UMPQUA HOLDINGS CORP
Form 10-Q
November 04, 2010
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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: **September 30, 2010**

¨ **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 definitions of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

¨ Large accelerated filer x 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: 114,532,543 shares outstanding as of October 31, 2010

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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)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 124,633	$ 113,353
Interest bearing deposits	933,911	491,462
Temporary investments	5,496	598
Total cash and cash equivalents	1,064,040	605,413
Investment securities		
Trading, at fair value	2,155	2,273
Available for sale, at fair value	2,599,263	1,795,616
Held to maturity, at amortized cost	5,108	6,061
Loans held for sale	57,407	33,715
Non-covered loans and leases	5,698,267	5,999,267
Allowance for loan and lease losses	(108,098)	(107,657)
Net non-covered loans and leases	5,590,169	5,891,610
Covered loans and leases	840,469	-
Restricted equity securities	34,665	15,211
Premises and equipment, net	133,728	103,266
Goodwill and other intangible assets, net	680,893	639,634
Mortgage servicing rights, at fair value	13,454	12,625
Non-covered other real estate owned	32,024	24,566
Covered other real estate owned	30,348	-
FDIC indemnification asset	217,696	-
Other assets	231,552	251,382
Total assets	$ 11,532,971	$ 9,381,372
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 1,578,717	$ 1,398,332
Interest bearing	7,722,623	6,042,102
Total deposits	9,301,340	7,440,434
Securities sold under agreements to repurchase	55,333	45,180
Term debt	268,256	76,274
Junior subordinated debentures, at fair value	80,146	85,666
Junior subordinated debentures, at amortized cost	102,946	103,188
Other liabilities	73,236	64,113

Total liabilities	9,881,257	7,814,855
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
SHAREHOLDERS EQUITY		
Preferred stock, no par value, 2,000,000 shares authorized; Series A (liquidation preference $1,000 per share) issued and outstanding: none in 2010 and 214,181 in 2009	-	204,335
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 114,531,514 in 2010 and 86,785,588 in 2009	1,540,029	1,253,288
Retained earnings	75,502	83,939
Accumulated other comprehensive income	36,183	24,955
Total shareholders equity	1,651,714	1,566,517
Total liabilities and shareholders equity	$ 11,532,971	$ 9,381,372

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 September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
INTEREST INCOME				
Interest and fees on loans	$ 112,652	$ 89,474	$ 300,600	$ 266,587
Interest and dividends on investment securities				
Taxable	17,421	15,365	49,065	43,625
Exempt from federal income tax	2,221	2,020	6,655	5,755
Dividends	6	22	9	22
Interest on temporary investments and interest bearing deposits	646	207	1,590	258
Total interest income	132,946	107,088	357,919	316,247
INTEREST EXPENSE				
Interest on deposits	19,913	22,132	57,165	68,552
Interest on securities sold under agreement to repurchase and federal funds purchased	136	163	382	527
Interest on term debt	2,533	917	6,832	3,935
Interest on junior subordinated debentures	2,047	2,114	5,871	7,069
Total interest expense	24,629	25,326	70,250	80,083
Net interest income	108,317	81,762	287,669	236,164
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	24,228	52,108	96,101	140,531
PROVISION FOR COVERED LOAN AND LEASE LOSSES	667	-	667	-
Net interest income after provision for loan and lease losses	83,422	29,654	190,901	95,633
NON-INTEREST INCOME				
Service charges on deposit accounts	8,756	8,542	26,706	24,565
Brokerage commissions and fees	2,609	1,993	8,387	5,117
Mortgage banking revenue, net	7,138	4,288	13,825	14,617
Gain (loss) on investment securities, net				
Gain on sale of investment securities, net	2,331	162	2,331	8,682
Total other-than-temporary impairment losses	(37)	-	(42)	(12,492)
Portion of other-than-temporary impairment losses (transferred from) recognized in other comprehensive income	(7)	(4)	(290)	2,733

Total gain (loss) on investment securities, net	2,287	158	1,999	(1,077)
(Loss) gain on junior subordinated debentures carried at fair value	(554)	982	5,534	10,173
Bargain purchase gain on acquisition	-	-	8,456	-
Change in FDIC indemnification asset	(11,948)	-	(11,075)	-
Other income	3,845	1,962	8,930	7,097
Total non-interest income	12,133	17,925	62,762	60,492
NON-INTEREST EXPENSE				
Salaries and employee benefits	42,964	31,583	118,808	94,697
Net occupancy and equipment	11,448	9,937	33,596	29,266
Communications	2,480	1,806	7,300	5,398
Marketing	2,468	1,157	5,191	3,596
Services	5,507	5,210	16,253	15,942
Supplies	1,177	920	2,906	2,559
FDIC assessments	3,910	3,321	10,909	12,645
Net (gain) loss on other real estate owned	(317)	8,641	1,042	14,110
Intangible amortization	1,356	1,319	4,032	4,043
Goodwill impairment	-	-	-	111,952
Merger related expenses	1,643	-	5,718	273
Other expenses	12,534	4,455	24,119	12,422
Total non-interest expense	85,170	68,349	229,874	306,903
Income (loss) before provision for (benefit from) income taxes	10,385	(20,770)	23,789	(150,778)
Provision for (benefit from) income taxes	2,194	(13,626)	2,410	(24,094)
Net income (loss)	$ 8,191	$ (7,144)	$ 21,379	$ (126,684)

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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 September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	$ 8,191	$ (7,144)	21,379	(126,684)
Preferred stock dividends	-	3,225	12,192	9,632
Dividends and undistributed earnings allocated to participating securities	18	7	49	22
Net earnings (loss) available to common shareholders	$ 8,173	$ (10,376)	$ 9,138	$ (136,338)
Earnings (loss) per common share:				
Basic	$ 0.07	$ (0.14)	$ 0.09	$ (2.10)
Diluted	$ 0.07	$ (0.14)	$ 0.09	$ (2.10)
Weighted average number of common shares outstanding:				
Basic	114,528	74,085	105,695	64,878
Diluted	114,760	74,085	105,924	64,878

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)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT JANUARY 1, 2009	$ 202,178	60,146,400	$ 1,005,820	$ 264,938	$ 14,072	$ 1,487,008
Net loss				(153,366)		(153,366)
Other comprehensive income, net of tax					10,883	10,883
Comprehensive loss						$ (142,483)
Issuance of common stock		26,538,461	245,697			245,697
Stock-based compensation			2,188			2,188
Stock repurchased and retired		(19,516)	(174)			(174)
Issuances of common stock under stock plans and related net tax deficiencies		120,243	(243)			(243)
Amortization of discount on preferred stock	2,157			(2,157)		-
Dividends declared on preferred stock				(10,739)		(10,739)
Cash dividends on common stock ($0.20 per share)				(14,737)		(14,737)
Balance at December 31, 2009	$ 204,335	86,785,588	$ 1,253,288	$ 83,939	$ 24,955	$ 1,566,517
BALANCE AT JANUARY 1, 2010	$ 204,335	86,785,588	$ 1,253,288	$ 83,939	$ 24,955	$ 1,566,517
Net income				21,379		21,379
Other comprehensive income, net of tax					11,228	11,228
Comprehensive income						$ 32,607
Issuance of common stock		8,625,000	89,786			89,786
Stock-based compensation			2,627			2,627
Stock repurchased and retired		(22,310)	(282)			(282)
Issuances of common stock under stock plans and related net tax benefits		168,236	821			821
Amortization of discount on preferred stock	9,846			(9,846)		-
Redemption of preferred stock issued to U.S. Treasury	(214,181)					(214,181)
Issuance of preferred stock	198,289					198,289
Conversion of preferred stock to common stock	(198,289)	18,975,000	198,289			-
Dividends declared on preferred stock				(3,686)		(3,686)
Repurchase of warrants issued to U.S. Treasury			(4,500)			(4,500)

Cash dividends on common stock ($0.15 per share)						(16,284)				(16,284)
Balance at September 30, 2010	$	-	114,531,514	$ 1,540,029	$	75,502	$	36,183		$ 1,651,714

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 September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	$ 8,191	$ (7,144)	$ 21,379	$ (126,684)
Available for sale securities:				
Unrealized (losses) gains arising during the period	(7,976)	29,579	20,117	35,365
Reclassification adjustment for net gains realized in earnings (net of tax expense of $932 and $65 for the three months and net of tax expense of $932 and $3,337 for the nine months ended September 30, 2010 and 2009, respectively)	(1,399)	(97)	(1,399)	(5,066)
Income tax benefit (expense) related to unrealized (losses) gains	3,190	(11,831)	(8,047)	(14,146)
Net change in unrealized (losses) or gains	(6,185)	17,651	10,671	16,153
Held to maturity securities:				
Reclassification adjustment for impairments realized in net income (net of tax benefit of $1,716 for the nine months ended September 30, 2009)	-	-	-	2,574
Amortization of unrealized losses on investment securities transferred to held to maturity (net of tax benefit of $70 for the nine months ended September 30, 2009)	-	-	-	103
Net change in unrealized losses on investment securities transferred to held to maturity	-	-	-	2,677
Unrealized gains (losses) related to factors other than credit (net of tax expense of $70 and $1 for the three months and net of tax expense of $139 and net of tax benefit of $1,094 for the nine months ended September 30, 2010 and 2009, respectively)	105	1	208	(1,641)
Reclassification adjustment for impairments realized in net income (net of tax benefit of $18 and $2 for the three months and $133 and $2 for the nine months ended September 30, 2010 and 2009, respectively)	26	2	199	2

Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $26 and $78 for the three months and $100 and $78 for the nine months ended September 30, 2010 and 2009, respectively)	39	118	150	118
Net change in unrealized losses related to factors other than credit	170	121	557	(1,521)
Other comprehensive (loss) income, net of tax	(6,015)	17,772	11,228	17,309
Comprehensive income (loss)	$ 2,176	$ 10,628	$ 32,607	$ (109,375)

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)

	Nine months ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 21,379	$ (126,684)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of investment premiums, net	12,230	5,721
Gain on sale of investment securities, net	(2,331)	(8,682)
Other-than-temporary impairment on investment securities available for sale	-	239
Other-than-temporary impairment on investment securities held to maturity	332	9,520
Loss on sale of non-covered other real estate owned	1,379	6,939
Gain on sale of covered other real estate owned	(3,425)	-
Valuation adjustment on non-covered other real estate owned	2,163	7,171
Valuation adjustment on covered other real estate owned	925	-
Provision for non-covered loan and lease losses	96,101	140,531
Provision for covered loan and lease losses	667	-
Bargain purchase gain on acquisition	(8,456)	-
Change in FDIC indemnification asset	11,075	-
Depreciation, amortization and accretion	9,121	7,915
Goodwill impairment	-	111,952
Increase in mortgage servicing rights	(3,624)	(5,958)
Change in mortgage servicing rights carried at fair value	2,857	2,611
Change in junior subordinated debentures carried at fair value	(5,520)	(10,528)
Stock-based compensation	2,627	1,695
Net decrease in trading account assets	118	75
Gain on sale of loans	(9,282)	(4,943)
Origination of loans held for sale	(454,662)	(520,302)
Proceeds from sales of loans held for sale	439,663	523,760
Excess tax benefits from the exercise of stock options	(56)	-
Change in other assets and liabilities:		
Net decrease (increase) in other assets	21,531	(30,673)
Net increase (decrease) in other liabilities	4,030	(5,889)
Net cash provided by operating activities	138,842	104,470
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(1,004,194)	(980,168)
Proceeds from investment securities available for sale	262,067	404,166
Proceeds from investment securities held to maturity	1,080	2,045
Redemption of restricted equity securities	282	1,280
Net non-covered loan and lease paydowns (originations)	144,292	(109,348)
Net covered loan and lease paydowns	70,697	-
Proceeds from sales of loans	35,464	7,848

Proceeds from disposals of furniture and equipment	1,100	181
Purchases of premises and equipment	(40,978)	(7,824)
Net proceeds from FDIC indemnification asset	24,103	-
Proceeds from sales of non-covered other real estate owned	18,867	20,759
Proceeds from sales of covered other real estate owned	9,544	-
Proceeds from sale of acquired insurance portfolio	5,150	-
Cash acquired in merger, net of cash consideration paid	179,046	178,905
Net cash used by investing activities	(293,480)	(482,156)

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)

	Nine months ended September 30, 2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit liabilities	713,503	443,003
Net increase in securities sold under agreements to repurchase	10,153	2,443
Repayment of term debt	(161,968)	(130,140)
Redemption of preferred stock	(214,181)	-
Proceeds from issuance of preferred stock	198,289	-
Net proceeds from issuance of common stock	89,786	245,697
Redemption of warrants	(4,500)	-
Dividends paid on preferred stock	(3,686)	(8,062)
Dividends paid on common stock	(14,882)	(9,051)
Excess tax benefits from stock based compensation	56	-
Proceeds from stock options exercised	977	275
Retirement of common stock	(282)	(170)
Net cash provided by financing activities	613,265	543,995
Net increase in cash and cash equivalents	458,627	166,309
Cash and cash equivalents, beginning of period	605,413	204,676
Cash and cash equivalents, end of period	$ 1,064,040	$ 370,985
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 71,887	$ 82,840
Income taxes	$ 175	$ 44
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$ 10,671	$ 16,153
Change in unrealized losses on investment securities transferred to held to maturity, net of taxes	$ -	$ 2,677
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$ 557	$ (1,521)
Cash dividend declared on common and preferred stock and payable after period-end	$ 5,743	$ 4,346
Transfer of non-covered loans to non-covered other real estate owned	$ 29,867	$ 34,408
Transfer of covered loans to covered other real estate owned	$ 10,453	$ -
Conversion of preferred stock to common stock	$ 198,289	$ -
Acquisitions:		
Assets acquired	$ 1,514,067	$ 4,978
Liabilities assumed	$ 1,505,611	$ 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 Umpqua Investments, Inc. (Umpqua Investments). Prior to July 2009, Umpqua Investments was known as Strand, Atkinson, Williams & York, Inc. 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 2009 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 2009 Annual Report filed on Form 10-K.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2010 for potential recognition or disclosure. 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 to current classifications.

Note 2 Business Combinations

On January 22, 2010, the Washington Department of Financial Institutions closed EvergreenBank (Evergreen), Seattle, Washington and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. That same date, Umpqua Bank assumed the banking operations of Evergreen from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO) and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $90.0 million on covered assets for Evergreen and absorb 95% of losses and share in 95% of loss recoveries exceeding $90.0 million, except for the Bank will incur losses up to $30.2 million before the loss-sharing will commence. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, Umpqua Bank now operates five additional store locations in the greater Seattle, Washington market. This acquisition is consistent with our community banking expansion strategy and provides further opportunity to fill in our market presence in the greater Seattle, Washington market.

On February 26, 2010, the Washington Department of Financial Institutions closed Rainier Pacific Bank (Rainier), Tacoma, Washington and appointed the FDIC as receiver. That same date, Umpqua Bank assumed the banking operations of Rainier from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $95.0 million of losses on covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding $95.0 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates. With this agreement, Umpqua Bank now operates 14 additional store locations in Pierce County and surrounding areas. This acquisition expands our presence in the south Puget Sound region of Washington State.

The operations of Evergreen and Rainier are included in our operating results from January 23, 2010 and February 27, 2010, respectively, and added combined revenue of $9.3 million and $34.1 million, non-interest expense of $6.6 million and $17.9 million, and earnings of $1.3 million and $10.1 million, net of tax, for the three and nine months ended September 30, 2010. For the nine months ended September 30, 2010, these operating results include a bargain purchase gain of $8.5 million, which is not indicative of future operating results. Evergreen s and Rainiers s results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $748,000 and $4.1 million for the three and nine months ended September 30, 2010 have been incurred in connection with these acquisitions and recognized in a separate line item on the *Condensed Consolidated Statements of Operations*.

On June 18, 2010, the Nevada State Financial Institutions Division closed Nevada Security Bank (Nevada Security), Reno, Nevada and appointed the FDIC as receiver. That same date, Umpqua Bank assumed the banking operations of Nevada Security from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO, and accrued interest on loans for up to 90 days.

The FDIC will absorb 80% of losses and share in 80% of loss recoveries on all covered assets. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates. With this agreement, Umpqua Bank now operates five additional store locations, including three in Reno, Nevada, one in Incline Village, Nevada, and one in Roseville, California. This acquisition expands our presence into the State of Nevada.

The operations of Nevada Security are included in our operating results from June 19, 2010, and added revenue of $3.9 million and $4.4 million, non-interest expense of $3.0 million and $3.6 million, and earnings of $578,000 and $544,000, net of tax, for the three and nine months ended September 30, 2010. Nevada Security s results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $741,000 and $1.1 million for the three and nine months ended September 30, 2010 have been incurred in connection with the acquisition of Nevada Security and recognized as a separate line item on the *Condensed Consolidated Statements of Operations*.

We refer to the acquired loan portfolios and other real estate owned as covered loans and covered other real estate owned , respectively, and these are presented as separate line items in our consolidated balance sheet. Collectively these balances are referred to as covered assets .

The assets acquired and liabilities assumed from the Evergreen, Rainier, and Nevada Security acquisitions have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification (the FASB ASC). The fair values of assets and liabilities acquired, including the calculation of the undiscounted contractual cash flows and beginning accretable yield relating to the acquired loan portfolios, and the indemnification asset are still pending finalization and are subject to change for up to one year after the closing date of each acquisition, as additional information relating to closing data becomes available. The amounts are also subject to adjustments based upon final settlement with the FDIC. In addition, the tax treatment of FDIC-assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the agreements provide for the FDIC to indemnify the Bank against claims with respect to liabilities of Evergreen, Rainier, and Nevada Security not assumed by the Bank and certain other types of claims identified in the agreement. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of $8.5 million in the Evergreen acquisition, $34.7 million of goodwill in the Rainier acquisition and $8.8 million of goodwill in the Nevada Security acquisition.

A summary of the net assets (liabilities) received from the FDIC and the estimated fair value adjustments are presented below:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Cost basis net assets (liabilities)	$ 58,811	$ (50,295)	$ 53,629
Cash payment received from (paid to) the FDIC	-	59,351	(29,950)
Fair value adjustments:			
Loans	(118,414)	(105,224)	(113,977)
Other real estate owned	(2,422)	(6,581)	(17,939)
Other intangible assets	440	6,253	322
FDIC indemnification asset	73,774	78,055	101,045
Deposits	(1,023)	(1,828)	(1,950)
Term debt	(2,496)	(13,035)	-
Other	(214)	(1,445)	48
Bargain purchase gain (goodwill)	$ 8,456	$ (34,749)	$ (8,772)

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer s bid, the FDIC may be required to make a cash payment to the acquirer or the acquirer may be required to make payment to the FDIC. In the Evergreen acquisition, cost basis net assets of $58.8 million were transferred to the Company. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

In the Rainier acquisition, cost basis net liabilities of $50.3 million and a cash payment received from the FDIC of $59.4 million were transferred to the Company. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired.

In the Nevada Security acquisition, cost basis net assets of $53.6 million were transferred to the Company and a cash payment of $30.0 million was made to the FDIC. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired.

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The Bank did not immediately acquire all the real estate, banking facilities, furniture or equipment of Evergreen, Rainier, or Nevada Security as part of the purchase and assumption agreements. However, the Bank was granted the option to purchase or lease the real estate and furniture and equipment from the FDIC. The term of this option expires 90 days from the acquisition dates. Acquisition costs of the real estate and furniture and equipment are based on current mutually agreed upon appraisals. Prior to the expiration of option term, Umpqua exercised the right to purchase approximately $300,000 of furniture and equipment for Evergreen, $26.3 million of real estate and furniture and equipment for Rainier, and $161,000 of furniture and equipment for Nevada Security. The Bank has the option to purchase additional furniture and equipment and one store location as part of the Nevada Security acquisition, and expects resolution in the fourth quarter of 2010.

The statement of assets acquired and liabilities assumed at their estimated fair values of Evergreen, Rainier, and Nevada Security are presented below:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Assets Acquired:			
Cash and equivalents	$ 18,919	$ 94,067	$ 66,060
Investment securities	3,850	26,478	22,626
Covered loans	251,528	456,253	214,505
Premises and equipment	-	17	50
Restricted equity securities	3,073	13,712	2,951
Goodwill	-	34,749	8,772
Other intangible assets	440	6,253	322
Mortgage servicing rights	-	62	-
Covered other real estate owned	2,421	6,580	17,938
FDIC indemnification asset	73,774	78,055	101,045
Other assets	1,293	4,948	3,326
Total assets acquired	$ 355,298	$ 721,174	$ 437,595
Liabilities Assumed:			
Deposits	$ 285,775	$ 425,771	$ 437,299
Term debt	60,813	293,191	-
Other liabilities	254	2,212	296
Total liabilities assumed	346,842	721,174	437,595
Net assets acquired/bargain purchase gain	$ 8,456	$ -	$ -

Rainier s assets and liabilities were significant at a level to require disclosure of one year of historical financial statements and related pro forma financial disclosure. However, given the pervasive nature of the loss-sharing agreement entered into with the FDIC, the historical information of Rainier is much less relevant for purposes of assessing the future operations of the combined entity. In addition, prior to closure Rainier had not completed an audit of their financial statements, and we determined that audited financial statements are not and will not be reasonably available for the year ended December 31, 2009. Given these considerations, the Company requested, and received, relief from the Securities and Exchange Commission from submitting certain financial information of Rainier. The assets and liabilities of Evergreen and Nevada Security were not at a level that requires disclosure of historical or pro forma financial information.

On January 16, 2009, the Washington Department of Financial Institutions closed the Bank of Clark County, Vancouver, Washington, and appointed the 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 reimbursed Umpqua Bank for all overhead costs related to the acquired Bank of Clark County operations for 90 days following closing, while Umpqua Bank paid 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 and added net earnings of approximately $644,000 and $2.0 million for the three and nine months ended September 30, 2010, net of tax, and approximately $507,000 and $1.0 million for the three and nine months ended September 30, 2009, net of tax, which primarily represents interest income earned from the proceeds of the assumption which were invested in investment securities available for sale and service income on deposits. This was partially offset by interest expense on deposits, salaries and employee benefits expense, and the accrued servicing fee paid to the FDIC. Umpqua did not incur the FDIC servicing fee expense during the second or third quarter of 2009, but began incurring overhead expenses such as salaries and employee benefits expense and rent expense. The Company does not expect to incur any significant additional acquisition-related expenses in connection with the assumption of certain deposits and assets of the Bank of Clark County.

Note 3 Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2010 and December 31, 2009:

September 30, 2010 (in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 117,631	$ 1,762	$ (1)	$ 119,392
Obligations of states and political subdivisions	217,995	12,284	(28)	230,251
Residential mortgage-backed securities and collateralized mortgage obligations	2,200,313	54,140	(7,048)	2,247,405
Other debt securities	145	14	-	159
Investments in mutual funds and other equity securities	1,959	97	-	2,056
	$ 2,538,043	$ 68,297	$ (7,077)	$ 2,599,263
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 2,595	$ 13	$ -	$ 2,608
Residential mortgage-backed securities and collateralized mortgage obligations	2,513	322	(260)	2,575
	$ 5,108	$ 335	$ (260)	$ 5,183

December 31, 2009 (in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 11,588	$ 208	$ (2)	$ 11,794
Obligations of states and political subdivisions	205,549	6,480	(204)	211,825
Residential mortgage-backed securities and collateralized mortgage obligations	1,533,149	40,272	(3,572)	1,569,849
Other debt securities	145	14	-	159
Investments in mutual funds and other equity securities	1,959	30	-	1,989
	$ 1,752,390	$ 47,004	$ (3,778)	$ 1,795,616
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 3,216	$ 11	$ -	$ 3,227
Residential mortgage-backed securities and collateralized mortgage obligations	2,845	251	(187)	2,909

	$	6,061	$	262	$	(187)	$	6,136

Investment securities that were in an unrealized loss position as of September 30, 2010 and December 31, 2009 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.

September 30, 2010
(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	$ -	$ -	$ 116	$ 1	$ 116	$ 1
Obligations of states and political subdivisions	2,125	25	1,024	3	3,149	28
Residential mortgage-backed securities and collateralized mortgage obligations	701,326	7,040	1,547	8	702,873	7,048
Total temporarily impaired securities	$ 703,451	$ 7,065	$ 2,687	$ 12	$ 706,138	$ 7,077
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 801	$ 260	$ 801	$ 260
Total temporarily impaired securities	$ -	$ -	$ 801	$ 260	$ 801	$ 260

December 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	$ -	$ -	$ 133	$ 2	$ 133	$ 2
Obligations of states and political subdivisions	13,209	123	1,937	81	15,146	204
Residential mortgage-backed securities and collateralized mortgage obligations	293,035	3,529	958	43	293,993	3,572
Total temporarily impaired securities	$ 306,244	$ 3,652	$ 3,028	$ 126	$ 309,272	$ 3,778
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 620	$ 187	$ 620	$ 187
Total temporarily impaired securities	$ -	$ -	$ 620	$ 187	$ 620	$ 187

The unrealized losses on investments in U.S. Treasury and agencies securities were caused by interest rate increases subsequent to the purchase of these 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 securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual 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 these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of September 30, 2010. 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 securities in this class and it is not likely that Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the