UMPQUA HOLDINGS CORP
Form 10-Q
May 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

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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

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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

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

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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

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(in thousands, except shares)

		Common Stock			Accumulated Other	
	Preferred Stock	Shares	Amount	Retained Earnings	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

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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

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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)

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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

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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.

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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

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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.

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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

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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 $117.6 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	**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.

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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

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$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.

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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 lawsuit. Umpqua Bank and other Visa member banks were obligated to fund the settlement and share in losses resulting from this litigation that were not already provided for in the escrow account. Visa notified the Company that it had established an additional reserve related to the settlement with Discover Card that had not already been funded into the escrow account. In connection with this settlement, the Company recorded, in the third quarter of 2008, a liability and corresponding expense of $2.1 million pre-tax, for its proportionate share of that liability. In December 2008, this liability and expense was reversed when Visa deposited additional funds into the escrow account to cover the remaining amount of the settlement. The deposit of funds into the escrow account further reduced the conversion ratio applicable to Class B common stock outstanding from 0.71429 per Class A share to 0.6296 per Class A share.

The remaining unredeemed shares of Visa Class B common stock are restricted and may not be transferred until the later of (1) three years from the date of the initial public offering or (2) the period of time necessary to resolve the covered litigation. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

As of March 31, 2009, the value of the Class A shares was $55.60 per share. The value of unredeemed Class A equivalent shares owned by the Company was $16.4 million as of March 31, 2009, and has not been reflected in the accompanying financial statements.

In the ordinary course of business, various claims and lawsuits are brought by and against the Company, the Bank and Strand. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the Company s consolidated financial condition or results of operations.

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Concentrations of Credit Risk The Company grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington and California. In management s judgment, a concentration exists in real estate-related loans, which represented approximately 79% of the Company s loan and lease portfolio at March 31, 2009, and December 31, 2008. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectibility, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Company s primary market areas in particular, such as was seen with the deterioration in the residential development market since 2007, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

The Bank recognizes the credit risks inherent in dealing with other depository institutions. Accordingly, to prevent excessive exposure to any single correspondent, the Bank has established general standards for selecting correspondent banks as well as internal limits for allowable exposure to any single correspondent. In addition, the Bank has an investment policy that sets forth limitations that apply to all investments with respect to credit rating and concentrations with an issuer.

Note 8 Derivatives

The Company may use derivatives to hedge the risk of changes in the fair values of interest rate lock commitments, residential mortgage loans held for sale, and mortgage servicing rights. None of the Company s derivatives are designated as hedging instruments under SFAS 133. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company primarily utilizes forward interest rate contracts in its derivative risk management strategy.

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates (MBS TBAs) in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three months ended March 31, 2009 and 2008. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At March 31, 2009, the Bank had commitments to originate mortgage loans held for sale totaling $130.3 million and forward sales commitments of $74.5 million.

In the fourth quarter of 2007, the Company began using derivative instruments, primarily MBS TBAs, to hedge the risk of changes in the fair value of MSR due to changes in interest rates. Starting in late February 2008 and continuing into March 2008, the bond markets experienced extraordinary volatility. This volatility resulted in widening spreads and price declines on the derivative instruments that were not offset by corresponding gains in the MSR asset. In March of 2008, the Company suspended the MSR hedge, given the continued volatility.

The following tables summarize the types of derivatives, separately by assets and liabilities, their locations on the *Condensed Consolidated Balance Sheets*, and the fair values of such derivatives as of March 31, 2009 and December 31, 2008:

(in thousands)

Underlying Risk Exposure	Description	Balance Sheet Location	March 31, 2009	December 31, 2008
Asset Derivatives				
Interest rate contracts	Rate lock commitments	Other assets	$ 1,297	$ 1,170
Interest rate contracts	Forward sales commitments	Other assets	43	151
Total asset derivatives			$ 1,340	$ 1,321
Liability Derivatives				

Interest rate contracts	Rate lock commitments	Other liabilities	$	1	$	3
Interest rate contracts	Forward sales commitments	Other liabilities		961		583
Total liability derivatives			$	962	$	586

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The following table summarizes the types of derivatives, their locations within the *Condensed Consolidated Statements of Operations,* and the gains (losses) recorded during the three months ended March 31, 2009 and 2008:

(in thousands)

Underlying		Income Statement	Three months ended March 31,	
Risk Exposure	Description	Location	2009	2008
Interest rate contracts	Rate lock commitments	Mortgage banking revenue	$ 129	$ 14
Interest rate contracts	Forward sales commitments	Mortgage banking revenue	(955)	(138)
Interest rate contracts	MSR hedge instruments	Mortgage banking revenue	-	(2,398)
Total			$ (826)	$ (2,522)

The Company s derivative instruments do not have specific credit risk-related contingent features. The forward sales commitments do have contingent features that may require transferring collateral to the broker/dealers upon their request. However, this amount would be limited to the net unsecured loss exposure at such point in time and would not materially effect the Company s liquidity or results of operations.

Note 9 Preferred Stock

On November 14, 2008, in exchange for an aggregate purchase price of $214.2 million, the Company issued and sold to the United State Department of the Treasury (U.S. Treasury) pursuant to the TARP Capital Purchase Program (the CPP) the following: (i) 214,181 shares of the Company s newly designated non-convertible Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (the preferred stock) no par value per share and liquidation preference $1,000 per share (and $214.2 million liquidation preference in the aggregate) and (ii) a warrant to purchase up to 2,221,795 shares of the Company s common stock, no par value per share, at an exercise price of $14.46 per share, subject to certain customary anti-dilution and other adjustments.

The preferred stock bears cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter, in each case, applied to the $1,000 per share liquidation preference, but will only be paid when, as and if declared by the Company s Board of Directors out of funds legally available therefor. Dividend payments are payable quarterly in arrears on the 15th day of February, May, August and November of each year.

In February 2009, the Board declared and the Company paid the first quarterly dividend payable to the United States Department of the Treasury. In April 2009, the Board declared a dividend in the amount of $2.7 million, which is payable May 15, 2009. As of March 31, 2009, no dividends on the preferred stock were in arrears.

Note 10 Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was $916,000 and $735,000 for the three months ended March 31, 2009 and 2008, respectively. The total income tax benefit recognized in the income statement related to stock based compensation was $366,000 and $294,000 for the three months ended March 31, 2009 and 2008, respectively.

The following table summarizes information about stock option activity for the three months ended March 31, 2009:

(in thousands, except per share data)

	Three months ended March 31, 2009			
	Options Outstanding	Weighted-Avg Exercise Price	Weighted-Avg Remaining Contractual	Aggregate Intrinsic Value

				Term (Years)		
Balance, beginning of period	1,819	$	15.66			
Granted	222	$	9.32			
Exercised	(7)	$	6.99			
Forfeited/expired	(58)	$	17.89			
Balance, end of period	1,976	$	14.91	6.13	$	942
Options exercisable, end of period	1,235	$	15.52	4.51	$	940

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The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised was $19,000 and $350,000 for the three months ended March 31, 2009 and 2008, respectively. During the three months ended March 31, 2009 and 2008, the amount of cash received from the exercise of stock options was $52,000 and $501,000, respectively.

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. The following weighted average assumptions were used for stock options granted in the three months ended March 31, 2009 and 2008:

	Three months ended March 31,	
	2009	**2008**
Dividend yield	2.23%	4.33%
Expected life (years)	7.3	7.3
Expected volatility	45%	32%
Risk-free rate	2.16%	3.19%
Weighted average fair value of options on date of grant	$ 3.63	$ 3.43

The Company grants restricted stock periodically as a part of the 2003 Stock Incentive Plan for the benefit of employees. Restricted shares issued generally vest on an annual basis over five years. A deferred restricted stock award was granted to an executive in the second quarter of 2007. The award vests monthly based on continued service in various increments through July 1, 2011. The Company will issue certificates for the vested award within the seventh month following termination of the executive s employment. The following table summarizes information about non-vested restricted share activity for the three months ended March 31, 2009:

(in thousands, except per share data)

	Three months ended March 31, 2009	
	Restricted Shares Outstanding	**Weighted Average Grant Date Fair Value**
Balance, beginning of period	216	$ 23.42
Granted	18	$ 9.96
Released	(40)	$ 23.89
Forfeited/expired	(4)	$ 26.80
Balance, end of period	190	$ 21.98

The total fair value of restricted shares vested and released during the three months ended March 31, 2009 and 2008 was $376,000 and $448,000, respectively.

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The Company grants restricted stock units as a part of the 2007 Long Term Incentive Plan for the benefit of certain executive officers. Restricted stock unit grants are subject to performance-based vesting as well as other approved vesting conditions. In the second quarter of 2007, restricted stock units were granted that cliff vest after three years based on performance and service conditions. In the first quarter of 2008 and 2009, additional restricted stock units were granted to these executives under substantially similar vesting terms. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements. The following table summarizes information about restricted stock unit activity for the three months ended March 31, 2009:

(in thousands, except per share data)

	Three months ended March 31, 2009	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance, beginning of period	301	$ 19.48
Granted	114	$ 8.01
Released	(23)	$ 21.33
Forfeited/expired	(57)	$ 18.98
Balance, end of period	335	$ 15.54

As of March 31, 2009, there was $2.5 million of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of 3.5 years. As of March 31, 2009, there was $3.4 million of total unrecognized compensation cost related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 3.1 years. As of March 31, 2009, there was $1.6 million of total unrecognized compensation cost related to non-vested restricted stock units which is expected to be recognized over a weighted-average period of 1.9 years, assuming performance conditions are met.

For the three months ended March 31, 2009 and 2008, the Company received income tax benefits of $218,000 and $319,000, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions in the exercise of incentive stock options and the vesting of restricted shares. In the three months ended March 31, 2009, the Company had net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) of $331,000, compared to net tax deficiencies of $133,000 for the three months ended March 31, 2008. Only cash flows from gross excess tax benefits are classified as financing cash flows, for which there were none in either period.

Note 11 Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as the Oregon and California state jurisdictions. Except for the California amended returns of an acquired institution for the tax years 2001, 2002, and 2003, and only as it relates to the net interest deduction taken on these amended returns, the Company is no longer subject to U.S. federal or Oregon state examinations by tax authorities for years before 2005 and California state examinations for years before 2004. The Internal Revenue Service concluded an examination of the Company s U.S. income tax returns for 2003 and 2004 in the second quarter of 2006. The results of the examination had no significant impact on the Company s financial statements.

Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company s income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax asset will not be realized.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the form of a liability for unrecognized tax benefits. The Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations,

and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities examinations of the Company s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

In accordance with FIN 48, the Company recorded a net liability for unrecognized tax benefits relating to California tax incentives in the amount of $487,602 during the first quarter of 2009. The Company had gross unrecognized tax benefits recorded as of March 31, 2009 in the amount of $1,792,484. If recognized, the unrecognized tax benefit would impact the 2009 annual effective tax rate by 0.4%. During the first quarter of 2009, the Company also accrued $140,127 of interest related to unrecognized tax benefits, which is reported by the Company as a component of tax expense. As of March 31, 2009, the accrued interest related to unrecognized tax benefits is $303,691.

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Note 12 Earnings Per Common Share

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* According to FSP EITF 03-6-1, nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of EPS pursuant to the two-class method. According to SFAS 128, *Earnings Per Share*, the two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company s nonvested restricted stock awards qualify as participating securities under FSP EITF 03-6-1.

Net income, less any preferred dividends accumulated for the period (whether or not declared), is allocated between the common stock and participating securities pursuant to the two-class method. *Basic earnings per common share* is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. For all periods presented, warrants, stock options, certain restricted stock awards and restricted stock units are the only potentially dilutive non-participating instruments issued by the Company. Next, we determine and include in diluted earnings per common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

According to the provisions of FSP EITF 03-6-1, all prior-period earnings per common share amounts have been retrospectively adjusted; however, this has had no effect on the current periods presented.

The following is a computation of basic and diluted (loss) earnings per common share for the three months ended March 31, 2009 and 2008:

Earnings per Share

(in thousands, except per share data)

	Three months ended March 31,	
	2009	**2008**
NUMERATORS:		
Net (loss) income	$ (15,249)	$ 24,671
Preferred stock dividends	3,191	-
Net income allocated to participating nonvested restricted stock awards	-	82
Net (loss) income available to common shareholders	$ (18,440)	$ 24,589
DENOMINATORS:		
Weighted average number of common shares outstanding - basic	60,176	60,029
Effect of potentially dilutive common shares [1]	-	345
Weighted average number of common shares outstanding - diluted	60,176	60,374
(LOSS) EARNINGS PER COMMON SHARE:		
Basic	$ (0.31)	$ 0.41
Diluted	$ (0.31)	$ 0.41

(1) Represents the effect of the assumed exercise of warrants, assumed exercise of stock options, vesting of non-participating restricted shares, and vesting of restricted stock units, based on the treasury stock method.

For the three months ended March 31, 2009, options and warrants to purchase 3.8 million shares of common stock and 27,000 nonparticipating, nonvested restricted shares and units were outstanding but were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive. This compares to options to purchase 1.0 million shares of common stock and 38,000 nonparticipating, nonvested restricted shares and units that were outstanding but were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three months ended March 31, 2008.

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Note 13 Segment Information

The Company operates three primary segments: Community Banking, Mortgage Banking and Retail Brokerage. The Community Banking segment s principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of March 31, 2009, the Community Banking segment operated 150 stores located throughout Oregon, Northern California and Washington.

The Mortgage Banking segment, which operates as a division of the Bank, originates, sells and services residential mortgage loans.

The Retail Brokerage segment consists of the operations of Strand, which offers a full range of retail brokerage services and products to its clients who consist primarily of individual investors. The Company accounts for intercompany fees and services between Strand and the Bank at estimated fair value according to regulatory requirements for services provided. Intercompany items relate primarily to management services, referral fees and interest on intercompany borrowings.

Summarized financial information concerning the Company s reportable segments and the reconciliation to the consolidated financial results is shown in the following tables:

Segment Information

(in thousands)

	Three Months Ended March 31, 2009			
	Community Banking	**Retail Brokerage**	**Mortgage Banking**	**Consolidated**
Interest income	$ 101,148	$ 9	$ 3,219	$ 104,376
Interest expense	27,918	-	1,045	28,963
Net interest income	73,230	9	2,174	75,413
Provision for loan and lease losses	59,092	-	-	59,092
Non-interest income	9,911	1,461	4,145	15,517
Non-interest expense	54,459	2,050	3,442	59,951
(Loss) income before income taxes	(30,410)	(580)	2,877	(28,113)
(Benefit from) provision for income taxes	(13,782)	(233)	1,151	(12,864)
Net (loss) income	(16,628)	(347)	1,726	(15,249)
Preferred stock dividends	3,191	-	-	3,191
Net (loss) income available to common shareholders	$ (19,819)	$ (347)	$ 1,726	$ (18,440)

	Three Months Ended March 31, 2008			
	Community Banking	**Retail Brokerage**	**Mortgage Banking**	**Consolidated**
Interest income	$ 112,155	$ -	$ 3,286	$ 115,441
Interest expense	43,828	-	1,593	45,421
Net interest income	68,327	-	1,693	70,020
Provision for loan and lease losses	15,132	-	-	15,132
Non-interest income	29,128	2,299	(1,833)	29,594
Non-interest expense	43,324	2,172	1,991	47,487

Income (loss) before income taxes		38,999		127		(2,131)		36,995
Provision for (benefit from) income taxes		13,124		52		(852)		12,324
Net income (loss)		25,875		75		(1,279)		24,671
Preferred stock dividends		-		-		-		-
Net income (loss) available to common shareholders	$	25,875	$	75	$	(1,279)	$	24,671

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(in thousands)

	March 31, 2009							
			Retail					
	Community Banking		Brokerage		Mortgage Banking		Consolidated	
Total assets	$	8,551,279	$	10,689	$	220,565	$	8,782,533
Total loans	$	5,907,435	$	-	$	175,045	$	6,082,480
Total deposits	$	6,781,928	$	-	$	10,606	$	6,792,534

	December 31, 2008							
			Retail					
	Community Banking		Brokerage		Mortgage Banking		Consolidated	
Total assets	$	8,376,734	$	7,656	$	213,160	$	8,597,550
Total loans	$	5,951,047	$	-	$	180,327	$	6,131,374
Total deposits	$	6,582,440	$	-	$	6,495	$	6,588,935

Note 14 Fair Value Measurement

The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 and December 31, 2008:

(in thousands)

	Fair Value at March 31, 2009							
Description		**Total**		**Level 1**		**Level 2**		**Level 3**
Trading securities	$	1,485	$	1,485	$	-	$	-
Available for sale securities		1,435,293		-		1,435,293		-
Mortgage servicing rights		8,732		-		8,732		-