

UMPQUA HOLDINGS CORP
Form 8-K
October 14, 2003

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

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 14, 2003

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

OREGON

000-25597

(State or Other Jurisdiction of
Incorporation or Organization)

(Commission File Number)

93-1261319

(I.R.S. Employer Identification Number)

200 SW Market Street, Suite 1900
Portland, Oregon 97201

(address of Principal Executive Offices)(Zip Code)

(503) 546-2499

(Registrant's Telephone Number, Including Area Code)

(Former name or former address, if changed since last report)

Item 7. Financial Statements and Exhibits

(c) Exhibits.

The following exhibits are being filed herewith and this list shall constitute the exhibit index:

Exhibit

(99) Earnings Press Release

Item 12. Results of Operations and Financial Condition

On October 14, 2003, Umpqua issued a press release with respect to financial results for the third quarter of 2003. A copy of the press release is attached as Exhibit 99.

The press release filed as an exhibit to this report discloses operating earnings (and related per share amounts), which is a non-GAAP financial measure. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles (GAAP). We believe our disclosure of operating earnings provides useful information to both management and investors by excluding merger-related expenses because merger-related expenses are difficult to predict. Management believes presentation of financial measures excluding the impact of such expenses is useful information because it provides information about ongoing business operations.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UMPQUA HOLDINGS CORPORATION
(Registrant)

Dated: #9; October 14, 2003 By: /s/ Kenneth E. Roberts
Kenneth E. Roberts
Assistant Secretary

FOR IMMEDIATE RELEASE

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UMPQUA HOLDINGS CONTINUES STRONG EARNINGS GROWTH

Nonperforming loans drop by thirty-nine percent.

PORTLAND, Ore. - Oct. 14, 2003 -

Umpqua Holdings Corporation (NASDAQ: UMPQ), parent company of Umpqua Bank and of Strand, Atkinson, Williams & York, Inc., today announced operating earnings of \$9.27 million, a 54% increase over the same period one-year ago, or \$0.32 per diluted share for the third quarter of 2003.

Operating earnings are defined as the Company's earnings before deduction of merger-related expenses, which are reported in periods with merger-related costs. Net income is operating earnings minus merger-related expenses.

Total loans increased by \$58.2 million during the quarter, while nonperforming loans decreased by \$8.5 million, or 39%, during the same period. The Bank's non-performing loans stand at \$13.39 million at September 30, 2003, representing 0.69% of total loans compared to 1.17% at June 30, 2003 and 0.49% at September 30, 2002.

"Management is very satisfied with the Company's results for the third quarter, especially with the significant reduction of nonperforming loans," said Ray Davis, president and chief executive officer of Umpqua Holdings Corporation. "We are also pleased that, on a sequential quarter basis, our net-interest margin and net-interest income increased, while non- interest expense decreased, lowering the bank's efficiency ratio to 55.9%."

Net income for the third quarter of 2003 was \$9.02 million or \$0.31 per diluted share compared to \$8.13 million or \$0.28 for the second quarter of 2003.

The company's brokerage subsidiary, Strand, Atkinson, Williams & York, also reported that gross revenue was up 11% for the quarter compared with the second quarter of 2003, and 15% over the third quarter of 2002.

The following table presents a reconciliation of net income to operating earnings, with merger- related expenses displayed for each period presented:

| | | | |
|--|----------------|---------|---------|
| (Dollars in 000's, except per share data) | Q3 2003 | Q2 2003 | Q3 2002 |
| Net Income | \$9,015 | \$8,132 | \$6,010 |
| Add Back: Merger related expense, net of tax | 252 | 672 | - |
| Operating Earnings | \$9,267 | \$8,804 | \$6,010 |
| <u>Earnings per diluted share:</u> | Q3 2003 | Q2 2003 | Q3 2002 |
| Net Income | \$0.31 | \$0.28 | \$0.29 |
| Operating Earnings | \$0.32 | \$0.31 | \$0.29 |

The acquisition of Centennial Bancorp, which closed on November 15, 2002, was accounted for under the purchase accounting method, and Centennial Bancorp's results are included from the date of closing. Merger expenses for the

third quarter of 2003 represent the conclusion of merger costs from the Centennial acquisition and are primarily excess property settlement costs.

Total consolidated assets of Umpqua Holdings as of September 30, 2003 were \$2.81 billion, compared to \$2.56 billion at December 31, 2002. Total gross loans and leases, and deposits were \$1.94 billion and \$2.26 billion, respectively, as of September 30, 2003, compared to \$1.78 billion and \$2.10 billion, respectively, as of December 31, 2002.

The following table presents annualized 2003 growth rates, based on growth achievements through September 2003:

| (dollars in thousands) | <u>Annualized Growth</u> | | |
|------------------------|--------------------------|---------------------|-------------|
| | <u>Sep 30, 2003</u> | <u>Dec 31, 2002</u> | <u>Rate</u> |
| Loans and Leases | \$1,935,482 | \$1,778,315 | 12% |
| Deposits | \$2,263,211 | \$2,103,790 | 10% |
| Assets | \$2,811,195 | \$2,555,964 | 13% |

Non-interest income for the third quarter of 2003 grew to \$9.52 million, an increase of 42% over the third quarter of 2002. Mortgage banking revenue was \$3.16 million in the third quarter of 2003, compared to \$2.84 million in the second quarter of 2003 and \$1.19 million in the third quarter of 2002. Improvement in the market value of the mortgage servicing portfolio was primarily responsible for the increase in sequential quarter revenue.

Umpqua Bank, Umpqua Holdings largest subsidiary, reports an efficiency ratio before merger-related expenses of 55.94% for the quarter ended September 30, 2003 compared to 57.51% for the quarter ended June 30, 2003 and 55.08% for the quarter ended September 30, 2002.

Certain amounts reported in prior quarters' financial statements have been reclassified to conform to the current presentation. The effects of the reclassifications are not considered material.

About Umpqua Holdings Corporation

Umpqua Holdings Corporation (NASDAQ: UMPQ) is the parent company of Umpqua Bank, an Oregon state-chartered bank recognized for its entrepreneurial approach, innovative use of technology, and distinctive banking solutions. Umpqua Bank has 64 stores throughout Oregon and Southwest Washington. Umpqua Holdings also owns a retail brokerage subsidiary, Strand, Atkinson, Williams & York, Inc. which has 14 locations throughout Oregon and Southwest Washington and offers brokerage services within Umpqua Bank stores. Additionally, Umpqua Holdings' Private Client Services Division provides tailored financial services and products to individual customers. Umpqua Holdings Corporation is headquartered in Portland, Ore. For more information, visit www.umpquabank.com/investor.

Umpqua Holdings Corporation will conduct a quarterly earnings conference call Tuesday, October 14, 2003, at 10:00 a.m. PST where the Company will discuss third-quarter results and plans for the remainder of the year. There will be a question-and-answer session following the presentation. Shareholders, analysts and other interested parties are invited to join the call by dialing 888-399-7388 a few minutes before 10:00 a.m. The password is "UMPQUA." A rebroadcast can be found approximately one hour after the conference call by dialing 888-562-2900, or by visiting www.umpquabank.com/investor.

This press release includes forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that expressly or implicitly predict future results, performance or events are forward-looking statements. The words "anticipate," "believe," "expect", "estimate", "intend" and words or phrases of similar meaning are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated. Factors that could cause or contribute to those differences include, but are not limited to, general economic conditions, either nationally or regionally that could result in increased loan losses, interest rate fluctuations, pricing pressure and other competitive factors, potential delays or problems with integrating prior acquisitions, the ability to attract new deposits and loans, changes in legal or regulatory requirements, competition in the retail brokerage industry, general stock market conditions and changes in technology. Readers are encouraged to review the risk factors stated in the Company's 10-K and other reports filed with the SEC and are cautioned not to place undue reliance on forward-looking statements. The Company does not intend to update these forward-looking statements. All written and oral forward-looking statements attributable to the Company and/or persons acting on its behalf are expressly qualified by this disclosure.

Umpqua Holdings Corporation
Consolidated Statements of Income
(unaudited)

Quarter ended:

Dollars in thousands, except-per share data

| | September 30, 2003 | June 30, 2003 | September 30, 2002 |
|---|--------------------|---------------|--------------------|
| Interest income | | | |
| Loans and leases | \$ 32,615 | \$ 30,962 | \$ 20,435 |
| Investments taxable | 2,720 | 2,395 | 2,557 |
| Investments tax exempt | 486 | 720 | 714 |
| Temporary investments | 82 | 187 | 318 |
| Other interest and dividends | 24 | 16 | 28 |
| Total interest income | 35,927 | 34,280 | 24,052 |
| Interest expense | | | |
| Deposits | 5,455 | 6,267 | 5,394 |
| Repurchase agreements and fed funds purchased | 154 | 106 | 101 |
| Trust preferred securities | 936 | 914 | 18 |
| Other borrowings | 294 | 193 | 226 |
| Total interest expense | 6,839 | 7,480 | 5,739 |
| Net interest income | 29,088 | 26,800 | 18,313 |
| Provision for credit losses | 1,050 | 950 | 900 |
| Noninterest income | | | |
| Service charges | 3,256 | 3,198 | 2,138 |
| Brokerage fees | 2,635 | 2,370 | 2,299 |
| Mortgage banking revenue | 3,160 | 2,835 | 1,190 |
| Gain on sale of securities | 10 | 2,136 | 396 |
| Other income | 455 | 1,099 | 682 |
| Total noninterest income | 9,516 | 11,638 | 6,705 |

| | | | |
|---|------------|------------|------------|
| Noninterest expense | | | |
| Salaries and benefits | 13,438 | 13,170 | 8,963 |
| Occupancy and equipment | 3,534 | 3,947 | 2,348 |
| Other | 6,333 | 6,760 | 3,810 |
| Merger related expenses | 393 | 1,050 | - |
| Total noninterest expense | 23,698 | 24,927 | 15,121 |
| Income before income taxes | 13,856 | 12,561 | 8,997 |
| Income taxes | 4,841 | 4,429 | 2,987 |
| Net income | \$ 9,015 | \$ 8,132 | \$ 6,010 |
| Weighted average shares outstanding | 28,343,696 | 28,283,843 | 20,125,583 |
| Weighted average diluted shares outstanding | 28,702,888 | 28,667,926 | 20,398,796 |
| Basic earnings per share | \$ 0.32 | \$ 0.29 | \$ 0.30 |
| Diluted earnings per share | \$ 0.31 | \$ 0.28 | \$ 0.29 |

Umpqua Holdings Corporation Consolidated Statements of Income (unaudited)

| <i>Dollars in thousands, except-per share data</i> | Nine months ended: | |
|--|--------------------|--------------------|
| | September 30, 2003 | September 30, 2002 |
| Interest income | | |
| Loans and leases | \$ 94,961 | \$ 60,626 |
| Investments taxable | 8,088 | 6,828 |
| Investments tax exempt | 2,002 | 2,164 |
| Temporary investments | 420 | 588 |
| Other interest and dividends | 54 | 60 |
| Total interest income | 105,525 | 70,266 |
| Interest expense | | |
| Deposits | 18,202 | 15,776 |
| Repurchase agreements and fed funds purchased | 313 | 258 |
| Trust preferred securities | 2,787 | 18 |
| Other borrowings | 754 | 809 |
| Total interest expense | 22,056 | 16,861 |
| Net interest income | 83,469 | 53,405 |
| Provision for credit losses | 3,475 | 2,504 |
| Noninterest income | | |
| Service charges | 9,368 | 6,098 |
| Brokerage fees | 6,944 | 6,805 |
| Mortgage banking revenue | 10,273 | 5,085 |
| Gain (loss) on sale of securities | 2,153 | (503) |
| Other income | 2,601 | 1,701 |
| Total noninterest income | 31,339 | 19,186 |

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| | | |
|---|------------|------------|
| Noninterest expense | | |
| Salaries and benefits | 39,507 | 26,240 |
| Occupancy and equipment | 11,064 | 6,660 |
| Other | 19,187 | 12,028 |
| Merger related expenses | 2,082 | 1,520 |
| Total noninterest expense | 71,840 | 46,448 |
| Income before income taxes | 39,493 | 23,639 |
| Income taxes | 13,965 | 8,386 |
| Net income | \$ 25,528 | \$ 15,253 |
| Weighted average shares outstanding | 28,262,353 | 20,043,346 |
| Weighted average diluted shares outstanding | 28,622,155 | 20,303,556 |
| Basic earnings per share | \$ 0.90 | \$ 0.76 |
| Diluted earnings per share | \$ 0.89 | \$ 0.75 |
| Net income (loss) | \$ 25,528 | \$ 15,253 |
| Merger related expenses (net of taxes) | 1,332 | 973 |
| Operating Earnings | \$ 26,860 | \$ 16,226 |
| Operating earnings (loss) per share | \$ 0.95 | \$ 0.81 |
| Diluted operating earnings (loss) per share | \$ 0.94 | \$ 0.80 |

Umpqua Holdings Corporation Consolidated Balance Sheets (unaudited)

| <i>Dollars in thousands, except-per share data</i> | September 30, 2003 | June 30, 2003 | September 30, 2002 |
|---|--------------------|---------------|--------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 130,747 | \$ 184,262 | \$ 128,022 |
| Trading account securities | 1,561 | 1,833 | 1,534 |
| Investments available for sale | 404,771 | 351,209 | 251,996 |
| Investments held to maturity | 16,641 | 17,836 | 20,011 |
| Loans held for sale | 51,620 | 62,926 | 32,959 |
| Loans and leases | 1,935,482 | 1,877,238 | 1,076,521 |
| Less: Allowance for credit losses | (25,312) | (25,316) | (15,038) |
| Loans and leases, net | 1,910,170 | 1,851,922 | 1,061,483 |
| Federal Home Loan Bank stock | 6,703 | 4,891 | 4,973 |
| Premises and equipment, net | 63,560 | 62,853 | 40,623 |
| Other real estate owned | 2,452 | 2,504 | 756 |
| Mortgage servicing rights, net | 10,732 | 9,274 | 7,043 |
| Goodwill and other intangibles | 160,012 | 160,547 | 26,105 |
| Other assets | 52,226 | 37,000 | 11,450 |
| | \$ 2,811,195 | \$ 2,747,057 | \$ 1,586,955 |
| Liabilities: | | | |
| Deposits | \$ 2,263,211 | \$ 2,282,909 | \$ 1,347,494 |
| Securities sold under agreements to repurchase and fed funds purchased | 63,553 | 33,581 | 28,771 |
| Borrowings | 72,047 | 22,105 | 24,048 |
| Trust preferred securities | 77,321 | 75,000 | 25,000 |

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| | | | |
|--|--------------|--------------|--------------|
| Other liabilities | 23,076 | 28,358 | 10,428 |
| Total liabilities | 2,499,208 | 2,441,953 | 1,435,741 |
| Shareholders' equity: | | | |
| Common stock | 230,174 | 229,780 | 94,116 |
| Retained earnings | 81,605 | 73,724 | 53,880 |
| Accumulated other comprehensive income | 208 | 1,600 | 3,218 |
| Total shareholders' equity | 311,987 | 305,104 | 151,214 |
| Total liabilities and shareholders' equity | \$ 2,811,195 | \$ 2,747,057 | \$ 1,586,955 |
| Common shares outstanding at period end | 28,365,814 | 28,331,279 | 20,137,343 |
| Book value per share | \$ 11.00 | \$ 10.77 | \$ 7.51 |
| Tangible book value per share | \$ 5.36 | \$ 5.10 | \$ 6.21 |
| Tangible equity | \$ 151,975 | \$ 144,557 | \$ 125,109 |

Umpqua Holdings Corporation Loan Portfolio

| <i>Dollars in thousands</i> | September 30, 2003 | June 30, 2003 | December 31, 2002 |
|---|-------------------------------------|--------------------------------|-----------------------------------|
| Loans and leases by purpose: | | | |
| Commercial real estate | \$ 971,775 | \$ 886,543 | \$ 817,691 |
| Residential real estate | 84,317 | 78,578 | 79,708 |
| Construction | 247,629 | 265,753 | 270,116 |
| Total real estate | 1,303,721 | 1,230,874 | 1,167,515 |
| Commercial | 585,406 | 596,778 | 551,852 |
| Leases | 8,612 | 9,082 | 9,594 |
| Consumer | 37,131 | 39,905 | 48,647 |
| Other | 612 | 599 | 707 |
| Total loans and leases | \$ 1,935,482 | \$ 1,877,238 | \$ 1,778,315 |
| | Quarter Ended September 30, 2003 | Quarter Ended June 30, 2003 | Year to date December 31, 2002 |
| Allowance for credit losses | | | |
| Balance beginning of period | \$ 25,316 | \$ 24,538 | \$ 13,221 |
| Provision for credit losses | 1,050 | 950 | 3,888 |
| Net (charge-offs) recoveries | (1,054) | (172) | (2,234) |
| Acquisitions | - | - | 9,856 |
| Balance end of period | \$ 25,312 | \$ 25,316 | \$ 24,731 |
| Net charge-offs to average loans and leases (annualized) | 0.22% | 0.04% | 0.20% |
| Allowance for credit losses to loans and leases | 1.31% | 1.35% | 1.39% |
| Allowance for credit losses to nonperforming loans and leases | 189% | 116% | 134% |
| Nonperforming loans and leases to total loans and leases | 0.69% | 1.17% | 1.03% |
| Nonperforming assets | | | |
| Nonperforming loans and leases | \$ 13,394 | \$ 21,879 | \$ 18,395 |
| Real estate owned | 2,452 | 2,504 | 2,209 |

| | | | |
|----------------------------|-----------|-----------|-----------|
| Total nonperforming assets | \$ 15,846 | \$ 24,383 | \$ 20,604 |
|----------------------------|-----------|-----------|-----------|

Deposits by Type

| | September 30, 2003 | | June 30, 2003 | |
|------------------------------|--------------------|--------|---------------|--------|
| | Amount | Mix | Amount | Mix |
| Demand, non interest bearing | \$ 599,939 | 26.5% | \$ 617,326 | 27.0% |
| Demand, interest bearing | 937,606 | 41.4% | 877,765 | 38.4% |
| Savings | 147,849 | 6.5% | 181,131 | 7.9% |
| Time | 577,817 | 25.5% | 606,687 | 26.6% |
| Total Deposits | \$ 2,263,211 | 100.0% | \$ 2,282,909 | 100.0% |

Umpqua Holdings Corporation Selected Ratios

| | September 30, 2003 | Quarter ended: June 30, 2003 | September 30, 2002 |
|--|--------------------|---------------------------------|--------------------|
| Net Interest Spread: | | | |
| Yield on loans and leases | 6.56% | 6.65% | 7.47% |
| Yield on investments (1) | 3.36% | 3.83% | 6.01% |
| Yield on temporary investments | 1.13% | 1.18% | 1.61% |
| Total yield on earning assets | 5.95% | 6.05% | 6.89% |
| Cost of interest bearing deposits | 1.31% | 1.53% | 2.09% |
| Cost of securities sold under agreements to repurchase and fed funds purchased | 1.03% | 1.43% | 1.53% |
| Cost of borrowings | 2.40% | 3.38% | 3.73% |
| Cost of trust preferred | 4.80% | 4.89% | 5.22% |
| Total cost of interest bearing liabilities | 1.47% | 1.69% | 2.12% |
| Net interest spread | 4.48% | 4.36% | 4.77% |
| Net interest margin | 4.82% | 4.74% | 5.27% |
| <u>Before Merger Related Expenses:</u> | | | |
| Return on average assets | 1.33% | 1.34% | 1.55% |
| Return on average equity | 12.02% | 11.72% | 15.97% |
| Return on average tangible equity | 25.31% | 25.19% | 19.35% |
| <u>After Merger Related Expenses:</u> | | | |
| Return on average assets | 1.30% | 1.24% | 1.55% |
| Return on average equity | 11.70% | 10.83% | 15.97% |
| Return on average tangible equity | 24.62% | 23.27% | 19.35% |
| <u>Bank Only Ratios:</u> | | | |
| Umpqua Bank efficiency ratio before merger expenses | 55.94% | 57.51% | 55.08% |
| Umpqua Bank net interest margin | 4.98% | 4.90% | 5.27% |

(1) Tax exempt interest has been adjusted to a taxable equivalent basis using a 35% tax rate.

Umpqua Holdings Corporation Selected Ratios

| | Nine months ended: September 30, 2003 | September 30, 2002 |
|--|--|--------------------|
| Net Interest Spread: | | |
| Yield on loans and leases | 6.71% | 7.65% |
| Yield on investments (1) | 4.00% | 6.33% |
| Yield on temporary investments | 1.17% | 1.62% |
| Total yield on earning assets | 6.16% | 7.22% |
| Cost of interest bearing deposits | 1.48% | 2.18% |
| Cost of securities sold under agreements to repurchase and fed funds purchased | 1.23% | 1.38% |
| Cost of borrowings | 2.92% | 3.78% |
| Cost of trust preferred | 4.92% | 5.22% |
| Total cost of interest bearing liabilities | 1.64% | 2.21% |
| Net interest spread | 4.52% | 5.01% |
| Net interest margin | 4.89% | 5.51% |
| <u>Before Merger Related Expenses:</u> | | |
| Return on average assets | 1.35% | 1.49% |
| Return on average equity | 11.97% | 15.10% |
| Return on average tangible equity | 25.81% | 18.34% |
| <u>After Merger Related Expenses:</u> | | |
| Return on average assets | 1.28% | 1.40% |
| Return on average equity | 11.38% | 14.20% |
| Return on average tangible equity | 24.53% | 17.24% |
| <u>Bank Only Ratios:</u> | | |
| Umpqua Bank efficiency ratio before merger expenses | 56.14% | 56.84% |
| Umpqua Bank net interest margin | 5.05% | 5.51% |

(1) Tax exempt interest has been adjusted to a taxable equivalent basis using a 35% tax rate.

-- END --