UMPQUA HOLDINGS CORP
Form DEF 14A
March 31, 2005

Table of Contents

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

SCHEDULE 14A

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

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials

Umpqua Holdings Corporation

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ Fee not required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Table of Contents

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Umpqua Holdings Corporation:

The annual meeting of shareholders of Umpqua Holdings Corporation will be held at the Umpqua Bank University and Support Center, 1740 NW Garden Valley Blvd., Roseburg, Oregon, at 6 p.m. Pacific time on May 6, 2005 to consider and act upon the following matters:

The election of the following nominees for terms expiring with the 2008 annual meeting:
- Allyn C. Ford
- Diane D. Miller
- Ronald F. Angell
- Bryan L. Timm

The election of the following nominee for a term expiring with the 2007 annual meeting:
- Thomas W. Weborg

The election of the following nominee for a term expiring with the 2006 annual meeting:
- Theodore S. Mason; and

A proposal to approve the Umpqua Holdings Corporation 2005 Performance Based Executive Incentive Plan; and

Any other business that may properly come before the meeting.

If you were a shareholder of record of Umpqua Holdings Corporation common stock as of the close of business on March 4, 2005, you are entitled to receive this notice and vote at the annual meeting, and any adjournment or postponement thereof.

The Board of Directors recommends that you vote in favor of each of the foregoing proposals, which are more fully described in the attached Proxy Statement.

By Order of the Board of Directors,

Steven L. Philpott
Corporate Secretary

March 31, 2005

TABLE OF CONTENTS

Table of Contents

PROXY STATEMENT

This proxy statement and the accompanying proxy card are being mailed, beginning April 7, 2005, in connection with the solicitation of proxies by the Board of Directors of Umpqua Holdings Corporation (Umpqua) for the annual meeting of shareholders.

Your vote is very important. Your shares can only be voted at the annual meeting if you are present or represented by proxy. Even if you plan to be present, we encourage you to vote by proxy. To have a quorum to conduct business at the meeting, we must have a majority of the outstanding shares represented at the meeting in person or by proxy.

Who may vote? Shareholders as of the close of business on March 4, 2005, are entitled to vote. On that day, 44,391,059 shares of common stock were outstanding and eligible to vote. Each share is entitled to one vote on each matter presented at the annual meeting. As of that date we had 3,526 shareholders of record.

How do I vote? If a broker, bank or other nominee holds your shares, follow the instructions on the card ADP Investor Communication Services sent to you. If you are the record holder of your shares, you may vote in person at the meeting, or you may vote by proxy in any of the following ways:

By mail simply mark, sign and date the enclosed proxy card and return it in the postage-paid envelope provided.

By telephone follow the instructions on the proxy card

By internet follow the instructions on the proxy card

You may vote by telephone or internet 24 hours a day, 7 days a week until 8:59 p.m. (Pacific time) on the day before the meeting.

Can I change my vote? If you are the record holder of your shares, you may revoke your proxy at any time before it is voted, (i) by written notice to Steven Philpott, Corporate Secretary at Umpqua Holdings Corporation, P.O. Box 1560, 675 Oak Street, Suite 200, Eugene, Oregon 97440, (ii) by submitting a proxy bearing a later date, or (iii) by casting a ballot at the annual meeting. Attendance at the meeting will not, of itself, revoke a previously given proxy.

If your shares are held through a broker, bank or other nominee, you will need to contact the nominee to revoke a proxy or change your vote. You will not be able to vote or revoke a proxy at the meeting if a nominee holds your shares.

Can I attend the annual meeting even if I vote by proxy? Yes. You are welcome to attend the meeting, even if you vote by proxy.

How are votes counted? The annual meeting will be held if a quorum, consisting of a majority of the outstanding shares entitled to vote, is represented. Abstentions, broker non-votes and votes withheld will be counted for purposes of determining whether a quorum has been reached.

In the election of directors, each share is entitled to one vote for each director position to be filled, and shareholders may not cumulate votes. Directors are elected by a plurality of votes cast.

If a proxy is executed and returned, the shares represented will be voted according to your instructions. If no instructions are given, the proxy will be voted FOR the election of the nominees for directors, FOR the 2005 Performance-Based Executive Incentive Plan and in the proxy holder s discretion on any other matters that may properly come before the shareholders at the meeting or any adjournments or postponements thereof.

How many shares do directors and executive officers own? As of March 4, 2005, directors, Named Executive Officers (identified below) and principal shareholders, together with their affiliates, beneficially owned 4,152,463 shares, of which 3,693,511 shares are entitled to vote. Those shares represent approximately 8.32% of the total shares entitled to vote at the meeting.

Table of Contents

Who will count the votes? Our transfer agent, Mellon Investor Services, LLC will serve as our independent Inspector of Election.

Who pays for solicitation? We will bear the cost of this proxy solicitation, although we have not hired a proxy solicitor for this meeting. We may reimburse brokers and other nominee holders, for their expenses in sending proxy material and obtaining proxies. In addition to solicitation of proxies by mail, our officers and employees may solicit proxies in person or by telephone, fax, or letter, without extra compensation.

BUSINESS OF THE MEETING

1. Election of Directors

Our Articles of Incorporation and Bylaws provide that directors are elected to serve staggered three-year terms of office. Our Articles of Incorporation establish the number of directors at between six and nineteen, with the exact number to be fixed from time to time by resolution of the Board of Directors. The number of directors is currently set at fourteen. Directors are elected by a plurality of votes, which means that the nominees receiving the most votes will be elected, regardless of the number of votes each nominee receives. Shareholders are not entitled to cumulate votes in the election of directors.

Since the last shareholder meeting, Gary M. DeStefano and Katherine Keene resigned from the Board. In connection with Umpqua s acquisition of Humboldt Bancorp in July 2004, Ronald F. Angell, Theodore S. Mason, Diane D. Miller and Thomas W. Weborg, four of Humboldt s directors, were appointed to the Board. In December 2004, Bryan L. Timm was appointed to the Board. To comply with applicable law, each person so appointed must stand for election by the shareholders at this year s annual meeting.

As of the annual meeting, two Umpqua directors, Allyn C. Ford and James Coleman, are completing their original terms. Mr. Ford has been nominated for re-election to the Board. Mr. Coleman is retiring and is not eligible for re-election to the Board under our retirement policy. The number of directors will automatically be set to thirteen at his retirement.

The Board of Directors has nominated Theodore S. Mason for election to a term that will expire at the 2006 annual meeting.

The Board of Directors has nominated Thomas W. Weborg for election to a term that will expire at the 2007 annual meeting.

The Board has nominated Allyn C. Ford, Ronald F. Angell, Diane D. Miller and Bryan L. Timm for election to terms that will expire at the 2008 annual meeting.

Each of the nominees currently serves as a director of Umpqua and of Umpqua Bank. The individuals appointed as proxies in the enclosed proxy intend to vote FOR the election of the nominees listed above. If any nominee is not available for election, the individuals named in the proxy intend to vote for such substitute nominee as the Board of Directors may designate. We have no reason to believe any nominee will be unavailable.

The Board of Directors recommends a vote FOR the election of all nominees.

2. 2005 Performance Based Executive Incentive Plan

On February 9, 2005, the Compensation Committee adopted a resolution recommending that shareholders approve the Umpqua Holdings Corporation 2005 Performance Based Executive Incentive Plan (the Plan) to be effective as of January 1, 2005. We are asking shareholders to approve the Plan to qualify payments made to executive officers as deductible for federal income tax purposes. A summary of the Plan is set forth below. The summary is qualified in its entirety by reference to the full text of the Plan, which is included in this Proxy Statement as Appendix B.

Table of Contents

Summary of the Executive Incentive Plan

The 2005 Performance-Based Incentive Plan is designed to tie a significant portion of annual compensation to performance and to provide incentives to executive officers to achieve results tied to important objective business criteria.

Administration. The Compensation Committee will administer the Plan. The Compensation Committee is comprised solely of outside directors. The Plan will continue until December 31, 2008.

Participants. The Compensation Committee will determine the plan participants for each performance period. In addition to the executive officers listed on the Summary Compensation Table on page 16, all executive officers are eligible to be designated by the Compensation Committee to participate in the Plan. Ray Davis is the only eligible participant in 2005.

Incentive Payments. The Plan authorizes the payment of an annual incentive tied to a percentage of the executive s salary based upon the attainment of performance targets related to the corporate objectives established by the Compensation Committee. The targets are related to:

- the Company s fully diluted earnings per share;
- supervisory rating issued by regulatory agencies for the Company and its subsidiaries; and
- the efficiency ratio for Umpqua Bank.

The Compensation Committee sets the performance targets within 90 days after the beginning of each fiscal year for that fiscal year. The Compensation Committee also sets the percentage of the executive s salary and the threshold levels of payouts. Each award will be paid in cash or, at the option of the Compensation Committee, a combination of cash and stock awards.

Although the Plan sets forth the amount of additional compensation the participants are eligible to receive, all payments under the Plan are discretionary and are only earned if subsequently approved by the Compensation Committee. The maximum payment authorized under the Plan is equal to 150% of base compensation. A participant must be employed at the end of each year to be eligible for any incentive payment under the Plan.

Federal Tax Consequences. Section 162(m) of the Internal Revenue Code generally prohibits us from deducting for federal income tax purposes employee compensation that would otherwise be deductible to the extent such compensation exceeds $1 million for any covered employee in any fiscal year. Compensation that is performance-based, as defined in Section 162(m), is not subject to the deductibility limitations. The Plan is intended to address the limitation on deductibility by providing for compensation that qualifies as performance-based compensation. Compensation paid under the Plan will not be subject to the deduction limit if:

- it is payable on account of the attainment of pre-established, objective performance goals set forth within the Plan;
- the Compensation Committee, which is comprised solely of outside directors, approves the maximum individual awards on or near the beginning of each performance period;
- the Plan, which sets forth the material terms of the compensation and performance goals, is disclosed to and approved by shareholders before payment; and
- the Compensation Committee certifies that the performance goals have been satisfied before payment.

The Plan contains provisions for each of the above requirements.

2005 Incentive Provision for CEO. Any incentive award payable under the Plan to Ray Davis, CEO, for 2005 performance is conditioned upon shareholder approval of the Plan at this meeting. The Compensation Committee has established a (i) targeted incentive payment of 48.75% (73.125% maximum) of base salary if the Company achieves certain EPS amounts for 2005 and a (ii) targeted

Table of Contents

incentive payment of 11.25% of base salary if all of the Company s and subsidiary regulatory agency exams are satisfactory and a maximum incentive payment of 16.875% of base compensation if, in addition, Umpqua Bank s safety and soundness examination composite rating for the Bank is superior. For 2005, no incentive award is tied to Umpqua Bank s efficiency ratio; in future years, however, the Compensation Committee may include this element in the incentive award.

New Plan Benefits. The following table summarizes the approximate amount of compensation that would have been earned pursuant to the Plan if the 2005 performance criteria had been in effect during 2004, based on our 2004 results of operations and regulatory reports, and based on 2004 salaries.

Name and Position	Dollar Value(A)
Raymond P. Davis, Chief Executive Officer, President and Director	$67,031.25
David M. Edson, Executive Vice President, Umpqua Bank President	-0-
Daniel A. Sullivan, Executive Vice President and Chief Financial Officer	-0-
Brad F. Copeland, Executive Vice President and Chief Credit Officer	-0-
Barbara J. Baker, Senior Vice President and HR Director	-0-
All current executive officers as a group (6 people)	$67,031.25
All current Directors who are not executive officers as a group (13 people)	-0-
All employees, including all current officers who are not executive officers, as a group	-0-

(A) Amounts are not indicative of amounts to be earned under the Plan during 2005 because such amounts were based on the application of 2005 performance criteria to 2004 results and 2004 regulatory exams.

Board Recommendation

The Board of Directors recommends a vote FOR this proposal. The individuals appointed as proxies in the enclosed proxy intend to vote FOR this proposal.

The affirmative vote of holders of a majority of shares present in person or by proxy at the meeting and entitled to vote on this matter is necessary to approve the 2005 Plan.

3. Other Business

The Board of Directors knows of no other matters to be brought before the shareholders at the meeting. In the event other matters are presented for a vote at the meeting, the proxy holders will vote shares represented by properly executed proxies at their discretion in accordance with their judgment on such matters.

At the meeting, management will report on our business and shareholders will have the opportunity to ask questions.

INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

Directors

The age, business experience, and position of each of the nominees for director and the directors currently serving are as follows:

Ronald F. Angell, age 62 was appointed to the Board in July 2004. He served as a Director of Humboldt Bancorp from 1996 until it was acquired by the Company in 2004. He served as a director of Humboldt Bank from 1989 to the date of the merger. Mr. Angell, an attorney, is of Counsel to the firm of Roberts, Hill, Bragg, Angell & Perlman.

Table of Contents

Scott Chambers, age 45, has served as a Director since 1999. Mr. Chambers is President of Chambers Communications Corp. of Eugene, Oregon, a telecommunications company that owns and operates a cable television system, network broadcast television stations, and a film and video production company.

James D. Coleman, age 66, has served as a Director since the acquisition of VRB Bancorp in December 2000. Previously, Mr. Coleman served as Chairman of the VRB Bancorp Board of Directors, and was a founding director of Medford State Bank, which VRB acquired in 1987. He is President and owner of Crater Lake Motors, Inc., a Ford, Lincoln-Mercury and Mazda automobile dealership in Medford, Oregon.

Raymond P. Davis, age 55, serves as Director, President and Chief Executive Officer of Umpqua, positions he has held since the Company s formation in 1999. Mr. Davis has served as a Director of Umpqua Bank since June 1994. He has served as Chief Executive Officer of Umpqua Bank from June 1994 to December 2000 and from November 2002 to the present. He has also served as President of Umpqua Bank from June 1994 to December 2000 and from March 2003 to the present. Prior to joining Umpqua Bank in 1994, he was President of US Banking Alliance in Atlanta, Georgia, a bank consulting firm. He has over 20 years experience in banking and related industries.

Allyn C. Ford, age 63, serves as Chairman of the Board of Directors and has served as a Director since the Company s formation in 1999 and as a Director of Umpqua Bank for 30 years. Mr. Ford is President of Roseburg Forest Products, a fully integrated wood products manufacturer located in Roseburg, Oregon. Mr. Ford has over 30 years of management experience with Roseburg Forest Products.

David B. Frohnmayer, age 64, has served as a Director since the Company s formation in 1999 and as a Director of Umpqua Bank since 1996. Mr. Frohnmayer is the President of the University of Oregon in Eugene, and has served in that capacity since 1994. He is the former Dean of the University of Oregon School of Law and former Attorney General of the State of Oregon. Until December 2003, he served on the board of Tax-Free Trust of Oregon.

Dan Giustina, age 55, serves as Vice-Chair of Umpqua s Board and has served as a Director since the Centennial Bancorp merger in November 2002. He served as a Director of Centennial Bancorp and Centennial Bank from 1995 to 2002. Mr. Giustina is managing partner of Giustina Resources, which owns and manages timberland, and a member and manager of G Group LLC, which owns and manages residential and commercial real estate. Mr. Giustina is the past Chairman of the University of Oregon Foundation, a board member of the Oregon Forest Industries Council, and serves on the advisory boards of University of Oregon s Lundquist College of Business and States Industries, Inc.

Diana E. Goldschmidt, age 57, was appointed as a Director of Umpqua in May 2003 and was elected to the Board in 2004. Since 1999, she has been the owner of Urban Design Works, LLC, a consulting firm in Portland, Oregon. She is also the former Vice Chair of the Oregon Investment Council and previously served on the Advisory Board of Directors for Key Bank of Oregon from 1997 to 2003. In 1999, she served as interim superintendent of the Portland Public School District. Her principal career was spent in the senior human resources and later senior operations executive officer positions of Pacific Power & Light Company and Pacific Telecom, Inc.

Lynn K. Herbert, age 53, has served as a Director since the Company s formation and as a Director of Umpqua Bank since 1993. Mr. Herbert is General Manager of Herbert Lumber Company in Riddle, Oregon, and has served in that capacity since 1988. Mr. Herbert has over 20 years of management experience with Herbert Lumber Company.

William A. Lansing, age 59, has served as a Director since December 2001. He previously served as a Director of Independent Financial Network, Inc. from 1991 until its merger with Umpqua in December 2001. Mr. Lansing is President and Chief Executive Officer of Menasha Forest Products Corporation in North Bend, Oregon, and has over 35 years of experience in the forest products industry.

Table of Contents

Theodore S. Mason, age 62, was appointed to the Board in July 2004. Mr. Mason is retired and he was the President and Chief Executive Officer of Humboldt Bancorp from January 1996 to April 2002 and of Humboldt Bank from 1989 to 2000. He served as a director of Humboldt Bancorp from 1996 to 2004 and as a director of Humboldt Bank from 1989 to 2004.

Diane D. Miller, age 50, was appointed to the Board in July 2004. She has been President of Wilcox, Miller & Nelson an executive search and outplacement firm since August 1986. Ms. Miller served as a director of Humboldt Bancorp and Humboldt Bank from January to July 2004.

Bryan L. Timm, age 41, was appointed to the Board in December 2004. He is the Vice President, Chief Financial Officer and Treasurer of Columbia Sportswear Company, a global leader in the design, sourcing, marketing, and distribution of active outdoor apparel and footwear. Prior to joining Columbia Sportswear in 1997, Mr. Timm, a CPA, held various financial positions for another Portland based public company, Oregon Steel Mills, Inc. He began his financial career with the international accounting firm of KPMG, LLP.

Thomas W. Weborg, age 62, was appointed to the Board in July 2004. He is the retired President and Chief Executive Officer of Java City, a wholesale supplier and retailer of coffee-related products and services. Mr. Weborg served on the board of Humboldt Bancorp from November 2000 to July 2004. He was a director of Humboldt Bank from June 2002 to July 2004 and prior to that, a director of Capitol Valley Bank from 1999 until June 2002.

The following table shows the expiring term in office for each director, assuming the Board s nominees are elected at the 2005 annual meeting.

2006	2007	2008
Scott Chambers	David B. Frohnmayer	Ronald F. Angell
Raymond P. Davis	Dan Giustina	Allyn C. Ford
Diana E. Goldschmidt	William A. Lansing	Diane D. Miller
Lynn K. Herbert	Thomas W. Weborg	Bryan L. Timm
Theodore S. Mason		

Executive Officers

The age, business experience, and position of our executive officers other than Raymond P. Davis, about whom information is provided above, are as follows:

Barbara J. Baker, age 55, serves as Senior Vice President and Human Resources Director of Umpqua and Umpqua Bank, positions she has held since September 2002. Ms. Baker served as Oregon site executive for IBM s server division (formerly Sequent Computer Systems, Inc.), where she managed human resources services and programs as well as corporate communications and community relations. Prior to joining Sequent, Ms. Baker served as Vice President of Human Resources for First Interstate Bank (now Wells Fargo).

Brad F. Copeland, age 56, serves as Executive Vice President and Chief Credit Officer of Umpqua and Umpqua Bank. He has served as Chief Credit Officer since December 1, 2000. Mr. Copeland served as Executive Vice President and Credit Administrator of VRB Bancorp and Valley of the Rogue Bank from January 1998 until their merger with Umpqua in December 2000.

David M. Edson, age 55, serves as Executive Vice President of Umpqua and as President-Umpqua Bank-Oregon, positions he has held since joining Umpqua in October 2002. Prior to that time, he served as President of Bank of America, Idaho. Mr. Edson has over 25 years of experience in banking in the Pacific Northwest including as Executive Vice President for First Interstate Bank and as Chairman, CEO and President of First Interstate Bank of Idaho.

Steven L. Philpott, age 53, serves as Executive Vice President and General Counsel, positions he has held since November 2002. He has served as Corporate Secretary of Umpqua and Umpqua Bank since

2004. Mr. Philpott served as General Counsel for Centennial from October 1995 until its merger with Umpqua in November 2002. Prior to that time, he was in private practice in Eugene, Oregon.

Daniel A. Sullivan, age 53, serves as Executive Vice President and Chief Financial Officer of Umpqua and Umpqua Bank. He has served as Chief Financial Officer of the Company since 1997. Prior to that time, Mr. Sullivan served as Vice President of Finance for Instromedix of Hillsboro, Oregon and worked as Senior Vice President and Controller for US Bancorp in Portland, Oregon.

Certain Significant Employees

Ronald L. Farnsworth, Jr., age 34, serves as Senior Vice President of Finance for Umpqua and Umpqua Bank. On March 8, 2005, Mr. Farnsworth was appointed as Umpqua s principal accounting officer. He has served in Umpqua s Finance Department since January 2002. Prior to that time, he served as Chief Financial Officer of Independent Financial Network, Inc. and its subsidiary, Security Bank.

CORPORATE GOVERNANCE

Our Board of Directors believes that its primary role is to ensure that we maximize shareholder value in a manner consistent with legal requirements and the highest standards of integrity. The Board has adopted and adheres to a Statement of Governance Principles, which the Board and senior management believe promote this purpose, are sound and represent best practices. We continually review these governance principles and practices in light of Oregon law, Securities Exchange Commission (SEC) regulations, the rules and listing standards of the National Association of Securities Dealers (NASD) as well as best practices suggested by recognized governance authorities.

Statement of Governance Principles and Charters

Our Statement of Governance Principles and the charter of each of our Board committees can be viewed on our website at www.umpquaholdingscorp.com/corporate governance. Each Board committee has a charter.

Meetings and Committees of the Board of Directors

The Board of Directors met 8 times during 2004, including two special meetings and a strategic planning session. All Board committees have regularly scheduled meetings except the Nominating Committee, which meets as appropriate, upon the call of its chairman. Board committee chairs call for additional regular and special meetings of their committees, as they deem appropriate. Each director attended at least 75% of the 2004 Board meetings, as well as meetings of committees on which such director served. The Board and each of our Board committees regularly meet in executive session.

Ron Angell, Ted Mason, Diane Miller and Tom Weborg became directors in July 2004 and they attended all Board meetings after that date. Bryan Timm became a director in December 2004 and he attended that month s meeting.

At December 31, 2004, the Board of Directors had seven active Board committees: The Audit, Compliance and Governance Committee, the Budget Committee, the Compensation Committee, the Executive Committee, the Financial Services Committee, the Loan and Investment Committee, and the Nominating Committee.

Table of Contents

The table below shows current membership information for each Board committee:

C -Chairperson **-Member**

	Audit, Compliance & Governance	Budget	Compensation	Executive Committee	Financial Services	Loan and Investment	Nominating
Ronald F. Angell						C	
Scott D. Chambers					C		
James D. Coleman							
Raymond P. Davis							
Allyn C. Ford				C			C
David B. Frohnmayer							
Dan Giustina	C						
Diana E. Goldschmidt							
Lynn K. Herbert							
William A. Lansing		C	C				
Theodore S. Mason							
Diane D. Miller							
Bryan L. Timm							
Thomas W. Weborg							

Audit, Compliance and Governance Committee

The Board of Directors has a standing Audit, Compliance and Governance Committee that meets with our registered independent public accounting firm to plan for and review the annual audit reports. The Committee meets at least four times per year and is responsible for overseeing our internal controls and the financial reporting process. At the end of 2004, the members of the Committee were Directors Giustina (Chair), Frohnmayer, Herbert, Goldschmidt, Angell, Miller and Timm. Each member of the Committee is independent, as independence is defined under Rule 4200(a)(15) of the listing standards of the NASD. The Board of Directors has adopted an Audit, Compliance and Governance Committee Charter, a copy of which is attached to this proxy statement as Appendix A. That charter provides that only independent directors may serve on the Committee. The charter further provides that at least one member shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. The Board of Directors has determined that Bryan L. Timm meets the SEC criteria for an audit committee financial expert. The Board of Directors believes that each of the current members of the Committee has education and/or employment experience that provides them with appropriate financial sophistication to serve on the Committee. In 2004, the Audit, Compliance and Governance Committee met eight times, including two special meetings. In addition, the Committee previews earnings releases and periodic reports to be filed with the SEC and it often meets by telephone conference to discuss those documents.

Budget Committee

The Budget Committee reviews and oversees our budgeting process, including the annual operating budget and the capital expenditure budget. It also oversees dividend planning and our stock repurchase programs. At the end of 2004, the members of the Committee were Directors Lansing (Chair), Davis, Chambers, Mason, Miller and Weborg. The Committee meets at least quarterly. In 2004, the Budget Committee met five times, including one special meeting.

Compensation Committee

The Compensation Committee carries out the Board s overall responsibilities with respect to executive compensation, director compensation and review of the Company CEO s performance. The Committee also oversees administration of the Company s employee benefit plans. All Committee members are required to meet the NASD and SEC independence and experience requirements. At the end of 2004, the members of the Committee were Directors Lansing (Chair), Chambers, Miller and Weborg. Mr. Mason is a non-voting member of the Committee until April 2005, when he will meet NASD independence requirements. The Compensation Committee must meet at least quarterly. In 2004, the Committee met five times, including one special meeting.

Executive Committee

The Executive Committee was created by the Board in 2004. Subject to a few limitations, this Committee may exercise all authority of the full Board when the full Board in not in session. This Committee is responsible for the review and oversight of the Company s strategic planning process, consideration of the Company s merger and acquisition opportunities and oversight of the Board s structure. This Committee is comprised of the chairman of the Board, the chair of each Board committee and Umpqua s CEO. At the end of 2004, the members of the Committee were Directors Ford (Chair), Davis, Chambers, Coleman, Lansing and Giustina. Director Angell replaced Director Coleman on this Committee in January 2005. This Committee meets at least quarterly. In 2004, the Executive Committee met four times.

Financial Services Committee

The Financial Services Committee reviews and oversees the operations of Strand Atkinson Williams & York, Inc. and Umpqua Bank s Private Client Services division. This Committee serves as Strand s board of directors, as well as the board of directors of Bancorp Financial Services. At the end of 2004, the members of the Committee were Directors Chambers (Chair), Davis, Frohnmayer, Goldschmidt and Mason. This Committee must meet at least quarterly and in 2004, the Committee met four times.

Loan and Investment Committee

The Loan and Investment Committee approves certain loans, approves charge-offs to the allowance for loan losses, sets interest rate sensitivity, investment and liquidity policies and monitors compliance with those policies and reviews Umpqua s loan and investment portfolios. At the end of 2004, members of the Committee were Directors Coleman (Chair), Davis, Herbert, Goldschmidt, Angell, Weborg and Timm. In January 2005, Ron Angell replaced Jim Coleman as Chair of this Committee. The Loan and Investment Committee meets at least quarterly and in 2004 it met four times.

Nominating Committee

The Nominating Committee proposes nominees for appointment or election to the Board of Directors and conducts searches to fill the positions of President and CEO. The Committee is comprised of the chairman of the Board and the chair of each Board committee. All of the directors serving on the Nominating Committee are independent, as defined in the NASD listing standards. At the end of 2004, the members of the Committee were Directors Ford (Chair), Coleman, Chambers, Giustina and Lansing. In January 2005, Director Angell replaced Director Coleman as a member of this Committee. The Nominating Committee meets as often as it deems appropriate and in 2004, the Committee met one time.

Employee Code of Conduct

The Company has adopted a code of conduct, referred to as the Business Ethics and Conflict of Interest Code. We require all employees to adhere to this code in addressing legal and ethical issues that they encounter in the course of doing their work. This code requires our employees to avoid conflicts of interest, comply with all laws and regulations, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company s best interest. During 2004, all of our employees were required to certify that they reviewed and understood this code. In addition, all senior management officers were required to certify and disclose any actual or potential conflicts of interest involving them or their affiliates.

This code provides that our employees may forward confidential or anonymous complaints to our Chief Auditor, who is independent of executive management and who reports directly to our Audit, Compliance and Governance Committee. Employees are encouraged to report any conduct that they believe in good faith to be an actual or apparent violation of our Business Ethics and Conflict of Interest Code.

In addition, the Company has adopted a Code of Ethics for Financial Officers, which applies to our chief executive officer, our chief financial officer, our principal accounting officer, our controller and all other officers serving in a finance, accounting, tax or investor relations role. This code for financial officers supplements our Business Ethics and Conflict of Interest Code and is intended to promote honest and ethical conduct, full and accurate financial reporting and to maintain confidentiality of the Company s proprietary and customer information.

A copy of our Business Ethics and Conflict of Interest Code and our Code of Ethics for Financial Officers is posted on our website at www.umpquaholdingscorp.com/corporate governance.

EXECUTIVE COMPENSATION

Director Compensation

The Board of Directors has adopted a Director Compensation Plan that sets forth the terms and manner in which non-employee directors will be compensated for their service on the Board of Directors and committees of Umpqua and its subsidiaries.

In July 2004, the Board revised the Director Compensation Plan to encourage attendance at Board and committee meetings by eliminating the monthly fee and substituting a participation fee for attendance at meetings. As of January 2005, each non-employee director receives a quarterly retainer of $2,500, a participation fee of $3,000 for each regular Board meeting and a participation fee of $500 for each committee meeting attended. The Board chair receives a quarterly retainer of $3,000 and a participation fee of $3,500 for each regular Board meeting attended. Committee chairs receive a slightly higher participation fee for chairing their committee meetings; $700 for the Audit, Compliance and Governance Committee chair and $600 for the chairs of other committees.

All director fees are payable in shares of Umpqua Holdings Corporation common stock, purchased quarterly on the open market by a brokerage firm for the account of each director with funds provided by the Company. Directors may choose to receive compensation on a deferred basis.

Under the Plan, director fees are paid quarterly, in arrears, after review of attendance records. This is a change from prior practice. Directors may attend committee meetings by teleconference, but they are allowed to attend only one regular Board meeting per year by teleconference and they must be personally present at all other regular Board meetings to be entitled to receive their participation fee. The Director Compensation Plan also reiterates the directors obligations under applicable securities laws, Umpqua s Insider Trading Policy, and obligates the directors, if requested to do so, to execute a lockup agreement in the event of a firmly underwritten public offering of our securities.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee has two primary responsibilities. First, it oversees the administration of the Company s compensation plans and agreements, including incentive stock option plans, 401(k) and profit sharing plans, SERPs, BOLI assets and employment/compensation agreements with the Company s

CEO. In addition, the members review the performance of the CEO, review with the CEO and approve or ratify the compensation levels of his direct reports and compare the performance of the CEO and his direct reports to Company goals, in order to establish compensation and annual incentives awards. The Committee is composed entirely of independent non-employee members of the Board of Directors. No former employee of the Company serves on this Committee. Ted Mason, the CEO of Humboldt Bancorp until April 2, 2002, sits as a non-voting member of the Committee. We expect he will become a voting member of the Committee in April 2005. The Committee s activities are governed by a written charter adopted by the Board and reviewed annually by the Committee.

Goals and Principles

The goal of our compensation program is to attract, motivate and retain the highly talented individuals the Company needs to develop and deliver innovative banking and financial products and services to our customers. The following principles influence the design and administration of our compensation program:

1. **Individual and Company Performance.** A significant component of compensation should be related to performance. We believe that an employee s compensation should be tied to how well the employee s team and the Company perform against both financial and non-financial goals and objectives.

2. **Short-Term and Long-Term Incentives.** Incentive compensation should balance short and long term performance. We look to balance the focus of all employees on achieving strong short-term or annual results in a manner that will ensure the Company s long-term viability and success. Therefore, to reinforce the importance of balancing these perspectives, senior management is regularly provided with both annual and long-term incentives. Participation in long-term incentive programs increases with higher levels of responsibility, as employees in these leadership roles have the greatest influence on the Company s strategic direction and results over time.

3. **Competitiveness.** Compensation levels should be competitive to achieve our goals. The Committee reviews compensation survey data from multiple external sources to ensure that our total compensation program is competitive and sound.

4. **Equity Orientation.** We provide our employees at all levels with various ways to become shareholders. We make stock option grants to valued employees from time to time and we make restricted stock grants to employees who are outstanding performers, but not necessarily managers. In addition, we sponsor a 401(k) and profit sharing plan that provides for discretionary matching and profit sharing contributions by the Company to eligible employees. The Company s plan contributions are made 50% in Company stock and 50% in cash.

5. **Components of Executive Compensation.** The basic components of executive compensation are:

   Annual cash compensation, including base salary and annual incentive plan;

   Long-term incentive compensation, including stock options and grants of restricted shares; and

   Deferred compensation, SERP.

6. **Annual Cash Compensation.**

   6.1 **Base Salary.** The purpose of base salary is to create a secure base of cash compensation for executives that is competitive with the market. Executives salary increases do not necessarily follow a preset schedule or formula; however, the following are considered when determining appropriate salary levels and increases:

   The individual s current and sustained performance results and the methods utilized to achieve those results; and

Non-financial performance indicators to include strategic developments for which an executive has responsibility (such as product development, expansion of markets, increase in same-store loan or deposit growth and acquisitions) and managerial performance (such as service quality, sales objectives and regulatory compliance).

The Company s CEO recommends the compensation of individual executive officers reporting to him, as well as the compensation of executive officers covered by NASD Rule 4350, and the Committee reviews that compensation and compares it with market information to ensure that executive compensation is competitive and that the CEO is exercising his discretion appropriately. The Committee reviews, and ratifies or approves, all components of the compensation for executive officers covered by NASD Rule 4350, including salary, bonus, equity and long-term incentive compensation. Based on this review, the Committee found the CEO s 2005 recommendations for the Named Executive Officers total compensation to be appropriate and approved them.

6.2 **Annual Incentives.** The purpose of annual incentive plans is to provide cash compensation on an annual basis that is at risk and contingent on the achievement of annual business and operating objectives, as well as personal goals and objectives.

Each of the Named Executive Officers (excluding the CEO) was eligible for target incentives in 2004 up to 45% of their base salary. Achievement of the target bonus in 2004 was based on success in three performance areas: (i) corporate financial targets (40%); (ii) leadership and personal goals (45%); and (iii) regulatory and compliance goals (15%).

7. **Long-Term Incentive Compensation.** There are two forms of long-term incentives normally granted to our executives: stock options and the award of restricted shares.

Stock Options. The purpose of stock options is to provide equity compensation whose value is directly related to the creation of shareholder value and the increase in Company stock price. Stock options provide executives a vehicle (subject to vesting requirements) to increase equity ownership and share in the appreciation of the value of Company stock.

Restricted Stock Grants. Restricted stock grants are awarded subject to vesting requirements and, in some cases, subject to the Company achieving predetermined financial goals. Restricted shares serve to help retain key executive talent, as well as retain non-executive employees who make a significant contribution to the Company.

Three employees received option grants in 2004, totaling 30,000 shares. Forty employees received restricted share grants in 2004, totaling 12,200 shares.

8. **Compensation for the Chief Executive Officer.** Mr. Davis led the Company through the successful acquisition and integration of Humboldt Bancorp in 2004. At the same time, Mr. Davis continued to emphasize the Company s vision and mission, which is to create a unique and memorable banking environment in which our customers perceive the bank as an indispensable partner in achieving their financial goals; our people achieve unparalleled personal and professional success; our shareholders achieve the exceptional rewards of ownership; and our communities benefit from our involvement and investment in their future.

In April 2004, the Compensation Committee reviewed Mr. Davis s compensation package. Historically, Mr. Davis s compensation has been reviewed mid-year. The Committee determined that it is better to review Mr. Davis s compensation at fiscal year-end, when results are known. This is also consistent with the timing of compensation review for the other Named Executive Officers. Therefore, in April 2004, the Committee elected to change Mr. Davis s compensation review date to the end of each fiscal year, beginning at the end of 2004. As an interim measure and based upon external compensation surveys provided to the Committee by nationally recognized third party compensation consultants, the Committee adjusted Mr. Davis s compensation as follows: his base salary was

Table of Contents

increased from $400,000 to $475,000, effective June 1, 2004 and his targeted annual incentive pay was increased from 50% to 60% of base salary.

At meetings in December 2004 and February 2005, the Committee again reviewed all components of Mr. Davis s compensation including salary, bonus, equity and long-term incentive compensation, accumulated realized and unrealized stock option, restricted stock gains and various perquisites and other personal benefits. Tally sheets setting forth those components were prepared and reviewed together with tally sheets from peer companies, a compensation review of specified peer financial institutions provided by a nationally recognized third party compensation consultant, as well as salary survey data provided by other such consultants. In addition, the Committee received advice from the Company s outside counsel. Based on this information, the Committee felt that an adjustment to Mr. Davis s compensation was appropriate in light of the fact that the Company had grown significantly as a result of the successful acquisition of Humboldt Bancorp. Effective January 1, 2005, Mr. Davis s base salary increased from $475,000 to $608,000 and his targeted annual incentive increased from 60% to 75% of base salary. For 2005, Mr. Davis s incentive compensation is based on success in three performance areas: corporate financial targets (65%), leadership and personal goals (20%) and regulatory and compliance goals (15%). In addition, effective January 3, 2005, the Committee awarded Mr. Davis a stock option grant of 75,000 shares at the then current market price vesting over a four-year period, with 30% per year vesting over the first two years and 20% per year over the final two years.

9. **Proposed Performance-Based Executive Incentive Plan.** Section 162(m) of the Internal Revenue Code generally disallows federal income tax deductions by publicly traded companies for compensation in excess of $1 million per year paid to those executive officers whose compensation is detailed in the Summary Compensation Table. Under an exception to the general rule of non-deductibility, the $1 million deduction limit does not apply to qualified performance-based compensation. The Company has undertaken to qualify the short-term incentive compensation it makes available to its executive officers for the performance-based exception to non-deductibility. The Umpqua Holdings Corporation 2005 Performance-Based Executive Incentive Plan (the 2005 Plan), pending approval by shareholders at this year s Annual Meeting of Stockholders, is believed to meet the requirements of Section 162(m).

In prior years, the limitations of Section 162(m) did not affect the deductibility of compensation to any of our executive officers. The Company does not expect that the deductibility of compensation to executive officers in 2005 will be affected by the limitations of Section 162(m), if shareholders approve the 2005 Plan.

At this time, it is the policy of the Compensation Committee to ensure that all compensation payable to the CEO and the other Named Executive Officers is fully deductible for federal income tax purposes consistent with Section 162(m).

Summary

The Committee believes the executive compensation policies and programs described in this report serve shareholder interests and the Company. Compensation to executives is aligned with Company and individual performance. We will continue to evaluate and, as necessary, update our compensation programs to assure that they remain performance driven, are competitive, serve to retain the best talent and reinforce equity ownership.

Submitted by the Compensation Committee:
Bill Lansing (Chair)
Scott Chambers
Diane Miller
Tom Weborg
Ted Mason (non-voting member)

Executive Compensation

The following table sets forth all compensation paid during the last three calendar years to the Chief Executive Officer and the four executive officers (Named Executive Officers), other than the Chief Executive Officer, who had the highest total annual salary and bonus in excess of $100,000 in 2004.

Summary Compensation Table

		Annual Compensation			Long Term Compensation			
					Awards		Payouts	
Name and Principal Position	Year(1)	Salary($)	Bonus($) (2)	Other Annual Compensation ($)	Restricted Stock Award($) ($)	Securities Underlying Options/SAR (#)	LTIP Payouts($)	All Other Compensation ($)
Raymond P. Davis	2004	$						