			(3,231,414)
Stock options exercised (161,316 shares)		655,562				655,562
Tax benefit from non-qualified stock options exercised		5,038				5,038
Balance at September 30, 2004		$ 31,507,284	$ 50,323,207	$ (187,110)	$ 650,154	$ 82,293,535

See accompanying notes.

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Cascade Bancorp & Subsidiary

Condensed Consolidated Statements of Cash Flows

Nine Months ended September 30, 2004 and 2003

(Unaudited)

	Nine months ended September 30, 2004	2003
Net cash provided by operating activities	$ 14,791,451	$ 9,889,903
Investing activities:		
Proceeds from maturities, calls and prepayments of investment securities available-for-sale	6,676,723	11,248,931
Purchases of investment securities available-for-sale	(14,683,124)	(17,041,921)
Proceeds from maturities and calls of investment securities held-to-maturity		124,479
Proceeds from sale of investment securities available-for-sale	222,853	45,082
Net increase in loans	(176,723,876)	(62,209,878)
Purchase of Community Bank of Grants Pass assets, net	10,192,199	
Purchases of premises and equipment, net	(7,197,874)	(3,160,491)
Purchases of life insurance contracts	(4,800,000)	
Net cash used in investing activities	(186,313,099)	(70,993,798)
Financing activities:		
Net increase in deposits	144,625,238	139,517,180
Cash dividends paid	(3,231,414)	(3,017,301)
Proceeds from issuance of common stock	655,562	551,344
Net increase (decrease) in other borrowings	24,710,600	(4,086,469)
Tax benefit from non-qualified stock options exercised	5,038	
Net cash provided by financing activities	166,765,024	132,964,754
Net increase (decrease) in cash and cash equivalents	(4,756,624)	71,860,859
Cash and cash equivalents at beginning of period	88,520,098	29,983,180
Cash and cash equivalents at end of period	$ 83,763,474	$ 101,844,039

See accompanying notes.

Cascade Bancorp & Subsidiary

Notes to Condensed Consolidated Financial Statements

September 30, 2004

(Unaudited)

1. Basis of Presentation

The accompanying interim condensed consolidated financial statements include the accounts of Cascade Bancorp (Bancorp), a financial holding company, and its wholly owned subsidiary, Bank of the Cascades (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The interim condensed consolidated financial statements have been prepared by the Company without audit and in conformity with accounting principles generally accepted in the United States for interim financial information. Accordingly, certain financial information and footnotes have been omitted or condensed. In the opinion of management, the condensed consolidated financial statements include all necessary adjustments (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. In preparing the condensed consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets and income and expenses for the periods. Actual results could differ from those estimates.

The condensed consolidated balance sheet data as of December 31, 2003 was derived from audited financial statements, but does not include all disclosures contained in the Company s 2003 Annual Report to Shareholders. The interim condensed consolidated financial statements should be read in conjunction with the December 31, 2003 consolidated financial statements, including the notes thereto, included in the Company s 2003 Annual Report to Shareholders.

All issued and outstanding shares, weighted average shares and per share amounts in the accompanying condensed consolidated financial statements have been retroactively adjusted to reflect a five-for-four stock split that was declared in March 2004. In addition, shares issued and outstanding reflect the approximately 773,000 shares issued in January 2004 to acquire Community Bank of Grants Pass.

Certain amounts for 2003 have been reclassified to conform with the 2004 presentation.

2. Stock-Based Compensation

The Company measures its stock-based compensation arrangements under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock issued to Employees , (APB 25) and related Interpretations. Accordingly, since the exercise price of each stock option, which the Company has granted has been equal to the market value of the underlying common stock on the date of grant, no compensation expense has been recognized.

The following table illustrates the effects on net income and earnings per common share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, to stock-based employee compensation for the nine months and three months ended September 30, 2004 and 2003:

	Nine months ended September 30,		Three months ended September 30,	
	2004	2003	2004	2003
Net income - as reported	$ 11,453,913	$ 10,439,808	$ 4,123,140	$ 3,585,112
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related income tax effects	(452,701)	(400,803)	(155,577)	(140,491)
Pro forma net income	$ 11,001,212	$ 10,039,005	$ 3,967,563	$ 3,444,621
Earnings per common share:				
Basic - as reported	$ 0.69	$ 0.66	$ 0.25	$ 0.23
Basic - pro forma	$ 0.66	$ 0.64	$ 0.24	$ 0.22
Diluted - as reported	$ 0.66	$ 0.64	$ 0.24	$ 0.22
Diluted - pro forma	$ 0.64	$ 0.62	$ 0.23	$ 0.21

3. Investment Securities

Investment securities at September 30, 2004 and December 31, 2003 consisted of the following:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
9/30/2004				
Available-for-sale				
U.S. Agency mortgage-backed secrities	$ 28,025,649	$ 250,200	$ 46,680	$ 28,229,169
U.S. Government and agency securities	5,500,000	94,291	14,691	5,579,600
Obligations of state and political subdivisions	2,756,470	6,813	11,833	2,751,450
Equity securities	3,355,355	757,482		4,112,837
Mutual fund	353,614	13,052		366,666
	$ 39,991,088	$ 1,121,838	$ 73,204	$ 41,039,722
Held-to-maturity				
Obligations of state and political subdivisions	$ 659,474	$ 45,177	$	$ 704,651
12/31/2003				
Available-for-sale				
U.S. Agency mortgage-backed secrities	$ 25,075,018	$ 174,776	$ 56,525	$ 25,193,269
U.S. Government and agency securities	3,000,000	135,151		3,135,151
Obligations of state and political subdivisions	2,800,665	8,260	13,476	2,795,449
Equity securities	1,120,492	1,012,373		2,132,865
Mutual fund	341,324	11,000		352,324
	$ 32,337,499	$ 1,341,560	$ 70,001	$ 33,609,058
Held-to-maturity				
Obligations of state and political subdivisions	$ 661,686	$ 54,535	$	$ 716,221

Management of the Company does not believe that any of the above unrealized losses on investment securities available-for-sale are other than temporary and, accordingly, no impairment adjustments are necessary.

4. Loans and Reserve for Loan Losses

The composition of the loan portfolio at September 30, 2004 and December 31, 2003 was as follows:

	September 30, 2004	% of gross loans	December 31, 2003	% of gross loans
Commercial	$ 239,426,213	30%	$ 142,765,505	24%
Real Estate:				
Construction/lot	160,629,675	20%	123,892,102	21%
Mortgage	49,435,861	6%	46,140,163	8%
Commercial	317,098,477	39%	244,203,103	41%
Consumer	36,856,995	5%	32,489,742	6%
Loans, gross	803,447,221	100%	589,490,615	100%
Less:				
Reserve for loan losses	11,900,394		9,398,584	
Deferred loan fees	2,869,140		2,290,837	
	14,769,534		11,689,421	
Loans, net	$ 788,677,687		$ 577,801,194	

Mortgage real estate loans include mortgage loans held for sale of approximately $1,463,000 at September 30, 2004 and approximately $2,482,000 at December 31, 2003.

Transactions in the reserve for loan losses for the nine months ended September 30, 2004 and 2003 were as follows:

	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Balance at beginning of period	$ 9,398,584	$ 7,669,145
Increase due to acquisition of Community Bank of Grants Pass	354,420	
Loan loss provision	2,750,000	2,075,000
Recoveries	338,395	379,593
Loans charged off	(941,005)	(1,162,976)
Balance at end of period	$ 11,900,394	$ 8,960,762

5. Non-Performing Assets

Risk of nonpayment exists with respect to all loans, which could result in the classification of such loans as non-performing. The following table presents information with respect to non-performing assets at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
Loans on non-accrual status	$ 43,630	$ 56,240
Loans past due 90 days or more but not on non-accrual status		
Other real estate owned		
Total non-performing assets	$ 43,630	$ 56,240
Percentage of non-performing assets to total assets	0.00%	0.01%

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The accrual of interest on a loan is discontinued when, in management s judgment, the future collectibility of principal or interest is in doubt. Loans placed on non-accrual status may or may not be contractually past due at the time of such determination, and may or may not be secured. When a loan is placed on non-accrual status, it is the Bank s policy to reverse, and charge against current income, interest previously accrued but uncollected. Interest subsequently collected on such loans is credited to loan principal if, in the opinion of management, full collectibility of principal is doubtful. Interest income that was reversed and charged against income in 2004 and 2003 was immaterial.

At September 30, 2004, except as discussed above, there were no potential material problem loans where known information about possible credit problems of the borrower caused management to have serious doubts as to the ability of such borrower to comply with the present loan repayment terms.

6. Mortgage Servicing Rights

At September 30, 2004 and December 31, 2003, the Bank held servicing rights to mortgage loans with principal balances of approximately $505,102,000 and $514,223,000, respectively. Because these loans are sold to Fannie Mae, a U.S. government sponsored enterprise, they are not included in loan balances in the accompanying condensed consolidated balance sheets. The sales of these mortgage loans are subject to specific underwriting documentation standards and requirements, which may result in repurchase risk. However, as of September 30, 2004, management is not aware of any material mortgage loans that will be subject to repurchase.

Other assets in the accompanying condensed consolidated balance sheets include capitalized mortgage servicing rights (MSRs) accounted for at the lower of origination value less accumulated amortization, or current fair value. The carrying value of MSRs was $4.8 million and $4.7 million at September 30, 2004 and December 31, 2003, respectively. The fair value of MSRs was approximately $5.1 million and $5.2 million at September 30, 2004 and December 31, 2003, respectively. Activity in MSRs for the nine months ended September 30, 2004 and 2003 was as follows: (See MD&A Non-Interest income).

	Nine months ended September 30,	
	2004	**2003**
Balance at beginning of period	$ 4,688,445	$ 4,071,370
Additions	976,305	2,737,227
Amortization	(1,241,997)	(2,095,604)
Impairment adjustments	325,000	(525,000)
Balance at end of period	$ 4,747,753	$ 4,187,993

Changes in the valuation allowance for MSRs for the nine months ended September 30, 2004 and 2003 were as follows:

Nine months ended September 30,	
2004	**2003**

	Nine months ended September 30,	
Balance at beginning of period	$ 325,000	$
Impairment adjustments	(325,000)	525,000
Balance at end of period	$	$ 525,000

7. Basic and diluted earnings per common share

The Company s basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The Company s diluted earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding plus the incremental shares arising from the dilutive effect of unexercised in the money stock options. All share and per share amounts have been retroactively adjusted to reflect the five-for-four stock split declared in March, 2004.

The numerators and denominators used in computing basic and diluted earnings per common share for the nine months and three months ended September 30, 2004 and 2003 can be reconciled as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2004	2003	2004	2003
Net income	$ 11,453,913	$ 10,439,808	$ 4,123,140	$ 3,585,112
Weighted-average shares outstanding - basic	16,651,256	15,716,789	16,705,240	15,750,938
Basic net income per common share	$ 0.69	$ 0.66	$ 0.25	$ 0.23
Incremental shares arising from the dilutive effect of in the money stock options	626,401	501,448	597,943	544,663
Weighted-average shares outstanding - diluted	17,277,657	16,218,237	17,303,183	16,295,601
Diluted net income per common share	$ 0.66	$ 0.64	$ 0.24	$ 0.22

8. Acquisition of Community Bank of Grants Pass

On January 1, 2004 the Company completed its acquisition of Community Bank of Grants Pass (CBGP). The results of CBGP s operations have been included in the condensed consolidated financial statements since that date. CBGP shareholders received one share of the Company s stock for each share of CBGP stock, aggregating a total purchase price of approximately $11.7 million. The acquisition was accounted for using the purchase method of accounting. The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash & cash equivalents	$ 10,244
Loans, net	36,342
Premises and equipment, net	1,335
Core deposit intangible	580
Goodwill	6,352
Other assets	95
Total assets acquired	54,948
Deposits	42,125
Deferred tax liability	530
Other liabilities	593
Total liabilities assumed	43,248
Total purchase price	$ 11,700

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the Company s acquisition of CBGP. The goodwill is not amortized but the Company will periodically assess (at least on an annual basis) whether events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. The core deposit intangible asset is being amortized over the estimated average life of approximately 6 years under the straight-line method.

9. Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) recently issued a proposed statement, *Share-Based Payment*, that addresses the accounting for share-based payment transactions (for example, stock options and awards of restricted stock) in which an employer receives employee-services in exchange for equity securities of the company or liabilities that are based on the fair value of the company s equity securities. This proposal, when finalized, would eliminate the use of APB 25 and generally would require such transactions be accounted for using a fair-value based method and recording compensation expense rather than optional pro forma disclosure of what expense amounts might be. The proposal, when approved, would substantially amend SFAS No. 123. Legislation has been introduced to substantially limit the FASB proposal. Uncertainty continues as to whether the proposal will be finalized and the FASB has recently announced some major proposed revisions to it. Currently, the most recent announcements suggest that this guidance may become effective for periods beginning after June 15, 2005 for public companies. Management has not completed its review of the proposal or assessed its potential impact on the Company.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company s unaudited condensed consolidated financial statements and the notes thereto as of September 30, 2004 and the operating results for the nine and three months then ended, included elsewhere in this report.

Cautionary Information Concerning Forward-Looking Statements

The following section contains forward-looking statements which are not historical facts and pertain to our future operating results. These statements include, but are not limited to, our plans, objectives, expectations and intentions and are not statements of historical fact. When used in this report, the word expects, believes, anticipates and other similar expressions are intended to identify forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Specific risks and uncertainties include, but are not limited to, general business and economic conditions, changes in interest rates including timing or relative degree of change, and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business conditions, strategies and decisions, and such assumptions are subject to change.

Results may differ materially from the results discussed due to changes in business and economic conditions that negatively affect credit quality, which may be exacerbated by our concentration of operations in the State of Oregon generally, and the communities of Central Oregon, Salem/Keizer, Southern Oregon and Portland, specifically. Likewise, competition or changes in interest rates could negatively affect the net interest margin, as could other factors listed from time to time in the Company s SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publish revised forward-looking statements to reflect the occurrence of unanticipated events or circumstances after the date hereof.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies upon which our financial condition depends, and which involve the most complex or subjective decisions or assessments are as follows:

Reserve for Loan Losses: Arriving at an appropriate level of reserve for loan losses involves a high degree of judgment. The Company s reserve for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio. Management uses historical information to assess the adequacy of the reserve for loan losses as well as the prevailing business environment. The reserve may be affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen. The reserve is increased by provisions for loan losses and by recoveries of loans previously charged-off and reduced by loans charged-off. For a full discussion of the Company s methodology of assessing the adequacy of the reserve for loan losses, see Management s Discussion and Analysis of Financial Condition and Results of Operation in the Company s Annual Report on Form 10K.

Mortgage Servicing Rights (MSRs): Determination of the fair value of MSRs requires the estimation of multiple interdependent variables, the most impactful of which is mortgage prepayment speeds. Prepayment speeds are estimates of the pace and magnitude of future mortgage payoff or refinance behavior of customers whose loans are serviced by the Company. Errors in estimation of prepayment speeds or other key servicing variables could subject MSRs to impairment risk. At least quarterly, the Company engages a qualified third party to provide an estimate of the fair value of MSRs using a discounted cash flow model with assumptions and estimates based upon observable market-based data and methodology common to the mortgage servicing market. Management believes it applies reasonable assumptions under the circumstances, however, because of possible volatility in the market price of MSRs, and the vagaries of any relatively illiquid market, there can be no assurance that risk management and existing accounting practices will result in the avoidance of possible impairment charges in future periods. See also Management s Discussion and Analysis of Financial Condition and Results of Operation-Non-Interest Income, and footnote 6 of the Condensed Consolidated Financial Statements.

Highlights For The Third Quarter 2004

Earnings: Net Income of $4.1 million with Earnings per Share (diluted) at $.24. EPS grew 19.2% (annualized) from the immediately preceding quarter; 8.3% above the same quarter of 2003.

New Markets: The Portland office joins Southern Oregon in achieving profitability less than one year from opening.

Record Quarterly Loan Growth: Loans grew a record $62.3 million during the quarter or 33.8% sequentially from the preceding quarter (annualized). Compared to a year ago, total loans are higher by $238.3 million or 42.4%.

Record Quarterly Deposit Growth: Total Deposits increased by a record $72.2 million or 37.7% sequentially from the preceding quarter (annualized). Compared to a year ago, total deposits are higher by $196.4 million or 30.6%.

Positive Credit Quality: Loan portfolio credit quality continued strong with delinquencies only .12% of total loans; net charge-offs at .11% (annualized).

Financial Performance for the Third Quarter:

The Company announced strong third quarter earnings performance and record loan and deposit growth. Earnings Per Share (diluted) for the third quarter of 2004 was $0.24, up 19.2% (annualized) from the immediately preceding quarter of $.23 (note that the earlier quarter included a non-recurring increase of $.01 relating to a valuation adjustment of mortgage servicing rights (MSR)). Earnings progress is the result of higher net interest income generated by solid loan and deposit growth in both existing and new markets. The Company s net income for the quarter ended September 30, 2004 was $4.1 million or 15.0% above the year-ago quarter. Return on equity was 20.5% and return on assets was 1.81% for the third quarter of 2004.

New Market Initiatives - Southern Oregon and Portland Update:

The following table describes the financial progress in new markets since our entry in mid-2003:

	Southern Oregon & Portland Combined					
(dollars in 000 s)	**Sept 03**	**Dec 03**	**Mar 04**	**Jun 04**	**Sep 04**	**% of CACB 9/30/04**
Loans	6,159	27,286	106,634	146,869	195,348	24.3%
Deposits	3,614	13,266	74,998	99,428	137,530	16.5%

Beginning in Mar 04 amounts include $36 million in Loans and $42 million in Deposits from the Jan 04 acquisition of Community Bank of Grants Pass

The Company is deploying a community banking strategy in the Southern Oregon market, similar to its successful approach in Central Oregon. In Portland, the Company has a niche strategy focused on the banking needs of small-to-medium sized commercial and professional businesses and individuals in the metro area. Continued success in new markets is dependent upon achievement of loan and deposit growth goals, credit quality, revenue generation and other factors.

Loan Growth and Credit Quality:

At September 30, 2004, total loans had grown to $800.6 million, up 42.4% compared to a year ago. Loan growth for the third quarter was a record $62.3 million or a 33.8% annualized sequential increase from the prior quarter. New loans generated in the new markets of Portland and Southern Oregon contributed $48.5 million to this quarter s loan growth. Meanwhile, annualized sequential loan growth in both the Company s Central Oregon and Salem markets increased at a double digit pace.

The Company s loan credit quality profile remained strong with delinquent loans greater than 30 days past due at only .12% of total loans, while net loan charge-offs for the quarter were $0.2 million or only .11% (annualized) of total loans, consistent with recent quarters. In concert with its strong loan growth, the Company added $1.2 million to its Reserve for Loan Losses during the current quarter compared to $.9 million for the preceding quarter and $.7 million in the year ago quarter. The Reserve for Loan Losses at quarter end stood at a prudent 1.49% of total loans, consistent with prior periods and at a level appropriate to current circumstances and prevailing economic conditions.

Deposit Growth:

At September 30, 2004, deposits were $837.9 million, up 30.6% or $196.4 million from a year ago, and up sequentially by $72.2 million or 37.7% (annualized) from the prior quarter. This record deposit growth was virtually all in core customer deposits (checking and money market accounts), while changes in time deposits balances were negligible. New market growth accounted for $39 million of the increase from the immediately preceding quarter, while a strong seasonal increase in deposits was evident in the Central Oregon market. Illustrating the success of the Company s attractive cash management services, the compound rate of growth in business related deposits has exceeded 40% during the past three years. Business related deposits now average over 50% of total deposits, compared to 33% three years ago. Non-interest bearing deposits continue at the highest levels in the industry, at over 40% of total deposits.

Net Interest Margin:

The Company s third quarternet interest margin (NIM) was up modestly at 5.76% compared to 5.72% for the prior quarter and 5.63% for the third quarter of 2003. The net interest margin will likely range between 5.60% and 5.80% over the next 12 to 18 months assuming interest rates follow the financial markets expected gradual path to modestly higher rates. The Company has a modest sensitivity to higher rates which is mitigated by its strong core deposit base and its growing portfolio of floating rate loans. Floating rate loans have risen from 32% to 40% of total loans over the past three years. Over that horizon, fixed rate loans have declined from 31% to 17%, while periodically adjustable loans (typically 3 to 5 year re-pricing) have increased from 37% to 43%. The Company could be adversely affected in the event of an unexpected dramatic decline in interest rates, as its loan yields would compress against an already low cost of funds. The margin can also be affected by competitive factors including aggressive price offerings on loans or deposits. Please see cautionary Forward Looking Statements below as well as the Company s Form 10K annual report for further information on interest rate risk.

Non-Interest Income and Expense:

Non-interest income for the third quarter was lower by $.3 million or 9.6% compared to the immediately preceding quarter. This decline is primarily the result of a positive non-recurring mortgage servicing rights valuation adjustment of $.3 million in the immediately preceding quarter. As expected, total non-interest income was down 16.5% from the third quarter of 2003 due to lower mortgage origination volume and revenue. The year ago period marked the peak of the nationwide mortgage origination boom. Compared to the year ago period, banking service fee revenues were higher by 9.3%, the result of higher volumes of customer banking transactions and utilization of overdraft protection products.

As mentioned above, residential mortgage revenues continue below the record-setting pace of 2003. The Company originated $33.3 million in residential mortgages during the quarter ended September 30, 2004, compared to $101.6 million for the year ago quarter and $44.1 million for the immediately preceding quarter. Consequently, this expected decline in volumes and margins have caused mortgage revenue to decrease as a percentage of total revenue. For the current quarter, gross mortgage revenue was 2.8% of the Company s non-interest income versus 10.2% for the year ago quarter. At September 30, 2004, the Company serviced $505.1 million in mortgage loans on behalf of its customers, representing approximately 4,100 mortgage loans. The Company s related Mortgage servicing rights (MSR) had an amortized cost (book value) of $4.8 million compared to a fair (market) value of approximately $5.1 million. Thus, there was no MSR valuation adjustment for the current quarter. For the immediately preceding quarter, the Company recorded a positive valuation adjustment of $.3 million pretax, adding about $.01 per share to earnings. At September 30, 2004, expressed as a percentage of loans serviced, MSR at amortized cost (book value) was .94% of serviced mortgage loans, while fair value was approximately 1.03% of serviced mortgages. Fair value was estimated at 1.13% at June 30, 2004, and 0.82% a year ago.

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Non-interest expense for the third quarter of 2004 was 12.7% or $.8 million above the year ago quarter. The overall expense increase is primarily attributable to increased staffing costs from expanding into new markets. About 59% of the year-over-year expense increase is attributable to incremental costs incurred in these new markets (including expenses related to the operations of Community Bank of Grants Pass). Excluding costs incurred in new markets, the Company s core expenses were approximately 5.6% higher than a year ago.

RESULTS OF OPERATIONS ***Nine Months and Three Months ended September 30, 2004 and 2003***

Net Interest Income

Net interest income increased 21.3% for the nine months and increased 29.1% for the quarter ended September 30, 2004 as compared to the same periods in 2003, primarily due to higher loan volumes. During the third quarter of 2004, yields earned on loans and investments stood at 6.33% compared to 6.27% in the prior quarter, down from 6.23% a year earlier. Meanwhile the average overall cost of funds for the quarter ended September 30, 2004 was at 0.58% versus 0.56% in the prior quarter and 0.62% a year ago. The Company s reported NIM was 5.76% for the third quarter ended September 30, 2004 compared to 5.63% in the same period a year ago.

As a result of higher loan volume, total interest income increased approximately $6,103,000 or (20.1%) for the nine months ended and increased $2,907,000 (or 28.2%) for the quarter ended September 30, 2004 as compared to the same periods in 2003. Increased volumes of interest bearing deposits caused total interest expense to increase approximately $303,000 (or 10.1%) for the nine months and increase $196,000 (or 19.8%) for the quarter ended September 30, 2004 as compared to the same periods in 2003.

The net interest margin is a key indicator of profitability in the banking industry, reflecting the difference between rates earned on loans and investments compared to the cost of funds supporting these assets. As market interest rates have declined over the past several years, the banking industry in general has experienced margin compression, as banks have seen lower loan yields on both new and refinanced loans. At the same time, funding costs are already at low levels. The net interest margin will likely range between 5.60% and 5.80% over the next 12 to 18 months assuming interest rates follow the financial markets expected gradual path to modestly higher rates. In addition, the margins earned in competitive new markets may be narrower than those earned in its existing markets, and may tend to narrow the margin in the future. Forecasting the net interest margin is difficult, as unforeseen changes can occur in interest rates, the economy, or shape of the yield curve. In addition, customer and competitor behavior are difficult to predict and can affect yields on loans and rates on deposits. Please see the Company s Annual Report on Form 10K for further information on interest rate risk.

Average Balances and Average Rates Earned and Paid

The following table sets forth for the quarter ended September 30, 2004 and 2003 information with regard to average balances of assets and liabilities, as well as total dollar amounts of interest income from interest-earning assets and interest expense on interest-bearing liabilities, resultant average yields or rates, net interest income, net interest spread, net interest margin and the ratio of average interest-earning assets to average interest-bearing liabilities for the Company: (Dollars in thousands)

	For the quarter ended September 30,					
	2004			2003		
	Average Balance	Interest Income/ Expense	Average Yield or Rates	Average Balance	Interest Income/ Expense	Average Yield or Rates
Assets						
Taxable securities	$ 35,455	$ 307	3.44%	$ 28,856	$ 223	3.07%
Non-taxable securities (1)	3,371	22	2.59%	3,407	21	2.45%
Federal funds sold	3,798	14	1.46%	17,528	39	0.88%
Due from Federal Home Loan Bank	8,814	32	1.44%	49,293	107	0.86%
Federal Home Loan Bank stock	2,390	19	3.15%	2,240	30	5.31%
Loans (2)(3)(4)	774,314	12,827	6.57%	555,987	9,894	7.06%
Total earning assets	828,142	13,221	6.33%	657,311	10,314	6.23%
Reserve for loan losses	(11,257)			(8,655)		
Cash and due from banks	36,039			25,297		
Premises and equipment, net	21,233			12,010		
Accrued interest and other assets	31,598			16,900		
Total assets	$ 905,755			$ 702,863		
Liabilities and Stockholders Equity						
Interest bearing demand deposits	$ 379,766	784	0.82%	$ 313,125	640	0.81%
Savings deposits	35,226	30	0.34%	28,153	24	0.34%
Time deposits	50,671	189	1.48%	46,735	211	1.79%
Other borrowings	30,617	187	2.42%	16,296	118	2.87%
Total interest bearing liabilities	496,280	1,190	0.95%	404,309	993	0.97%
Demand deposits	319,646			232,650		
Other liabilities	10,012			8,493		
Total liabilities	825,938			645,452		
Stockholders equity	79,817			57,411		
Total liabilities and stockholders equity	$ 905,755			$ 702,863		
Net interest income		$ 12,031			$ 9,321	

	For the quarter ended September 30,	
Net interest spread	5.38%	5.25%
Net interest income to earning assets	5.76%	5.63%

(1) Yields on tax-exempt securities have not been stated on a tax-equivalent basis.

(2) Average non-accrual loans included in the computation of average loans was insignificant for the periods presented.

(3) Loan related fees collected and included in the yield calculation totalled approximately $530,000 in 2004 and $492,000 in 2003.

(4) Includes mortgage loans held for sale.

Analysis of Changes in Interest Income and Expense

The following table shows the dollar amount of increase (decrease) in the Company s consolidated interest income and expense for the quarter ended September 30, 2004, and attributes such variance to volume or rate changes. Variances that were immaterial have been allocated equally between rate and volume categories. (Dollars in thousands):

	2004 compared to 2003		
	Total Increase (Decrease)	Amount of Change Attributed to	
		Volume	Rate
Interest income:			
Interest and fees on loans	$ 2,933	$ 3,885	$ (952)
Investments and other	(26)	(65)	39
Total interest income	2,907	3,820	(913)
Interest expense:			
Interest on deposits:			
Interest bearing demand	144	136	8
Savings	6	6	--
Time deposits	(22)	18	(40)
Other borrowings	69	104	(35)
Total interest expense	197	264	(67)
Net interest income	$ 2,710	$ 3,556	$ (846)

Loan Loss Provision

At September 30, 2004, the reserve for loan losses was 1.48% of total loans, as compared to 1.60% at year end year end 2003 and 1.59% at September 30, 2003. The loan loss provision was $1,200,000 in the third quarter of 2004 compared to $675,000 for the year earlier period, reflective of rapid loan growth during the quarter. Provision expense is determined by the Company s ongoing analytical and evaluative assessment of the adequacy of the loan loss reserve. This assessment reflects a continued sound credit quality profile, with low delinquent loans, modest net loan charge-offs and stable non-performing assets. At this date, management believes that its reserve for loan losses is at an appropriate level under current circumstances and prevailing economic conditions.

Noninterest Income

Noninterest income decreased 1.0% for the nine months and decreased 16.5% for the quarter ended September 30, 2004 as compared to the same periods in 2003, primarily due to the expected decline in mortgage revenues (detailed below), partially offset by increases in service fee income and other income. Service fee income increased 12.8% for the nine months and increased 9.3% for the quarter ended September 30, 2004 compared to the year ago periods. Theses increases are primarily a result of higher volumes of customer banking transactions including strong customer acceptance and utilization of our overdraft protection product.

The headwind of higher interest rates has caused residential mortgage activity and revenue to decline from the record-setting pace of 2003. The Company originated $33.3 million in residential mortgages during the quarter ended September 30, 2004, compared to $101.6 million for the year ago quarter and $44.1 million for the immediately preceding quarter. As expected, declining volumes and narrower margins have caused mortgage revenue to fall as a percent of total revenue. For the current quarter, mortgage revenue was 2.8% of the Company s non-interest income versus 10.2% for the year ago quarter. Of the mortgage originations in 2004, approximately 80% were sold to FNMA servicing retained, while the remaining 20% were sold to other investors servicing released.

Generally accepted accounting principles call for MSR to be carried at the lower of amortized cost (book value) or fair value. At September 30, 2004, the Company serviced $505.1 million in mortgage loans on behalf of its customers, representing approximately 4,100 mortgage loans. The Company s related Mortgage servicing rights (MSR) had a cost (book) basis of $4.8 million compared to a fair (market) value of approximately $5.1 million. Thus, there was no MSR valuation adjustment for the current quarter. For the immediately preceding quarter, the Company recorded a positive valuation adjustment of $.3 million pretax, adding about $.01 per share to earnings. At September 30, 2004, expressed as a percentage of loans serviced, MSR amortized cost (book value) basis was .94% of serviced mortgage loans, while fair value was approximately 1.03% of serviced mortgages. Fair value was estimated at 1.13% at June 30, 2004, and 0.82% a year ago.

Noninterest Expense

Noninterest expense increased 19.6% for the nine months and 12.7% for the quarter ended September 30, 2004 compared to the same periods in 2003. The 2003 periods did not include expenses attributable to the ongoing operations of Community Bank of Grants Pass acquisition January, 2004 and incremental expense of operating banking offices in the new Portland & Southern Oregon markets. Overall expense increases include staff costs in new markets and activities to meet growing business volumes and support for new markets.

Income Taxes

Income tax expense increased between the periods presented primarily as a result of higher pre-tax income.

FINANCIAL CONDITION

Assets continued to increase in the third quarter of 2004 with total assets increasing 31.9% to $969.0 million at September 30, 2004 compared to $734.7 million at December 31, 2003. Approximately one quarter of the growth resulted from the acquisition of CBGP. Net loans outstanding increased 36.5% to $788.7 million at September 30, 2004 as compared to $577.8 million at December 31, 2003, including approximately $36 million arising from CBGP. Loan growth during the quarter was primarily funded by increased deposits, borrowings and use of available cash and cash equivalents. The investment portfolio increased 21.6% to $41.7 million from $34.3 at year end 2003. Deposits increased $186.8 million to $837.9 million, including approximately $42 million attributable to CBGP.

The Company had no material off balance sheet derivative financial instruments as of September 30, 2004 and December 31, 2003.

LIQUIDITY AND SOURCES OF FUNDS

The objective of liquidity management is to maintain ample cash flows to meet obligations for depositor withdrawals, fund the borrowing needs of loan customers, and to fund ongoing operations. Core relationship deposits are the primary source of the Bank s liquidity. As such, the Bank focuses on deposit relationships with local business and consumer clients who maintain multiple accounts and services at the Bank. Management views such deposits as the foundation of its long-term liquidity because it believes such core deposits are more stable and less sensitive to changing interest rates and other economic factors compared to large time deposits or wholesale purchased funds. The Bank s customer relationship strategy has resulted in a relatively higher percentage of its deposits being held in checking and money market accounts, and a lesser percentage in time deposits. The Bank has no brokered deposits at this time.

A further source of funds is borrowings from reliable counterparties. The Bank utilizes its investment securities and certain loan portfolio types to provide collateral to support its borrowing needs.

Policy requires the analysis and testing of liquidity to ensure ample cash flow is available under a range of circumstances. Management believes that its focus on core relationship deposits coupled with access to borrowing through reliable counterparties provides reasonable and prudent assurance that ample liquidity is available. However, depositor or counterparty behavior could change in response to competition, economic or market situations including relative returns available in stock or bond markets or other unforeseen circumstances, which could have liquidity implications that may require different strategic or operational actions to fund the Bank.

The Bank s primary counterparty for borrowing purposes is the Federal Home Loan Bank (FHLB). At September 30, 2004 the FHLB had extended the Bank a secured line of credit of $131.2 million that may be accessed for short or long-term borrowings given sufficient qualifying collateral. The Bank also had $17.9 million in short term borrowing availability from the Federal Reserve Bank (FRB) that requires specific qualifying collateral. During the second quarter of 2004, the Bank changed its Treasury Tax & Loan (TT&L) election from a collector to investor designation, enabling Federal tax receipts to be held at the Bank within $12.0 million collateral limits and subject to periodic call by the Treasury. In addition, the Bank maintained unsecured lines of credit totaling $26.0 million for the purchase of funds on a short-term basis from several commercial bank counterparties. At September 30, 2004 the Bank had aggregate remaining available borrowing sources totaling $148.5 million, given sufficient collateral.

Liquidity may be affected by the Bank s routine commitments to extend credit. Historically a significant portion of such commitments (such as lines of credit) have expired or terminated without funding. In addition, over 1/3 of total commitments pertain to various construction projects. Under the terms of such construction commitments, completion of specified project benchmarks must be certified before funds may be drawn. At September 30, 2004 the Bank had approximately $284.7 million in outstanding commitments to extend credit, compared to approximately $199.5 million at year-end 2003. Management believes that the Bank s available resources will be sufficient to fund its commitments in the normal course of business.

Borrowings

At September 30, 2004 the Bank had a total of approximately $29.7 million in long-term borrowings from FHLB with maturities ranging from 2005 to 2013, bearing a weighted-average interest rate of 3.31%. In addition, at September 30, 2004, the Bank had approximately $8.9 million in short-term TT&L borrowings. At December 31, 2003, the Bank had a total of $13.9 million in long-term borrowings from FHLB bearing a weighted-average interest rate of 2.98%. See Liquidity and Sources of Funds section on page 18 for further discussion.

CAPITAL RESOURCES

The Company s total stockholders equity at September 30, 2004 was $82.3 million, an increase of $20.5 million from December 31, 2003. The increase was the net result of issuance of stock related to CBGP acquisition plus earnings of $11.5 million for the nine months ended September 30, 2004, less cash dividends to shareholders of $3.2 million during the same period. In addition, at September 30, 2004 the Company had accumulated other comprehensive income of approximately $.7 million.

Regulatory Adequately Capitalized Designation:

As part of its oversight of banks and holding companies, the FDIC and FRB promulgate risk-based capital classifications for banks and holding companies. In October 2004 the Company became aware of a required adjustment to its 2004 capital ratios relating to undisbursed loan commitments. After the adjustment, the Company remained well capitalized as of March 31, 2004. However, the Company s risk-based capital designation was adjusted from well capitalized to adequately capitalized as of June 30, 2004 and September 30, 2004. Management does not believe that the adequately capitalized designation will have a material adverse effect on the Company s operations, growth prospects or profitability. At March 31, 2004, June 30, 2004 and September 30, 2004, the Company s Tier 1 ratios were 8.90%, 8.29% and 8.16%, respectively. The regulatory minimum to be adequately capitalized and well capitalized for Tier 1 capital is 4% and 6%, respectively. At March 31, 2004, June 30, 2004 and September 30, 2004, the Company s total risked-based capital ratios were 10.20%, 9.57% and 9.45%, respectively. The regulatory minimum to be adequately capitalized and well capitalized for total capital is 8% and 10%, respectively.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. The Company s market risk arises principally from interest rate risk in its lending, deposit and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Management considers interest rate risk to be a significant market risk, which could have the largest material effect on the Company s financial condition and results of operations.

There has not been any material change in the market risk disclosure contained in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company required to be included in our reports filed or submitted under the Securities Exchange Act of 1934, as amended.

Changes in Internal Controls

Since the Evaluation Date, there have not been any significant changes in our internal controls or in other factors that could significantly affect such controls.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification of Chief Executive Officer
31.2 Certification of Chief Financial Officer
32 Certification Pursuant to Section 906

(b) Reports on Form 8-K

The Company filed a report on Form 8-K on October 12, 2004 in regards to release of the Company s third quarter 2004 earnings.

SIGNATURES

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

CASCADE BANCORP
(Registrant)

Date 11/3/04	By /s/ Patricia L. Moss Patricia L. Moss, President & CEO
Date 11/3/04	By /s/ Gregory D. Newton Gregory D. Newton, EVP/Chief Financial Officer