

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

- 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
(State or Other Jurisdiction
of Incorporation or Organization)

93-1261319
(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.

Yes No

Edgar Filing: UMPQUA HOLDINGS CORP - Form 10-Q

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):

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

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

Yes No

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

Table of Contents

UMPQUA HOLDINGS CORPORATION

FORM 10-Q

Table of Contents

PART I.	<u>FINANCIAL INFORMATION</u>	3
Item 1.	<u>Financial Statements (unaudited)</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	50
Item 4.	<u>Controls and Procedures</u>	50
PART II.	<u>OTHER INFORMATION</u>	51
Item 1.	<u>Legal Proceedings</u>	51
Item 1A.	<u>Risk Factors</u>	51
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 3.	<u>Defaults Upon Senior Securities</u>	51
Item 4.	<u>Submissions of Matters to a Vote of Security Holders</u>	51
Item 5.	<u>Other Information</u>	51
Item 6.	<u>Exhibits</u>	51
	<u>SIGNATURES</u>	52
	<u>EXHIBIT INDEX</u>	53

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

Edgar Filing: UMPQUA HOLDINGS CORP - Form 10-Q

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	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

Edgar Filing: UMPQUA HOLDINGS CORP - Form 10-Q

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

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)

	Common Stock			Accumulated		Total
	Preferred Stock	Shares	Amount	Retained	Other	
				Earnings	Comprehensive Income	
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)

Edgar Filing: UMPQUA HOLDINGS CORP - Form 10-Q

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	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	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

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