

UMPQUA HOLDINGS CORP
Form 10-Q
August 01, 2012
Table Of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: June 30, 2012

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: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

OREGON
(State or Other Jurisdiction
of Incorporation or Organization)

93-1261319
(I.R.S. Employer Identification Number)

One SW Columbia Street, Suite 1200

Portland, Oregon 97258

(Address of Principal Executive Offices)(Zip Code)

(503) 727-4100

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

Yes No

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

Common stock, no par value: 111,891,811 shares outstanding as of July 31, 2012

1

Table Of Contents

UMPQUA HOLDINGS CORPORATION

FORM 10-Q

Table of Contents

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements (unaudited)</u>	3
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	58
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	93
Item 4. <u>Controls and Procedures</u>	93
<u>Part II. OTHER INFORMATION</u>	94
Item 1. <u>Legal Proceedings</u>	94
Item 1A. <u>Risk Factors</u>	94
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	94
Item 3. <u>Defaults Upon Senior Securities</u>	95
Item 4. <u>Mine Safety Disclosures</u>	95
Item 5. <u>Other Information</u>	95
Item 6. <u>Exhibits</u>	95
<u>SIGNATURES</u>	96
<u>EXHIBIT INDEX</u>	97

Table Of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 159,694	\$ 152,265
Interest bearing deposits	503,552	445,954
Temporary investments	530	547
Total cash and cash equivalents	663,776	598,766
Investment securities		
Trading, at fair value	3,301	2,309
Available for sale, at fair value	2,834,076	3,168,578
Held to maturity, at amortized cost	4,506	4,714
Loans held for sale	209,607	98,691
Non-covered loans and leases	6,104,432	5,888,098
Allowance for non-covered loan and lease losses	(83,618)	(92,968)
Net non-covered loans and leases	6,020,814	5,795,130
Covered loans and leases, net of allowance of \$12,977 and \$14,320	553,963	622,451
Restricted equity securities	31,712	32,581
Premises and equipment, net	154,956	152,366
Goodwill and other intangible assets, net	674,794	677,224
Mortgage servicing rights, at fair value	22,513	18,184
Non-covered other real estate owned	26,884	34,175
Covered other real estate owned	9,191	19,491
FDIC indemnification asset	68,805	91,089
Other assets	242,999	247,606
Total assets	\$ 11,521,897	\$ 11,563,355
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	\$ 2,021,303	\$ 1,913,121
Interest bearing	7,110,878	7,323,569
Total deposits	9,132,181	9,236,690
Securities sold under agreements to repurchase	149,341	124,605
Term debt	254,641	255,676
Junior subordinated debentures, at fair value	83,993	82,905

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Junior subordinated debentures, at amortized cost	102,382	102,544
Other liabilities	102,523	88,522
Total liabilities	9,825,061	9,890,942
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 111,891,283 in 2012 and 112,164,891 in 2011	1,511,633	1,514,913
Retained earnings	154,474	123,726
Accumulated other comprehensive income	30,729	33,774
Total shareholders' equity	1,696,836	1,672,413
Total liabilities and shareholders' equity	\$ 11,521,897	\$ 11,563,355

See notes to condensed consolidated financial statements

Table Of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended		Six months ended	
	June 30,	2011	June 30,	2011
	2012		2012	
INTEREST INCOME				
Interest and fees on non-covered loans	\$ 77,637	\$ 79,321	\$ 155,296	\$ 158,054
Interest and fees on covered loans	16,935	22,226	34,278	43,773
Interest and dividends on investment securities:				
Taxable	16,535	24,348	34,655	46,391
Exempt from federal income tax	2,291	2,178	4,568	4,343
Dividends	28	4	34	7
Interest on temporary investments and interest bearing deposits	168	340	405	741
Total interest income	113,594	128,417	229,236	253,309
INTEREST EXPENSE				
Interest on deposits	8,169	14,698	17,014	30,364
Interest on securities sold under agreement to repurchase and federal funds purchased	79	131	159	253
Interest on term debt	2,305	2,301	4,609	4,590
Interest on junior subordinated debentures	2,029	1,926	4,087	3,839
Total interest expense	12,582	19,056	25,869	39,046
Net interest income	101,012	109,361	203,367	214,263
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES				
PROVISION FOR COVERED LOAN AND LEASE LOSSES	1,406	3,755	1,375	11,023
Net interest income after provision for loan and lease losses	92,968	90,147	192,187	172,751
NON-INTEREST INCOME				
Service charges on deposit accounts	7,190	8,540	13,856	16,361
Brokerage commissions and fees	3,532	3,276	6,476	6,653
Mortgage banking revenue, net	15,641	4,807	28,723	10,082
Gain on investment securities, net:				
Gain on sale of investment securities, net	1,030	5,678	1,178	5,678
Total other-than-temporary impairment losses	-	(110)	-	(110)

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Portion of other-than-temporary impairment losses transferred from other comprehensive income	-	63	-	38
Total gain on investment securities, net	1,030	5,631	1,178	5,606
Loss on junior subordinated debentures carried at fair value	(547)	(547)	(1,095)	(1,089)
Change in FDIC indemnification asset	(4,040)	(5,551)	(5,885)	(2,646)
Other income	6,120	3,471	12,910	6,245
Total non-interest income	28,926	19,627	56,163	41,212
NON-INTEREST EXPENSE				
Salaries and employee benefits	49,979	43,808	97,072	88,418
Net occupancy and equipment	13,580	12,547	27,078	25,064
Communications	2,845	2,796	5,787	5,606
Marketing	1,761	1,798	2,751	2,649
Services	6,631	6,026	12,793	11,908
Supplies	644	843	1,309	1,624
FDIC assessments	1,886	2,821	3,854	6,694
Net loss on non-covered other real estate owned	889	3,844	4,076	6,677
Net loss on covered other real estate owned	169	73	2,623	1,024
Intangible amortization	1,211	1,251	2,423	2,502
Merger related expenses	153	71	253	252
Other expenses	7,188	7,329	14,613	14,990
Total non-interest expense	86,936	83,207	174,632	167,408
Income before provision for income taxes	34,958	26,567	73,718	46,555
Provision for income taxes	11,681	8,782	24,938	15,303
Net income	\$ 23,277	\$ 17,785	\$ 48,780	\$ 31,252

Table Of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income	\$ 23,277	\$ 17,785	\$ 48,780	\$ 31,252
Dividends and undistributed earnings allocated to participating securities	162	86	329	148
Net earnings available to common shareholders	\$ 23,115	\$ 17,699	\$ 48,451	\$ 31,104
Earnings per common share:				
Basic	\$ 0.21	\$ 0.15	\$ 0.43	\$ 0.27
Diluted	\$ 0.21	\$ 0.15	\$ 0.43	\$ 0.27
Weighted average number of common shares outstanding:				
Basic	111,897	114,611	111,943	114,593
Diluted	112,078	114,785	112,120	114,796

See notes to condensed consolidated financial statements

5



Table Of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income	\$ 23,277	\$ 17,785	\$ 48,780	\$ 31,252
Available for sale securities:				
Unrealized (losses) gains arising during the period	(6,050)	24,835	(4,029)	25,649
Reclassification adjustment for net gains realized in earnings (net of tax expense \$412 and \$2,271 for the three months ended June 30, 2012 and 2011, respectively, and net of tax expense of \$471 and \$2,271 for the six months ended June 30, 2012 and 2011, respectively)	(618)	(3,407)	(707)	(3,407)
Income tax benefit (expense) related to unrealized gains	2,420	(9,934)	1,612	(10,259)
Net change in unrealized gains	(4,248)	11,494	(3,124)	11,983
Held to maturity securities:				
Unrealized losses related to factors other than credit (net of tax benefit of \$35 and \$30 for the three and six months ended June 30, 2011, respectively)	-	(53)	-	(45)
Reclassification adjustment for impairments realized in net income (net of tax benefit of \$10 and \$20 for the three and six months ended June 30, 2011, respectively)	-	15	-	30
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of \$25 and \$10 for the three months ended June 30, 2012 and 2011, respectively, and net of tax benefit of \$53 and \$27 for the six months ended June 30, 2012 and 2011, respectively)	38	15	79	41
Net change in unrealized losses related to factors other than credit	38	(23)	79	26
Other comprehensive (loss) income, net of tax	(4,210)	11,471	(3,045)	12,009
Comprehensive income	\$ 19,067	\$ 29,256	\$ 45,735	\$ 43,261

See notes to condensed consolidated financial statements

Table Of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(in thousands, except shares)	Common Stock		Retained Earnings	Accumulated	Total
	Shares	Amount		Other Comprehensive Income (Loss)	
BALANCE AT JANUARY 1, 2011	114,536,814	\$ 1,540,928	\$ 76,701	\$ 24,945	\$ 1,642,574
Net income			74,496		74,496
Other comprehensive income, net of tax				8,829	8,829
Comprehensive income					\$ 83,325
Stock-based compensation		3,785			3,785
Stock repurchased and retired	(2,557,056)	(29,754)			(29,754)
Issuances of common stock under stock plans and related net tax deficiencies	185,133	(46)			(46)
Cash dividends on common stock (\$0.24 per share)			(27,471)		(27,471)
Balance at December 31, 2011	112,164,891	\$ 1,514,913	\$ 123,726	\$ 33,774	\$ 1,672,413
BALANCE AT JANUARY 1, 2012	112,164,891	\$ 1,514,913	\$ 123,726	\$ 33,774	\$ 1,672,413
Net income			48,780		48,780
Other comprehensive loss, net of tax				(3,045)	(3,045)
Comprehensive income					\$ 45,735
Stock-based compensation		1,942			1,942
Stock repurchased and retired	(413,750)	(5,234)			(5,234)
Issuances of common stock under stock plans and related net tax deficiencies	140,142	12			12
Cash dividends on common stock (\$0.16 per share)			(18,032)		(18,032)
Balance at June 30, 2012	111,891,283	\$ 1,511,633	\$ 154,474	\$ 30,729	\$ 1,696,836

See notes to condensed consolidated financial statements

7



Table Of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Six months ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 48,780	\$ 31,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	21,778	16,367
Gain on sale of investment securities, net	(1,178)	(5,678)
Other-than-temporary impairment on investment securities held to maturity	-	72
(Gain) loss on sale of non-covered other real estate owned	(643)	1,160
Gain on sale of covered other real estate owned	(723)	(898)
Valuation adjustment on non-covered other real estate owned	4,719	5,518
Valuation adjustment on covered other real estate owned	3,346	1,921
Provision for non-covered loan and lease losses	9,805	30,489
Provision for covered loan and lease losses	1,375	11,023
Change in FDIC indemnification asset	5,885	2,646
Depreciation, amortization and accretion	7,949	6,218
Increase in mortgage servicing rights	(6,281)	(2,407)
Change in mortgage servicing rights carried at fair value	1,952	511
Change in junior subordinated debentures carried at fair value	1,007	1,078
Stock-based compensation	1,942	1,987
Net (increase) decrease in trading account assets	(992)	502
Gain on sale of loans	(14,571)	(1,819)
Origination of loans held for sale	(786,697)	(290,058)
Proceeds from sales of loans held for sale	690,352	307,087
Excess tax benefits from the exercise of stock options	(49)	(4)
Change in other assets and liabilities:		
Net decrease in other assets	1,807	5,954
Net increase in other liabilities	11,199	4,759
Net cash provided by operating activities	762	127,680
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(419,078)	(690,720)
Purchases of investment securities held to maturity	-	(1,573)
Proceeds from investment securities available for sale	727,750	441,721

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Proceeds from investment securities held to maturity	363	757
Redemption of restricted equity securities	869	1,636
Net non-covered loan and lease originations	(239,262)	(136,582)
Net covered loan and lease paydowns	56,468	63,417
Proceeds from sales of loans	5,964	6,777
Proceeds from disposals of furniture and equipment	1,508	180
Purchases of premises and equipment	(12,197)	(16,877)
Net proceeds from FDIC indemnification asset	21,418	48,850
Proceeds from sales of non-covered other real estate owned	12,208	17,026
Proceeds from sales of covered other real estate owned	8,733	7,355
Net cash provided (used) by investing activities	164,744	(258,033)

8

Table Of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)

	Six months ended June 30,	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposit liabilities	(104,348)	(286,867)
Net increase in securities sold under agreements to repurchase	24,736	47,130
Repayment of term debt	-	(5,000)
Dividends paid on common stock	(15,777)	(11,506)
Excess tax benefits from stock based compensation	49	4
Proceeds from stock options exercised	78	309
Retirement of common stock	(5,234)	(1,960)
Net cash used by financing activities	(100,496)	(257,890)
Net increase (decrease) in cash and cash equivalents	65,010	(388,243)
Cash and cash equivalents, beginning of period	598,766	1,004,125
Cash and cash equivalents, end of period	\$ 663,776	\$ 615,882
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 27,573	\$ 41,302
Income taxes	\$ 13,800	\$ 6,850
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	\$ (3,124)	\$ 11,983
Change in unrealized losses on investment securities held to maturity		
related to factors other than credit, net of taxes	\$ 79	\$ 26
Cash dividend declared on common stock and payable after period-end	\$ 10,139	\$ 5,754
Transfer of non-covered loans to non-covered other real estate owned	\$ 8,993	\$ 25,322
Transfer of covered loans to covered other real estate owned	\$ 1,346	\$ 8,668
Transfer of covered loans to non-covered loans	\$ 9,299	\$ 4,114
Transfer from FDIC indemnification asset to due from FDIC and other	\$ 16,399	\$ 26,839
Receivable from sales of covered other real estate owned	\$ 290	\$ -

See notes to condensed consolidated financial statements

9

Table Of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as “we”, “our” or “the Company”) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Umpqua Bank (“Bank”), and Umpqua Investments, Inc. (“Umpqua Investments”). 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 2011 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 2011 Annual Report filed on Form 10-K.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to June 30, 2012 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 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at June 30, 2012 and December 31, 2011:

June 30, 2012
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	\$ 45,533	\$ 586	\$ (1)	\$ 46,118
Obligations of states and political subdivisions	247,272	17,476	(239)	264,509
Residential mortgage-backed securities and collateralized mortgage obligations	2,487,588	38,671	(5,048)	2,521,211
Other debt securities	149	-	(5)	144
Investments in mutual funds and				

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other equity securities	1,959	135	-	2,094
	\$ 2,782,501	\$ 56,868	\$ (5,293)	\$ 2,834,076
HELD TO MATURITY:				
Obligations of states and political subdivisions	\$ 1,280	\$ 3	\$ -	\$ 1,283
Residential mortgage-backed securities and collateralized mortgage obligations	3,226	5	(68)	3,163
	\$ 4,506	\$ 8	\$ (68)	\$ 4,446

December 31, 2011
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	\$ 117,232	\$ 1,234	\$ (1)	\$ 118,465
Obligations of states and political subdivisions	237,302	16,264	(13)	253,553
Residential mortgage-backed securities and collateralized mortgage obligations	2,755,153	43,152	(3,950)	2,794,355
Other debt securities	151	-	(17)	134
Investments in mutual funds and other equity securities	1,959	112	-	2,071
	\$ 3,111,797	\$ 60,762	\$ (3,981)	\$ 3,168,578
HELD TO MATURITY:				
Obligations of states and political subdivisions	\$ 1,335	\$ 2	\$ -	\$ 1,337
Residential mortgage-backed securities and collateralized mortgage obligations	3,379	120	(77)	3,422
	\$ 4,714	\$ 122	\$ (77)	\$ 4,759

10

Table Of Contents

Investment securities that were in an unrealized loss position as of June 30, 2012 and December 31, 2011 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.

June 30, 2012
(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	\$ -	\$ -	\$ 72	\$ 1	\$ 72	\$ 1
Obligations of states and political subdivisions	13,225	239	-	-	13,225	239
Residential mortgage-backed securities and collateralized mortgage obligations	650,817	4,364	46,670	684	697,487	5,048
Other debt securities	-	-	144	5	144	5
Total temporarily impaired securities	\$ 664,042	\$ 4,603	\$ 46,886	\$ 690	\$ 710,928	\$ 5,293
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	\$ -	\$ -	\$ 1,531	\$ 68	\$ 1,531	\$ 68
Total temporarily impaired securities	\$ -	\$ -	\$ 1,531	\$ 68	\$ 1,531	\$ 68

Unrealized losses on the impaired held to maturity collateralized mortgage obligations include the unrealized losses related to factors other than credit that are included in other comprehensive income.

December 31, 2011
(in thousands)

	Less than 12 Months	12 Months or Longer	Total
	Fair Unrealized	Fair Unrealized	Fair Unrealized