

BANNER CORP
Form S-4/A
March 30, 2007

As filed with the Securities and Exchange Commission on March 30, 2007

Registration No. 333-141378

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

**AMENDMENT NO. 1
TO
FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

BANNER CORPORATION

(Exact name of registrant as specified in its charter)

Washington

6022

91-169

(State or other jurisdiction of incorporation or organization)

(Primary Standard Industrial Classification Code Number)

(I.R.S. Em

Identification

**10 South First Avenue
Walla Walla, Washington 99362
(509) 527-3636**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Albert H. Marshall, Vice President

Banner Corporation

10 South First Avenue

Walla Walla, Washington 99362

(509) 527-3636

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Telephone: (212) 403-1000
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**Sandra L. Gallagher-Alford, Esq.
Davis Wright Tremaine LLP
777 108th Avenue NE, Suite 2300
Bellevue, Washington 98004
Voice: (425) 646-6100
Fax: (425) 646-6199**

Approximate date of commencement of proposed sale to the public: As soon as practicable following the effectiveness of this Registration Statement and the effective time of the merger described herein.

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

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

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

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

The information in this document is not complete and may be changed. We may not sell the securities offered by this document until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

PRELIMINARY SUBJECT TO COMPLETION DATED MARCH 28, 2007

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

On December 18, 2006, we entered into a merger agreement with Banner Corporation providing for the merger of San Juan Financial Holding Company into Banner. Before we can complete the merger, we must obtain the approval of the shareholders of San Juan Financial. We are sending you this document to ask you to vote in favor of the approval and adoption of the merger agreement.

If the merger is completed, San Juan Financial shareholders will be entitled to receive, in exchange for each share of San Juan Financial common stock they hold at the time of the merger, consideration equal to the pro rata share of (i) 819,277 shares of Banner common stock, plus (ii) \$6,000,000 in cash. If, however, the price of Banner common stock at the time the merger is completed is between \$36 and \$38 or between \$46 and \$50, Banner will deliver aggregate merger consideration having a value as if the closing price of Banner common stock at the time the merger is completed were \$38 or \$46, respectively. If the price of Banner common stock at the time the merger is completed is less than \$36, San Juan Financial may terminate the merger under certain circumstances, even if it has been previously approved by our shareholders. Similarly, if the price of Banner common stock at the time the merger is completed is more than \$50, Banner may terminate the merger under certain circumstances, even if it has been previously approved by our shareholders. In addition, since the merger will be completed after March 31, 2007, San Juan Financial shareholders will become entitled to receive their pro rata share of the amount of any dividends or distributions on Banner common stock with a record date after March 31, 2007 that would have been payable on 819,277 shares of Banner common stock.

Except as described above, the value of the merger consideration (other than the possible dividends and distributions) will fluctuate with the market price of Banner common stock, which trades on the Nasdaq Global Select Market (the "Nasdaq") under the symbol "BANR." As an example, based on the closing price of \$41.63 of Banner common stock on the Nasdaq on March 26, 2007, and 364,078 San Juan Financial common shares outstanding as of such date, each share of San Juan Financial common stock would be converted into the right to receive approximately \$16.48 in cash and approximately 2.2503 shares of Banner common stock, having a market value of approximately \$110.16. As an additional example, based on the closing price of \$42.43 of Banner common stock on the Nasdaq on December 18, 2006, and 364,078 San Juan Financial common shares outstanding as of such date, each share of San Juan Financial common stock would be converted into the right to receive approximately \$16.48 in cash and approximately 2.2503 shares of Banner common stock, having a market value of approximately \$111.96.

Your vote is important. We cannot complete the merger of Banner and San Juan Financial unless San Juan Financial shareholders approve and adopt the merger agreement. **San Juan Financial shareholders' failure to vote will have the same effect as voting against the merger.** The special meeting of the shareholders of San Juan Financial will be held at Islanders Bank, Administration Bldg., 545 Park Street, Friday Harbor, Washington 98250 on April 27, 2007 at 5:15 p.m.. **The San Juan Financial board of directors unanimously recommends that San Juan Financial shareholders vote FOR approval and adoption of the merger agreement.**

This document gives you detailed information about the shareholder meeting and the proposed merger. **We urge you to read this document carefully, including "Risk Factors" beginning on page 12 for a discussion of the risks relating to the merger.** You also can obtain information about Banner from documents that it has filed with the Securities and Exchange Commission by following the instructions under "Where You Can Find More Information." Whether or not you plan to attend the special meeting, to ensure your shares are represented at the meeting, please vote as soon as possible by completing and submitting the enclosed proxy card.

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Richard W. Kneipp
President and Chief Executive Officer
San Juan Financial Holding Company

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the shares of common stock to be issued by Banner under this document or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

This document is dated March 28, 2007, and is being first mailed to San Juan Financial shareholders on or about March 30, 2007.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON APRIL 30, 2007

To the Shareholders of San Juan Financial Holding Company:

We will hold a special meeting of San Juan Financial shareholders on April 27, 2007, at 5:15 p.m., local time, at Islanders Bank, Administration Bldg., 545 Park Street, Friday Harbor, Washington 98250 for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of December 18, 2006, between Banner Corporation and San Juan Financial Holding Company, as it may be amended from time to time, pursuant to which San Juan Financial will merge with and into Banner;
2. To vote upon an adjournment or postponement of the San Juan Financial special meeting, if necessary, to solicit additional proxies; and
3. To transact any other business as may properly be brought before the San Juan Financial special meeting or any adjournment or postponement of the San Juan Financial special meeting.

Only holders of record of San Juan Financial common stock at the close of business on March 26, 2007 are entitled to notice of, and to vote at, the San Juan Financial special meeting or any adjournments or postponements of the San Juan Financial special meeting. **To ensure your representation at the San Juan Financial special meeting, please complete and promptly mail your proxy card in the return envelope enclosed.** This will not prevent you from voting in person, but will help to secure a quorum and avoid added solicitation costs. Your proxy may be revoked at any time before it is voted. Please review the proxy statement/prospectus accompanying this notice for more complete information regarding the merger and the San Juan Financial special meeting.

The board of directors of San Juan Financial unanimously recommends that San Juan Financial shareholders vote **FOR** the proposal to approve and adopt the merger agreement.

By Order of the Board of Directors,

Richard W. Kneipp
President and Chief Executive Officer

Friday Harbor, Washington
March 28, 2007

ADDITIONAL INFORMATION

This document incorporates important business and financial information about Banner Corporation from documents filed with the Securities and Exchange Commission, which in this document we refer to as the "SEC," that are not included in or delivered with this document.

Banner will provide you with copies of this information relating to Banner, without charge, upon written or oral request to:

Banner Corporation

10 South First Avenue
Walla Walla, Washington 99362
Attention: Investor Relations
Telephone: (509) 527-3636

In order to receive timely delivery of the documents in advance of the special meeting, you must request the information no later than April 20, 2007.

You may also obtain the documents filed by Banner with the SEC at the SEC's website, www.sec.gov, and you may obtain certain of these documents at Banner's website, www.bannerbank.com, by selecting "BANR SEC Filings." Information contained on the Banner website is expressly not incorporated by reference into this document.

You should rely only on the information contained in or incorporated by reference into this document to vote on the proposals to San Juan Financial's shareholders in connection with the merger. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated March 28, 2007. You should not assume that the information contained in, or incorporated by reference into, this document is accurate as of any date other than that date. Neither our mailing of this document to San Juan Financial shareholders nor the issuance by Banner of common stock in connection with the merger will create any implication to the contrary.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Information contained in this document regarding Banner has been provided by Banner and information contained in this document regarding San Juan Financial has been provided by San Juan Financial.

TABLE OF CONTENTS

Questions and Answers About the Merger	1
Summary	3
Risk Factors	12
Forward-Looking Statements	15
The Special Meeting of San Juan Financial Shareholders	17
General	17
Record Date and Voting	17
Vote Required	18
Revocability of Proxies	18
Solicitation of Proxies	19
The Merger	20
Background of the Merger	20
San Juan Financial's Reasons for the Merger; Recommendation of San Juan Financial's Board of Directors	22
Banner's Reasons for the Merger	24
Opinion of San Juan Financial's Financial Advisor	24
Interests of San Juan Financial's Executive Officers and Directors in the Merger	28
Listing of Banner Common Stock on the Nasdaq	30
Dissenters' Rights	31
Accounting Treatment	35
Regulatory Approvals	35
Federal Reserve Board	35
Material U.S. Federal Income Tax Consequences of the Merger	37
Tax Consequences of the Merger Generally	38
Tax Basis and Holding Period	39
Cash Received Instead of a Fractional Share of Banner Common Stock	39
Information Reporting and Backup Withholding	40
Reporting Requirements	40
The Merger Agreement	41
The Merger	41
Effective Time and Completion of the Merger	41
Consideration To Be Received in the Merger	41
Stock Options and Other Stock-Based Awards	42
Conversion of Shares; Exchange of Certificates	43
Representations and Warranties	44
Conduct of Business Pending the Merger	46
Reasonable Best Efforts	49
No Solicitation of Alternative Transactions	49
Employee Matters	51
Indemnification and Insurance	51
Conditions to Complete the Merger	52
Termination of the Merger Agreement	53
Amendment, Waiver and Extension of the Merger Agreement	55
Fees and Expenses	56

Restrictions on Resales by Affiliates	56
The Companies	57
Banner Corporation	57
San Juan Financial Holding Company	57
Securities Authorized for Issuance Under Equity Plans of San Juan Financial	57
Security Ownership of Certain Beneficial Owners and Management of San Juan Financial	58
Market Price and Dividend Data	60
Banner	60
San Juan Financial	60
Comparative Rights of Banner and San Juan Financial Shareholders	61
Legal Matters	66
Experts	66
Other Matters	66
Where You Can Find More Information	67
Agreement and Plan of Merger, dated as of December 18, 2006, between Banner Corporation and San Juan Financial Holding Company	Annex A
Opinion of McAdams Wright Ragen, Inc., dated December 14, 2006	Annex B
Copy of Chapter 23B.13 of the Washington Business Corporation Act	Annex C
Form of Voting Agreement	Annex D

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What matters will be considered at the San Juan Financial shareholder meeting?

A: At the San Juan Financial special meeting, San Juan Financial shareholders will be asked to vote in favor of approving and adopting the merger agreement.

Q: Why is my vote important?

A: The merger agreement must be approved and adopted by the holders of two-thirds of the outstanding shares of San Juan Financial common stock. Accordingly, if a San Juan Financial shareholder fails to vote, or if a San Juan Financial shareholder abstains, that will have the same effect as a vote against approval and adoption of the merger agreement.

Q: What do I need to do now in order to vote?

A: After you have carefully read this document, please respond as soon as possible so that your shares will be represented and voted at the San Juan Financial special meeting by: completing, signing and dating your proxy card or voting instruction card and returning it in the postage-paid envelope.

Q: When and where is the shareholder meeting?

A: The San Juan Financial special meeting will take place at 5:15 p.m. on April 27, 2007. The location of the San Juan Financial special meeting is Islanders Bank, Administration Bldg., 545 Park Street, Friday Harbor, Washington 98250.

Q: Should I send in my San Juan Financial stock certificates with my proxy card?

A: No. Please DO NOT send your San Juan Financial stock certificates with your proxy card. Shortly after the merger is completed you will receive a letter of transmittal with instructions, which you should carefully review and follow, regarding how to surrender your San Juan Financial stock certificates.

Q: How do I vote my shares if my shares are held in [street name]?

A: You should contact your broker or bank. Your broker or bank can give you directions on how to instruct the broker or bank to vote your shares. Your broker or bank will not vote your shares unless the broker or bank receives appropriate instructions from you. Your failure to vote will have the same effect as a vote [AGAINST] approval and adoption of the merger agreement. You should therefore provide your broker or bank with instructions as to how to vote your shares.

Q: What if I want to change my vote after I have delivered my proxy card?

A: You may change your vote at any time before your proxy is voted at the shareholder meeting. If you are the record holder of your shares, you can do this in any of the three following ways:

- by sending a written revocation to the secretary of San Juan Financial in time to be received before the special meeting of shareholders stating that you would like to revoke your proxy;
- by properly completing another proxy card that is dated later than the original proxy and returning it in time to be received before the special meeting of shareholders; or
- by voting in person at the special meeting of shareholders if your shares of San Juan Financial common stock are registered in your name rather than in the name of a broker or bank.

If you hold your shares in [street name], you should contact your broker or bank to give it instructions to change your vote.

Q: Are San Juan Financial shareholders entitled to dissenters' rights?

A: Holders of San Juan Financial common stock have the right to dissent from the merger and to receive payment in cash for the fair value of their shares of San Juan Financial common stock. The fair value of the shares of San Juan Financial common stock of dissenting shareholders may be more than, less than or equal to the value of the merger consideration. If you are a San Juan Financial shareholder seeking to preserve your statutory dissenters' rights, you must carefully follow the procedures described in the section entitled "The Merger" "Dissenters' Rights" on pages 31-34 and prescribed by Chapter 23B.13 of the Washington Business Corporation Act, a copy of which is reprinted in its entirety and attached to this document as Annex C. Your failure to comply precisely with all procedures required by Washington law may result in the loss of your dissenters' rights.

Q: Whom can I call with questions about the shareholder meeting or the merger?

A: If you have questions about the merger or the San Juan Financial special meeting of shareholders or you need additional copies of this document, or if you have questions about the process for voting or if you need a replacement proxy card, you should contact:

San Juan Financial Holding Company
225 Blair Avenue
P.O. Box 909
Friday Harbor, Washington 98250
Attention: Richard W. Kneipp, President & CEO
Telephone: (360) 378-1243

SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. You should carefully read this entire document and the other documents to which this document refers to fully understand the merger. See [Where You Can Find More Information] on pages 67-68. Most items in this summary include a page reference directing you to a more complete description of those items.

San Juan Financial Will Merge into Banner (see page 41)

We propose a merger of San Juan Financial with and into Banner. As a result, Banner will continue as the surviving company.

San Juan Financial Shareholders Will Receive Cash and Shares of Banner Common Stock in the Merger (see pages 41-42)

If the merger is completed, Banner will deliver 819,277 shares of Banner common stock and \$6,000,000 in cash to San Juan Financial shareholders, who will become entitled to receive their pro rata share of this aggregate consideration. If the price of Banner common stock at the time the merger is completed is between \$36 and \$38, Banner will deliver additional cash or additional shares of Banner common stock such that the aggregate merger consideration to be received by San Juan Financial shareholders will have a value of \$37,132,526, which is equal to \$6,000,000 plus 819,277 shares of Banner common stock valued at \$38 per share. If the price of Banner common stock at the time the merger is completed is between \$46 and \$50, Banner will deliver less cash or fewer shares of Banner common stock such that the aggregate merger consideration to be received by San Juan Financial shareholders will have a value of \$43,686,742, which is equal to \$6,000,000 plus 819,277 shares of Banner common stock valued at \$46 per share.

Except as described above, the value of the merger consideration will fluctuate with the market price of Banner common stock. As an example, based on the closing price of \$41.63 of Banner common stock on the Nasdaq on March 26, 2007, and 364,078 San Juan Financial common shares outstanding as of such date, each share of San Juan Financial common stock would be converted into the right to receive approximately \$16.48 in cash and approximately 2.2503 shares of Banner common stock, having a market value of approximately \$110.16.

In addition, since the merger will be completed after March 31, 2007, San Juan Financial shareholders will become entitled to receive their pro rata share of the amount of any dividends or distributions on Banner common stock with a record date after March 31, 2007 that would have been payable on 819,277 shares of Banner common stock. See [The Merger Agreement] Consideration To Be Received in the Merger.

What Holders of San Juan Financial Stock Options and Other Equity-Based Awards Will Receive (see pages 42-43)

When we complete the merger, stock options to acquire San Juan Financial common stock that are outstanding immediately before the completion of the merger will receive a cash payment equal to the excess of the value of the cash and Banner common stock delivered in exchange for each share of San Juan Financial common stock over the exercise price of such

stock option. Cash payments for options will be in addition to the cash payments for shares of common stock as described above.

The Merger Has Been Structured to Be Generally Tax-Free to Holders of San Juan Financial Common Stock to the Extent They Receive Banner Common Stock (see page 37)

The exchange by U.S. holders of San Juan Financial common stock for Banner common stock has been structured to be generally tax free for U.S. federal income tax purposes, except that:

- U.S. holders of San Juan Financial common stock generally will recognize gain, but not loss, to the extent of the cash received; and
- U.S. holders of San Juan Financial common stock generally will recognize gain or loss with respect to cash received instead of fractional shares of Banner common stock that such holders would otherwise be entitled to receive.

For further information, please refer to "The Merger" Material U.S. Federal Income Tax Consequences of the Merger.

Dividend Policy of Banner (see pages 43-44)

The holders of Banner common stock receive dividends if and when declared by the Banner board of directors out of legally available funds. Banner declared quarterly cash dividends of \$0.19 per share of common stock for the fourth quarter of 2006 and \$0.18 for each of the first three quarters of 2006. Following the completion of the merger, Banner expects to continue paying quarterly cash dividends on a basis consistent with past practice. However, the declaration and payment of dividends will depend upon business conditions, operating results, capital and reserve requirements and consideration by the Banner board of directors of other relevant factors.

Prior to completion of the merger, San Juan Financial shareholders will not receive any regular dividends declared and paid by Banner, except that San Juan Financial may dispose of certain assets and declare and pay a special distribution of the after-tax proceeds to San Juan Financial shareholders. See "The Merger Agreement" Conversion of Shares; Exchange of Certificates Dividends and Distributions.

San Juan Financial's Financial Advisor Has Provided an Opinion as to the Fairness of the Merger Consideration, from a Financial Point of View, to San Juan Financial's Shareholders (see pages 24-28)

McAdams Wright Ragen, Inc. or "McAdams Wright" has provided an opinion to the San Juan Financial board of directors, dated as of December 14, 2006, that, as of that date, and subject to and based upon the qualifications and assumptions set forth in its opinion, the consideration to be received by the holders of San Juan Financial common stock in the merger was fair, from a financial point of view, to such shareholders. We have attached to this document the full text of McAdams Wright's opinion as Annex B, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review

undertaken by McAdams Wright in connection with its opinion. We urge you to read the opinion in its entirety. The opinion of McAdams Wright is addressed to the board of directors of San Juan Financial and is among many factors considered by the board in deciding to approve the merger agreement and the transactions contemplated by the merger agreement. It is directed only to the consideration to be paid in the merger and does not constitute a recommendation to any shareholder as to how that shareholder should vote on the merger agreement. Pursuant to an engagement letter between San Juan Financial and McAdams Wright, San Juan Financial has agreed to pay McAdams Wright a fee, a substantial portion of which is payable only upon completion of the merger.

San Juan Financial's Board of Directors Recommends that San Juan Financial Shareholders Vote "FOR" Approval and Adoption of the Merger Agreement (see page 22-24)

San Juan Financial's board of directors has unanimously determined that the merger and the merger agreement are advisable to, and in the best interests of, San Juan Financial shareholders and unanimously recommends that San Juan Financial shareholders vote "FOR" the proposal to approve and adopt the merger agreement.

In reaching its decision to approve the merger agreement, San Juan Financial's board of directors consulted with certain of its senior management and with its legal and financial advisors and also considered the factors described under "The Merger" San Juan Financial's Reasons for the Merger; Recommendation of San Juan Financial's Board of Directors.

Interests of San Juan Financial Executive Officers and Directors in the Merger (see pages 28-30)

In considering the information contained in this document, you should be aware that San Juan Financial's executive officers and directors have financial interests in the merger that may be different from, or in addition to, the interests of San Juan Financial shareholders. These additional interests of San Juan Financial's executive officers and directors may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it as a shareholder.

San Juan Financial's board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement. For information concerning these interests, please see the discussion under the caption "The Merger" Interests of San Juan Financial Executive Officers and Directors in the Merger.

Non-Solicitation (see pages 49-50)

San Juan Financial has agreed that it will not solicit or encourage any inquiries or proposals regarding any acquisition proposals by third parties. However, San Juan Financial may respond to unsolicited proposals in certain circumstances if required by its board of directors' fiduciary duties. Upon receiving any such proposal, San Juan Financial must promptly notify Banner.

Conditions to Completion of the Merger (see pages 52-53)

Each of Banner's and San Juan Financial's obligations to complete the merger is subject to the satisfaction or waiver of a number of mutual conditions including:

- the approval and adoption of the merger agreement by San Juan Financial shareholders; and
- the absence of any statute, regulation, rule, decree, injunction or other order in effect by any court or other governmental entity that prohibits completion of the transactions contemplated by the merger agreement.

Each of Banner's and San Juan Financial's obligations to complete the merger is also separately subject to the satisfaction or waiver of a number of conditions including:

- the receipt by the party of a legal opinion from its counsel to the effect that the merger will be treated as a reorganization for U.S. federal income tax purposes;
- the receipt and effectiveness of all regulatory approvals, registrations and consents, and the expiration of all waiting periods required to complete the merger; and
- the other company's representations and warranties in the merger agreement being true and correct, subject to the materiality standards contained in the merger agreement, and the performance by the other party in all material respects of its obligations under the merger agreement.

Banner's obligation to complete the merger is further subject to the condition that the regulatory approvals received in connection with the completion of the merger not include any conditions or restrictions that, in the aggregate, would reasonably be expected to have a material adverse effect on San Juan Financial or Banner, with materiality being measured on a scale relative to San Juan Financial.

Termination of the Merger Agreement (see pages 53-55)

Banner and San Juan Financial may mutually agree at any time to terminate the merger agreement without completing the merger, even if shareholders have approved the merger. Also, either of Banner or San Juan Financial can terminate the merger agreement in various circumstances, including the following:

- if a governmental entity which must grant a regulatory approval as a condition to the merger denies approval of the merger or any governmental entity has issued an order prohibiting the merger and such action has become final and non-appealable;
- if the merger is not completed by July 31, 2007 (other than because of a breach of the merger agreement caused by the party seeking termination);

- if the other party breaches the merger agreement in a way that would entitle the party seeking to terminate the agreement not to consummate the merger, subject to the right of the breaching party to cure the breach within 45 days following written notice (unless it is not possible due to the nature or timing of the breach for the breaching party to cure the breach); or
- if the approval and adoption of the merger agreement by San Juan Financial shareholders is not obtained.

Banner may also terminate the merger agreement:

- if San Juan Financial has materially breached its [non-solicitation] obligations described under [The Merger Agreement] [No Solicitation of Alternative Transactions];
- if San Juan Financial's board has failed to recommend in this proxy statement/prospectus the approval of the merger agreement by its shareholders, recommended any alternative transaction proposals with third parties or failed to call a meeting of its shareholders; or
- if the ten-day average closing price of Banner common stock exceeds \$50 (subject to San Juan Financial's right to accept a reduction in the merger consideration and thereby prevent such termination as described under [The Merger Agreement] [Termination of the Merger Agreement]).

The merger agreement will terminate automatically, unless the San Juan Financial board of directors unanimously determines otherwise, if the ten-day average closing price of Banner common stock is less than \$36 (subject to Banner's right to increase the merger consideration and thereby prevent such termination as described under [The Merger Agreement] [Termination of the Merger Agreement]).

Dissenters' Rights (see pages 31-34)

Under Washington law, if San Juan Financial shareholders want to assert their right to dissent from the merger and seek the fair value of their shares of San Juan Financial common stock, San Juan Financial shareholders must follow carefully the procedures described in Annex C, and summarized at pages 31-34 of this document.

San Juan Financial Will Hold its Special Meeting on April 27, 2007 (see pages 17-19)

The San Juan Financial special meeting will be held at Islanders Bank, Administration Bldg., 545 Park Street, Friday Harbor, Washington 98250, on April 30 at 5:15 p.m., local time. At the special meeting, San Juan Financial shareholders will be asked:

- to approve and adopt the merger agreement;
- to vote upon an adjournment or postponement of the San Juan Financial special meeting, if necessary, to solicit additional proxies; and

- to transact any other business as may properly be brought before the San Juan Financial special meeting or any adjournment or postponement of the San Juan Financial special meeting.

You can vote at the San Juan Financial special meeting if you owned San Juan Financial common stock at the close of business on March 26, 2007. On that date, there were 364,078 shares of San Juan Financial common stock outstanding and entitled to vote, approximately 28.14% of which were owned and entitled to be voted by San Juan Financial directors and executive officers and their affiliates. You can cast one vote for each share of San Juan Financial common stock you owned on that date. In order to approve and adopt the merger agreement, the holders of two-thirds of the outstanding shares of San Juan Financial common stock entitled to vote must vote in favor of doing so.

San Juan Financial’s Directors Have Agreed to Vote in Favor of the Merger (page 22-24)

In consideration of Banner agreeing to enter into the merger agreement, each of the members of our board of directors entered into support agreements with Banner under which they agreed to vote, and gave Banner an irrevocable proxy to vote, their shares of San Juan Financial common stock in favor of the merger agreement and against any competing acquisition transaction. The shares subject to these support agreements represent approximately 27.94% of the outstanding shares of San Juan Financial common stock as of the record date. A form of the support agreement is attached to this proxy statement as Annex D.

Regulatory Approvals Required for the Merger (see pages 35-36)

Completion of the transactions contemplated by the merger agreement is subject to various regulatory approvals, including approval from the Federal Reserve Board. Banner and San Juan Financial have completed filing all of the required applications and notices with regulatory authorities. Although we do not know of any reason why we would not be able to obtain the necessary regulatory approvals in a timely manner, we cannot be certain when or if we will get them.

COMPARATIVE PER SHARE MARKET PRICE INFORMATION

Banner common stock trades on the Nasdaq under the symbol “BANR.” The following table presents the closing sale prices of Banner common stock on December 18, 2006, the last trading day before we announced the merger agreement and March 26, 2007, the last practicable trading day prior to mailing this document. The table also presents the equivalent value of the merger consideration per share of San Juan Financial common stock on those dates, assuming 364,078 San Juan Financial common shares outstanding as of such dates.

<u>Date</u>	<u>Banner Closing Price</u>	<u>Equivalent Per Share Value</u>
December 18, 2006	\$ 42.43	\$ 111.96
March 26, 2007	\$ 41.63	\$ 110.16

The market price of Banner common stock will fluctuate prior to the merger. You should obtain current stock price quotations for Banner common stock.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF BANNER

Set forth below are highlights from Banner's consolidated financial data as of and for the years ended December 31, 2002 through 2006. You should read this information in conjunction with Banner's consolidated financial statements and related notes included in Banner's Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference in this document and from which this information is derived. See "Where You Can Find More Information" on page 67.

Banner's Summary of Consolidated Financial Data

	At or For the Years Ended December 31				
	2006	2005	2004	2003	2002
Period End Balances (in thousands)					
Total assets	\$ 3,495,566	\$ 3,040,555	\$ 2,897,067	\$ 2,635,313	\$ 2,263,172
Loans receivable, net	2,930,455	2,408,833	2,063,238	1,700,865	1,546,927
Cash and securities ⁽¹⁾	347,410	427,681	649,516	779,472	567,385
Deposits	2,794,592	2,323,313	1,925,909	1,670,940	1,497,778
Borrowings	404,330	459,821	723,842	738,699	546,945
Stockholders' equity	250,227	221,665	215,220	202,800	190,377
Shares outstanding excluding unearned, restricted shares held in ESOP	12,074	11,782	11,482	11,039	10,791
Operating Data (in thousands)					
Interest income	243,019	\$ 190,160	\$ 156,230	\$ 140,441	\$ 144,276
Interest expense	116,114	81,377	59,915	59,848	65,969
Net interest income	126,905	108,783	96,315	80,593	78,307
Provision for loan losses	5,500	4,903	5,644	7,300	21,000
Net interest income after provision for loan losses	121,405	103,880	90,671	73,293	57,307
Mortgage banking operations	5,824	5,647	5,522	9,447	6,695
Gain (loss) on sale of securities	65	(7,302)	141	63	27
Other operating income	14,686	12,199	11,305	10,071	9,155
Insurance recovery, net proceeds	(5,350)	-	-	-	-
FHLB prepayment penalties	-	6,077	-	-	-
Other operating expenses	99,731	91,471	79,714	69,876	60,445
Income before provision for income taxes	47,599	16,876	27,925	22,998	12,739
Provision for income taxes	15,436	4,432	8,585	6,891	3,479

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Net income	\$ 32,163	\$ 12,444	\$ 19,340	\$ 16,107	\$ 9,260
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	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**At or for the Years Ended December
31**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
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Per Share Data

Net income:					
Basic	2.70	\$ 1.08	\$ 1.74	\$ 1.49	\$ 0.85
Diluted	2.63	1.04	1.65	1.44	0.82
Stockholders' equity ⁽²⁾	20.72	18.81	18.74	18.37	17.64
Cash dividends	0.73	0.69	0.65	0.61	0.6
Dividend payout ratio (basic)	27.04%	63.89%	37.36%	40.94%	70.59%
Dividend payout ratio (diluted)	27.76%	66.35%	39.39%	42.36%	73.17%

**At or for the Years Ended
December 31**

	2006	2005	2004	2003	2002
Key Financial Ratios					
<i>Performance Ratios:</i>					
Return on average assets (3)	0.97%	0.41%	0.70%	0.66%	0.43%
Return on average equity (4)	13.54	5.62	9.22	8.21	4.71
Average equity to average assets	7.20	7.26	7.62	8.03	9.13
Interest rate spread (5)	3.97	3.72	3.65	3.47	3.8
Net interest margin (6)	4.08	3.79	3.71	3.53	3.91
Non-interest income to average assets	0.62	0.35	0.62	0.8	0.74
Non-interest expense to average assets	2.86	3.20	2.90	2.86	2.81
Efficiency ratio (7)	64.00	81.75	70.37	69.75	64.18
Average interest-earning assets to interest-bearing liabilities	102.81	102.66	102.92	102.31	103.14
<i>Asset Quality Ratios:</i>					
Allowance for loan losses as a percent of total loans at end of period	1.20	1.27	1.41	1.51	1.69
Net charge-offs as a percent of average outstanding loans during the period	0.03	0.16	0.11	0.47	0.78
Non-performing assets as a percent of total assets	0.43	0.36	1.20	1.20	1.86
Ratio of allowance for loan losses to non-performing loans (8)	2.53	2.96	1.86	0.92	0.74
<i>Consolidated Capital Ratios:</i>					
Total capital to risk-weighted assets	11.80	12.29	12.24	12.77	12.96
Tier 1 capital to risk-weighted assets	9.53	10.17	10.94	11.48	11.66
Tier 1 leverage capital to average assets	8.76	8.59	8.93	8.73	8.77

(1) Includes securities available for sale and held to maturity.

(2) Calculated using shares outstanding excluding unearned restricted shares held in ESOP.

(3) Net income divided by average assets.

(4) Net income divided by average equity.

(5) Difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(6) Net interest income before provision for loan losses as a percent of average interest-earning assets.

(7) Other operating expenses divided by the total of net interest income before loan losses and other operating income (non-interest income).

(8) Non-performing loans consist of nonaccrual and 90 days past due loans.

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this document, including Banner's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and the matters addressed under the heading "Forward-Looking Statements" beginning on page 15 of this document, you should carefully consider the following risk factors in deciding whether to vote to approve and adopt the merger agreement.

As a Result of the Merger, Shareholders of San Juan Financial Will Be Subject to the Risks Attendant to Banner's Business.

If the merger is completed, San Juan Financial shareholders will become shareholders of Banner and will be subject to the risks facing Banner and its business. These risks include the risk that changes in interest rates adversely affect Banner's earnings or economic value, that general economic or political conditions, and particularly economic conditions in Washington, Oregon and Idaho, are less favorable than expected; that competitive pressure among financial services companies limits Banner's ability to grow or profitability and other risks and uncertainties that Banner discusses or identifies in its public filings with the SEC.

Banner grows its business in part by acquiring from time to time other financial services companies, and these acquisitions present a number of risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses.

Acquisitions of other financial services companies present risks to Banner other than those presented by the nature of the business acquired. In particular, acquisitions may be substantially more expensive to