UMPQUA HOLDINGS CORP
Form 10-Q/A
May 07, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1 to

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended: **March 31, 2009**

¨ **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: **000-25597**

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

OREGON	**93-1261319**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

One SW Columbia Street, Suite 1200

Portland, Oregon 97258

(Address of Principal Executive Offices) (Zip Code)

(503) 727-4100

(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.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definition of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes x No

Indicate the number of shares outstanding for each of the issuer s classes of common stock, as of the latest practical date:

Common stock, no par value: 60,215,353 shares outstanding as of April 30, 2009

UMPQUA HOLDINGS CORPORATION

FORM 10-Q/A

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (Amended Report) is being filed with respect to Umpqua Holding Corporation s Quarterly Report on Form 10-Q for its fiscal quarter ended March 31, 2009, filed with the Securities and Exchange Commission on May 7, 2009. This Amended Report is being filed to correct the non-accrual loan totals reported in the text of Note 4 of the *Notes to Condensed Consolidated Financial Statements* (page 15) and in *Management s Discussion and Analysis of Financial Condition and Results of Operations* under the heading *Provision for Loan and Lease Losses* (page 37) from $117.6 million to $112.9 million. This error is typographical in nature, and does not affect the Company s reported financial condition or results of operations. Accordingly, this Amended Report includes updated certifications as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

2

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

	March 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 136,035	$ 148,064
Temporary investments	70,565	56,612
Total cash and cash equivalents	206,600	204,676
Investment securities		
Trading	1,485	1,987
Available for sale, at fair value	1,435,293	1,238,712
Held to maturity, at amortized cost	13,783	15,812
Loans held for sale	34,013	22,355
Loans and leases	6,082,480	6,131,374
Allowance for loan and lease losses	(95,086)	(95,865)
Net loans and leases	5,987,394	6,035,509
Restricted equity securities	16,491	16,491
Premises and equipment, net	103,712	104,694
Goodwill and other intangible assets, net	756,468	757,833
Mortgage servicing rights, at fair value	8,732	8,205
Other real estate owned	32,766	27,898
Other assets	185,796	163,378
Total assets	$ 8,782,533	$ 8,597,550
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 1,292,512	$ 1,254,079
Interest bearing	5,500,022	5,334,856
Total deposits	6,792,534	6,588,935
Securities sold under agreements to repurchase	50,274	47,588
Term debt	206,458	206,531
Junior subordinated debentures, at fair value	91,682	92,520
Junior subordinated debentures, at amortized cost	103,430	103,655
Other liabilities	68,311	71,313
Total liabilities	7,312,689	7,110,542
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
SHAREHOLDERS EQUITY		
	202,692	202,178

Preferred stock, no par value, 2,000,000 shares authorized; Series A (liquidation preference $1,000 per share); issued and outstanding: 214,181 in 2009 and 2008				
Common stock, no par value, 100,000,000 shares authorized; issued and outstanding: 60,198,057 in 2009 and 60,146,400 in 2008		1,006,199		1,005,820
Retained earnings		243,447		264,938
Accumulated other comprehensive income		17,506		14,072
Total shareholders equity		1,469,844		1,487,008
Total liabilities and shareholders equity	$	8,782,533	$	8,597,550

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended March 31, 2009	Three months ended March 31, 2008
INTEREST INCOME		
Interest and fees on loans	$ 88,173	$ 104,152
Interest and dividends on investment securities		
Taxable	14,371	9,329
Exempt from federal income tax	1,800	1,679
Dividends	-	78
Interest on temporary investments	32	203
Total interest income	104,376	115,441
INTEREST EXPENSE		
Interest on deposits	24,463	39,625
Interest on securities sold under agreements to repurchase and federal funds purchased	184	749
Interest on term debt	1,756	1,125
Interest on junior subordinated debentures	2,560	3,922
Total interest expense	28,963	45,421
Net interest income	75,413	70,020
PROVISION FOR LOAN AND LEASE LOSSES	59,092	15,132
Net interest income after provision for loan and lease losses	16,321	54,888
NON-INTEREST INCOME		
Service charges on deposit accounts	7,701	8,377
Brokerage commissions and fees	1,379	2,175
Mortgage banking revenue, net	4,070	(1,870)
Net gain on investment securities	35	3,901
Gain on junior subordinated debentures carried at fair value	580	1,642
Proceeds from Visa mandatory partial redemption	-	12,633
Other income	1,752	2,736
Total non-interest income	15,517	29,594
NON-INTEREST EXPENSE		
Salaries and employee benefits	31,073	28,244
Net occupancy and equipment	9,621	9,116
Communications	1,753	1,778
Marketing	970	771
Services	5,329	4,707
Supplies	795	665
FDIC assessments	2,625	1,215
Net loss on other real estate owned	2,299	611
Intangible amortization	1,362	1,491

Merger related expenses		200		-
Visa litigation		-		(5,183)
Other expenses		3,924		4,072
Total non-interest expense		59,951		47,487
(Loss) income before (benefit from) provision for income taxes		(28,113)		36,995
(Benefit from) provision for income taxes		(12,864)		12,324
Net (loss) income		(15,249)		24,671
Preferred stock dividends		3,191		-
Net (loss) income available to common shareholders	$	(18,440)	$	24,671

4

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended March 31, 2009	2008
(Loss) earnings per common share:		
Basic	$ (0.31)	$ 0.41
Diluted	$ (0.31)	$ 0.41
Weighted average number of common shares outstanding:		
Basic	60,176	60,029
Diluted	60,176	60,374

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(in thousands, except shares)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT JANUARY 1, 2008	$ -	59,980,161	$ 988,780	$ 251,545	$ (387)	$ 1,239,938
Net income				51,044		51,044
Other comprehensive income, net of tax					14,459	14,459
Comprehensive income						$ 65,503
Stock-based compensation			3,893			3,893
Stock repurchased and retired		(8,199)	(129)			(129)
Issuances of common stock under stock plans and related net tax benefits		174,438	1,022			1,022
Issuance of preferred stock to U.S. Treasury	201,927					201,927
Issuance of warrants to U.S. Treasury			12,254			12,254
Amortization of discount on preferred stock	251			(251)		-
Cash dividends on common stock ($0.62 per share)				(37,400)		(37,400)
Balance at December 31, 2008	$ 202,178	60,146,400	$ 1,005,820	$ 264,938	$ 14,072	$ 1,487,008
BALANCE AT JANUARY 1, 2009	$ 202,178	60,146,400	$ 1,005,820	$ 264,938	$ 14,072	$ 1,487,008
Net loss				(15,249)		(15,249)
Other comprehensive income, net of tax					3,434	3,434
Comprehensive income						$ (11,815)
Stock-based compensation			916			916
Stock repurchased and retired		(18,306)	(162)			(162)
Issuances of common stock under stock plans and related net tax deficiencies		69,963	(375)			(375)
Amortization of discount on preferred stock	514			(514)		-
Dividends declared on preferred stock				(2,707)		(2,707)
Cash dividends on common stock ($0.05 per share)				(3,021)		(3,021)

Balance at March 31, 2009	$	202,692	60,198,057	$	1,006,199	$	243,447	$	17,506	$	1,469,844

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Net (loss) income	$ (15,249)	$ 24,671
Unrealized gains arising during the period on investment securities available for sale	6,847	8,311
Reclassification adjustment for gains realized in net income, (net of tax expense of $869 and $1,560 for the three months ended March 31, 2009 and 2008, respectively)	(1,303)	(2,341)
Income tax expense related to unrealized gains on investment securities, available for sale	(2,739)	(3,324)
Net change in unrealized gains on investment securities available for sale	2,805	2,646
Reclassification adjustment for impairments realized in net income (net of tax benefit of $379 for the three months ended March 31, 2009)	568	-
Amortization of unrealized losses on investment securities transferred to held to maturity (net of tax benefit of $41 for the three months ended March 31, 2009)	61	-
Net change in unrealized losses on investment securities transferred to held to maturity	629	-
Other comprehensive income, net of tax	3,434	2,646
Comprehensive (loss) income	$ (11,815)	$ 27,317

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three months ended March 31, 2009	Three months ended March 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (15,249)	$ 24,671
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Restricted equity securities stock dividends	-	(51)
Amortization of investment premiums, net	795	194
Net gain on sale of investment securities available for sale	(2,172)	(3,901)
Other-than-temporary impairment on investment securities held to maturity	2,137	-
Loss on sale of other real estate owned	688	611
Valuation adjustment on other real estate owned	1,611	-
Provision for loan and lease losses	59,092	15,132
Depreciation, amortization and accretion	2,228	3,412
Increase in mortgage servicing rights	(1,968)	(475)
Change in mortgage servicing rights carried at fair value	1,441	1,923
Change in junior subordinated debentures carried at fair value	(838)	(1,883)
Stock-based compensation	916	735
Net decrease in trading account assets	502	458
Gain on sale of loans	(810)	(588)
Origination of loans held for sale	(179,174)	(66,118)
Proceeds from sales of loans held for sale	168,326	39,896
Net (increase) decrease in other assets	(25,069)	19,615
Net decrease in other liabilities	(2,423)	(9,451)
Net cash provided by operating activities	10,033	24,180
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(327,282)	(355,844)
Proceeds from investment securities available for sale	140,936	345,515
Proceeds from investment securities held to maturity	918	737
Redemption of restricted equity securities	-	55
Net loan and lease originations	(17,278)	(19,320)
Proceeds from sales of loans	-	5,392
Proceeds from disposals of furniture and equipment	28	66
Purchases of premises and equipment	(2,451)	(1,896)
Proceeds from sales of other real estate owned	1,588	1,903
Cash acquired in merger, net of cash consideration paid	178,905	-
Net cash used by investing activities	(24,636)	(23,392)

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)

	Three months ended March 31,	
	2009	**2008**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposit liabilities	19,728	(76,108)
Net decrease in federal funds purchased	-	(14,500)
Net increase in securities sold under agreements to repurchase	2,686	2,002
Proceeds from term debt borrowings	-	170,000
Repayment of term debt	(52)	(70,043)
Dividends paid on preferred stock	(2,707)	-
Dividends paid on common stock	(3,018)	(11,436)
Proceeds from stock options exercised	52	501
Retirement of common stock	(162)	(95)
Net cash provided by financing activities	16,527	321
Net increase in cash and cash equivalents	1,924	1,109
Cash and cash equivalents, beginning of period	204,676	192,070
Cash and cash equivalents, end of period	$ 206,600	$ 193,179
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 30,308	$ 46,807
Income taxes	$ 44	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gain on investment securities available for sale, net of taxes	$ 2,805	$ 2,646
Change in unrealized loss on investment securities held to maturity, net of taxes	$ 629	$ -
Cash dividend declared and payable after period-end	$ 3,017	$ 11,449
Transfer of loans to other real estate owned	$ 8,755	$ 12,126
Acquisitions:		
Assets acquired	$ 4,978	$ -
Liabilities assumed	$ 183,883	$ -

See notes to condensed consolidated financial statements

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as we , our or the Company) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Umpqua Bank (Bank), and Strand, Atkinson, Williams & York, Inc. (Strand). All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2008 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2008 Annual Report filed on Form 10-K.

In management s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform with current classifications.

Note 2 Business Combinations

On January 16, 2009, the Washington Department of Financial Institutions closed the Bank of Clark County, Vancouver, Washington, and appointed the Federal Deposit Insurance Corporation (FDIC) as its receiver. The FDIC entered into a purchase and assumption agreement with Umpqua Bank to assume the insured non-brokered deposit balances, which totaled $183.9 million, at no premium. The Company recorded the deposit related liabilities at book value. In connection with the assumption, Umpqua Bank acquired certain assets totaling $23.0 million, primarily cash and marketable securities, with the difference of $160.9 million representing funds received directly from the FDIC. Through this agreement, Umpqua Bank now operates two additional store locations in Vancouver, Washington. In addition, the FDIC is reimbursing Umpqua Bank for all overhead costs related to the acquired Bank of Clark County operations for 90 days following closing, while Umpqua Bank will pay the FDIC a servicing fee on assumed deposit accounts for that same period.

The results of the Bank of Clark County s operations have been included in the consolidated financial statements beginning January 17, 2009. Since this date, the Bank of Clark County has contributed net income of approximately $310,000, net of tax, and primarily represents interest income earned from the proceeds of the assumption and service income on deposits, partially offset by interest expense on deposits and the accrued servicing fee payable to the FDIC. In the second quarter, Umpqua will no longer incur the FDIC servicing fee, and will begin incurring overhead expenses such as salaries and employee benefits expense and rent expense. The Company does not expect to incur any significant additional merger-related expenses in connection with the assumption of the Bank of Clark County deposits and assets.

Table of Contents

Note 3 Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at March 31, 2009 and December 31, 2008:

March 31, 2009
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 13,888	$ 319	$ (6)	$ 14,201
Obligations of states and political subdivisions	187,769	3,943	(1,029)	190,683
Mortgage-backed securities and collateralized mortgage obligations	1,198,202	32,702	(2,995)	1,227,909
Other debt securities	884	-	(376)	508
Investments in mutual funds and other equity securities	1,959	33	-	1,992
	$ 1,402,702	$ 36,997	$ (4,406)	$ 1,435,293
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 3,585	$ 10	$ (32)	$ 3,563
Mortgage-backed securities and collateralized mortgage obligations	10,048	2	(6,756)	3,294
Other investment securities	150	-	-	150
	$ 13,783	$ 12	$ (6,788)	$ 7,007

December 31, 2008
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 30,831	$ 401	$ (6)	$ 31,226
Obligations of states and political subdivisions	176,966	3,959	(1,340)	179,585
Mortgage-backed securities and collateralized mortgage obligations	1,000,155	26,726	(1,586)	1,025,295
Other debt securities	884	-	(250)	634
Investments in mutual funds and other equity securities	1,959	13	-	1,972
	$ 1,210,795	$ 31,099	$ (3,182)	$ 1,238,712
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 4,166	$ 8	$ (75)	$ 4,099
Mortgage-backed securities and collateralized mortgage obligations	11,496	1	(7,367)	4,130
Other investment securities	150	-	-	150
	$ 15,812	$ 9	$ (7,442)	$ 8,379

11

Table of Contents

Investment securities that were in an unrealized loss position as of March 31, 2009 and December 31, 2008 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral:

March 31, 2009
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ 2,025	$ 3	$ 151	$ 3	$ 2,176	$ 6
Obligations of states and political subdivisions	39,304	754	6,512	275	45,816	1,029
Mortgage-backed securities and collateralized mortgage obligations	173,936	1,401	12,960	1,594	186,896	2,995
Other debt securities	508	376	-	-	508	376
Total temporarily impaired securities	$ 215,773	$ 2,534	$ 19,623	$ 1,872	$ 235,396	$ 4,406
HELD TO MATURITY:						
Obligations of states and political subdivisions	$ -	$ -	$ 773	$ 32	$ 773	$ 32
Mortgage-backed securities and collateralized mortgage obligations	2,947	6,755	28	1	2,975	6,756
Total temporarily impaired securities	$ 2,947	$ 6,755	$ 801	$ 33	$ 3,748	$ 6,788

December 31, 2008
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ 93	$ 2	$ 230	$ 4	$ 323	$ 6
Obligations of states and political subdivisions	43,341	1,291	5,520	49	48,861	1,340
Mortgage-backed securities and collateralized mortgage obligations	103,323	1,083	41,262	503	144,585	1,586
Other debt securities	-	-	634	250	634	250
Total temporarily impaired securities	$ 146,757	$ 2,376	$ 47,646	$ 806	$ 194,403	$ 3,182
HELD TO MATURITY:						
Obligations of states and political subdivisions	$ 4,099	$ 75	$ -	$ -	$ 4,099	$ 75
Mortgage-backed securities and collateralized mortgage obligations	4,130	7,367	-	-	4,130	7,367
Total temporarily impaired securities	$ 8,229	$ 7,442	$ -	$ -	$ 8,229	$ 7,442

The unrealized losses on investments in U.S. Treasury and agencies securities were caused by interest rate increases subsequent to the purchase of the securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the

Bank does not intend to sell the security and it is not more likely than not that Bank will be required to sell the security before recovery of their amortized cost bases, which may be maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the security and it is not more likely than not that Bank will be required to sell the security before recovery of their amortized cost bases, which may be maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase on obligations of political subdivisions in an unrealized loss position as of March 31, 2009. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the security and it is not more likely than not that Bank will be required to sell the security before recovery of their amortized cost bases, which may be maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

Table of Contents

The unrealized losses on other debt securities, which consist of trust preferred securities, were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities. Management monitors the credit ratings of the underlying institutions of the securities and no adverse ratings changes have occurred since the date of purchase on the other debt securities in an unrealized loss position as of March 31, 2009. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the security and it is not more likely than not that Bank will be required to sell the security before recovery of their amortized cost bases, which may be maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

We review investment securities on an ongoing basis for the presence of other-than-temporary (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, our ability and intent to hold investments until a recovery of fair value, which may be maturity, whether we expect to recover the amortized cost basis of the investments, and other factors.

In the three months ended March 31, 2009, the Company recorded a $2.1 million OTTI charge within net gain on investment securities. This charge related to three non-agency collateralized mortgage obligations carried as held to maturity and where the default rates and loss severities of the underlying collateral indicate credit losses are expected to occur. These securities were valued by third party pricing services using matrix or model pricing methodologies, and were corroborated by broker indicative bids. These securities were written-down to fair value as the entire impairment was determined to be credit related. The remaining non-agency securities within mortgage-backed securities and collateralized mortgage obligations carried as held to maturity were reviewed for OTTI, and based on the default rates and loss severities of the underlying collateral, management estimates that the amortized cost basis of these securities will be recovered and that no credit losses are expected to occur. At March 31, 2009, the held to maturity non-agency collateralized mortgage obligations represented $9.9 million of the investment portfolio. There were no similar charges recorded during the three months ended March 31, 2008.

The following table presents the maturities of investment securities at March 31, 2009:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
AMOUNTS MATURING IN:				
Three months or less	$ 4,870	$ 4,882	$ 504	$ 507
Over three months through twelve months	60,054	60,874	588	593
After one year through five years	941,049	963,057	1,740	1,743
After five years through ten years	343,501	354,670	113	114
After ten years	51,269	49,818	10,688	3,900
Other investment securities	1,959	1,992	150	150
	$ 1,402,702	$ 1,435,293	$ 13,783	$ 7,007

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties.

The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the three months ended March 31, 2009 and 2008:

(in thousands)

	Three months ended March 31, 2009		Three months ended March 31, 2008	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$ -	$ -	$ 78	$ -
Mortgage-backed securities and collateralized mortgage obligations	2,210	38	5,358	-
Investments in mutual funds and other equity securities	-	-	-	1,535
	$ 2,210	$ 38	$ 5,436	$ 1,535

Table of Contents

The following table presents, as of March 31, 2009, investment securities which were pledged to secure borrowings and public deposits as permitted or required by law:

(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$ 505,307	$ 519,131
To state and local governments to secure public deposits	383,831	394,032
To U.S. Treasury and Federal Reserve to secure customer tax payments	7,412	7,667
Other securities pledged, principally to secure deposits	248,751	253,982
Total pledged securities	$ 1,145,301	$ 1,174,812

Note 4 Loans, Leases and Allowance for Loan and Lease Losses

The following table presents the major types of loans recorded in the balance sheets as of March 31, 2009 and December 31, 2008:

Loan Concentrations

(in thousands)

	March 31, 2009	December 31, 2008
Real estate - construction and land development	$ 871,447	$ 931,090
Real estate - commercial and agricultural	3,249,733	3,236,645
Real estate - single and multi-family residential	669,710	661,723
Commercial, industrial and agricultural	1,202,757	1,211,167
Leases	39,953	40,155
Installment and other	59,556	62,044
	6,093,156	6,142,824
Deferred loan fees, net	(10,676)	(11,450)
Total loans and leases	$ 6,082,480	$ 6,131,374

The following table summarizes activity related to the allowance for loan and lease losses (ALLL) for the three months ended March 31, 2009 and 2008:

Allowance for Loan and Lease Losses

(in thousands)

	Three months ended March 31,	
	2009	2008
Balance, beginning of period	$ 95,865	$ 84,904

Provision for loan and lease losses	59,092	15,132
Charge-offs	(60,414)	(13,970)
Recoveries	543	494
Balance, end of period	$ 95,086	$ 86,560

At March 31, 2009, the recorded investment in loans classified as impaired in accordance with SFAS No. 114, *Accounting for Impaired Loans*, totaled $156.3 million, with no corresponding valuation allowance. Due to declining real estate values in our markets, it is increasingly likely that an impairment reserve on collateral dependent real estate loans represent a confirmed loss. As a result, the Company recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans as of March 31, 2009 have already been written-down to their estimated net realizable value, based on disposition value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices. At December 31, 2008, the total recorded investment in impaired loans was $151.5 million, with no corresponding valuation allowance.

The average recorded investment in impaired loans was approximately $153.9 million during the three months ended March 31, 2009 and $116.6 million for the year ended December 31, 2008. At March 31, 2009, $57.2 million of loans were classified as restructured. At December 31, 2008, $38.2 million of loans were classified as restructured. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. While all restructured loans are classified as impaired, only $13.8 million as of March 31, 2009 and $14.6 million as of December 31, 2008 were placed on non-accrual status. The $43.4 million as of March 31, 2009 and $23.6 million as of December 31, 2008 of restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. The Company has obligations to lend $3.8 million of additional funds on the restructured loans as of March 31, 2009, which primarily relates to one residential development project. Non-accrual loans totaled $112.9 million at March 31, 2009, and $127.9 million at December 31, 2008.

Note 5 Mortgage Servicing Rights

The following table presents the changes in the Company s mortgage servicing rights (MSR) for the three months ended March 31, 2009 and 2008:

Mortgage Servicing Rights

(in thousands)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Balance, beginning of period	$ 8,205	$ 10,088
Additions for new mortgage servicing rights capitalized	1,968	475
Changes in fair value:		
Due to changes in model inputs or assumptions[(1)]	(1,068)	(659)
Other[(2)]	(373)	(1,264)
Balance, end of period	$ 8,732	$ 8,640
Balance of loans serviced for others	$ 1,038,715	$ 866,652
MSR as a percentage of serviced loans	0.84%	1.00%

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.
(2) Represents changes due to collection/realization of expected cash flows over time.

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the *Condensed Consolidated Statements of Operations*, was $654,000 for the three months ended March 31, 2009, as compared to $600,000 for the three months ended March 31, 2008.

Key assumptions used in measuring the fair value of MSR as of March 31, 2009 were as follows:

Constant prepayment rate	16.70%
Discount rate	8.83%
Weighted average life (years)	4.7

Note 6 Junior Subordinated Debentures

As of March 31, 2009, the Company had 14 wholly-owned trusts (Trusts), including a Master Trust formed in 2007 to issue two separate series of trust preferred securities, that were formed to issue trust preferred securities and related common securities of the Trusts and are not consolidated. Ten Trusts, representing aggregate total obligations of approximately $106.3 million (fair value of approximately $117.6 million as of the merger dates), were assumed in connection with previous mergers.

Table of Contents

Following is information about the Trusts as of March 31, 2009:

Junior Subordinated Debentures

(dollars in thousands)

Trust Name	Issue Date	Issued Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date	Redemption Date
AT FAIR VALUE:							
Umpqua Statutory Trust II	October 2002	$ 20,619	$ 16,438	Floating (4)	6.19%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	25,011	Floating (5)	6.19%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	7,539	Floating (6)	6.19%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	7,452	Floating (6)	6.19%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	20,931	Floating (7)	6.19%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	14,311	Floating (8)	6.19%	December 2037	December 2012
		134,024	91,682				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,482	10.875%	8.04%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	6,004	10.200%	8.11%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,525	Floating (9)	3.92%	December 2031	December 2006
Humboldt Bancorp Staututory Trust III	September 2003	27,836	30,963	Floating (10)	3.41%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,340	Floating (5)	3.87%	November 2032	November 2007
Western Sierra Statutory Trust I	July 2001	6,186	6,186	Floating (11)	4.75%	July 2031	July 2006
Western Sierra Statutory Trust II	December 2001	10,310	10,310	Floating (9)	4.91%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,310	Floating (12)	3.99%	September 2033	September 2008
Western Sierra Statutory Trust IV	September 2003	10,310	10,310	Floating (12)	3.99%	September 2033	September 2008
		96,037	103,430				
	Total	$ 230,061	$ 195,112				

(1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustment pursuant to the adoption of SFAS No. 159 related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of March 2009.
(4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
(5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
(6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
(7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
(8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
(9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
(10) Rate based on LIBOR plus 2.95%, adjusted quarterly.
(11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
(12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The $230.1 million of trust preferred securities issued to the Trusts as of March 31, 2009 ($230.1 million as of December 31, 2008) are reflected as junior subordinated debentures in the *Condensed Consolidated Balance Sheets*. The common stock issued by the Trusts is recorded in other assets in the *Condensed Consolidated Balance Sheets*, and totaled $6.9 million at March 31, 2009 and December 31, 2008.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of March 31, 2009, under guidance issued by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Effective April 11, 2005, the Federal Reserve Board adopted a rule that permits the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. The Federal Reserve

Board rule, with a five-year transition period set to end on March 31, 2009, would have limited the aggregate amount of trust preferred securities and certain other restricted core capital elements to 25% of Tier 1 capital, net of goodwill and any associated deferred tax liability. The rule allowed the amount of trust preferred securities and certain other elements in excess of the limit to be included in Tier 2 capital, subject to restrictions. In response to the stressed conditions in the financial markets and in order to promote stability in the financial markets and the banking industry, on March 17, 2009, the Federal Reserved adopted a new rule that delayed the effective date of the new limits on the inclusion of trust preferred securities and other restricted core capital elements in Tier 1 capital until March 31, 2011. At March 31, 2009, the Company s restricted core capital elements were 23% of total core capital, net of goodwill and any associated deferred tax liability. There can be no assurance that the Federal Reserve Board will not further limit the amount of trust preferred securities permitted to be included in Tier 1 capital for regulatory capital purposes.

Effective January 1, 2007 the Company adopted SFAS No. 159 and SFAS No. 157 allowing us to measure certain financial assets and liabilities at fair value. Umpqua selected the fair value measurement option for certain pre-existing junior subordinated debentures of

16

Table of Contents

$97.9 million (the Umpqua Statutory Trusts) as of the adoption date. The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition. Accounting for the junior subordinated debentures originally issued by the Company at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost have been presented as separate line items on the balance sheet. We use a discounted cash flow model to determine the fair value of the junior subordinated debentures using market discount rate assumptions. The future cash flows of these instruments are extended to the next available redemption date or maturity date as appropriate based upon the spreads of recent issuances or quotes from brokers for comparable bank holding companies compared to the contractual spread of each junior subordinated debenture measured at fair value. For additional assurance, in we obtain a valuation from a third party pricing service to validate the results of our model.

As a result of the fair value measurement election for the above financial instruments, we recorded gains of $580,000 for the three months ended March 31, 2009, as compared to $1.6 million for the three months ended March 31, 2008, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. The change in fair value of the junior subordinated debentures carried at fair value have resulted from the widening of the credit risk adjusted spread on potential new issuances and recent reductions in three month LIBOR rates. These gains were recorded in gain on junior subordinated debentures carried at fair value within non-interest income. The contractual interest expense on junior subordinated debentures continues to be recorded on an accrual basis and is reported in interest expense. The junior subordinated debentures recorded at fair value of $91.7 million had contractual unpaid principal amounts of $134.0 million outstanding as of March 31, 2009. The junior subordinated debentures recorded at fair value of $92.5 million had contractual unpaid principal amounts of $134.0 million outstanding as of December 31, 2008.

Note 7 Commitments and Contingencies

Lease Commitments The Company leases 112 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three months ended March 31, 2009 and 2008 was $3.1 million and $3.0 million, respectively. Rent expense was offset by rent income of $148,000 and $182,000 for the three months ended March 31, 2009 and 2008, respectively.

Financial Instruments with Off-Balance-Sheet Risk The Company s financial statements do not reflect various commitments and contingent liabilities that arise in the normal course of the Bank s business and involve elements of credit, liquidity and interest rate risk. The following table presents a summary of the Bank s commitments and contingent liabilities:

(in thousands)

		As of March 31, 2009
Commitments to extend credit	$	1,181,297
Commitments to extend overdrafts	$	192,284
Commitments to originate loans held for sale	$	130,266
Forward sales commitments	$	74,500
Standby letters of credit	$	59,964

The Bank is a party to financial instruments with off-balance-sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve elements of credit and interest-rate risk similar to the amounts recognized in the *Condensed Consolidated Balance Sheets*. The contract or notional amounts of those instruments reflect the extent of the Bank s involvement in particular classes of financial instruments.

The Bank s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any covenant or condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash

requirements. While most standby letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis.
The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral varies but may include cash, accounts receivable, inventory, premises and equipment and income-producing commercial properties.

Table of Contents

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and did not incur any losses in connection with standby letters of credit during the three months ended March 31, 2009 and 2008. At March 31, 2009, approximately $35.2 million of standby letters of credit expire within one year, and $24.8 million expire thereafter. Upon issuance, the Company recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $120,000 as of March 31, 2009.

At March 31, 2009, the reserve for unfunded commitments, which is included in other liabilities on the *Condensed Consolidated Balance Sheets*, was $935,000. The adequacy of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amount of commitments, loss experience, and economic conditions.

Mortgage loans sold to investors may be sold with servicing rights retained, with only the standard legal representations and warranties regarding recourse to the Bank. Management believes that any liabilities that may result from such recourse provisions are not significant.

Legal Proceedings In November 2007, Visa Inc. (Visa) announced that it had reached a settlement with American Express related to an antitrust lawsuit. Umpqua Bank and other Visa member banks are obligated to fund the settlement and share in losses resulting from this litigation. In the fourth quarter of 2007, the Company recorded a liability and corresponding expense of approximately $3.9 million pre-tax, for its proportionate share of that settlement.

In addition, Visa notified the Company that it had established a contingency reserve related to unsettled litigation with Discover Card. In connection with this contingency, the Company recorded, in the fourth quarter of 2007, a liability and corresponding expense of $1.2 million pre-tax, for its proportionate share of that liability. The Company is not a party to the Visa litigation and its liability arises solely from the Bank s membership interest in Visa.

During 2007, Visa announced that it completed restructuring transactions in preparation for an initial public offering of its Class A stock, and, as part of those transactions, Umpqua Bank s membership interest was exchanged for 764,036 shares of Class B common stock in Visa. In March 2008, Visa completed its initial public offering. Following the initial public offering, the Company received $12.6 million proceeds as a mandatory partial redemption of 295,377 shares, reducing the Company s holdings from 764,036 shares to 468,659 shares of Class B common stock. A conversion ratio of 0.71429 was established for the conversion rate of Class B shares into Class A shares. Using the proceeds from this offering, Visa also established a $3.0 billion escrow account to cover settlements, resolution of pending litigation and related claims (covered litigation). In connection with Visa s establishment of the litigation escrow account, the Company reversed the $5.2 million Visa litigation related reserve in the first quarter of 2008.

In October 2008, Visa announced that it had reached a settlement with Discover Card related to an antitrust law