UMPQUA HOLDINGS CORP
Form DEF 14A
March 14, 2007

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

SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a) of
The Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials

Umpqua Holdings Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x Fee not required.
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(1) Amount Previously Paid:

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(3) Filing Party:

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 17, 2007

Umpqua Shareholders:

The annual meeting of shareholders of Umpqua Holdings Corporation will be held at the RiverPlace Hotel, 1510 SW Harbor Way, Portland, Oregon, at 6 p.m., local time, on April 17, 2007 to take action on the following business:

1. **Election of Directors.** To elect eleven members of Umpqua s board of directors, who shall hold office until the next annual meeting of shareholders and until their successors are duly elected and qualified.

2. **Ratification of Auditor Appointment.** To ratify the Audit and Compliance Committee s appointment of Moss Adams LLP as the Company s independent auditor for the fiscal year ending December 31, 2007.

3. **Amendment of 2003 Plan.** To approve an amendment to the 2003 Stock Incentive Plan to increase the maximum aggregate number of shares subject to awards that may be granted to an individual in a calendar year.

4. **Adoption of New Long Term Incentive Plan.** To adopt the Umpqua Holdings Corporation 2007 Long Term Incentive Plan, which is found at Appendix B to the proxy statement, which authorizes the issuance of performance-based restricted stock unit grants to executive officers and reserves 1,000,000 shares of the Company s common stock for issuance under the plan.

5. **Other Business.** To consider and act upon such other business and matters or proposals as may properly come before the annual meeting or any adjournments or postponements thereof.

The items of business listed above are more fully described in the Proxy Statement accompanying this notice. If you were a shareholder of record of Umpqua common stock as of the close of business on February 9, 2007, you are entitled to receive this notice and vote at the annual meeting, and any adjournments or postponements thereof. This Notice and Proxy Statement and the 2006 Annual Report are being mailed to stockholders on or about March 13, 2007.

Your vote is important. Whether or not you expect to attend the annual meeting, it is important that your shares be represented and voted at the meeting.

Please mark, sign, date and promptly return your proxy in the enclosed envelope, or follow the instructions for voting by phone or on the Internet.

By Order of the Board of Directors,

Steven L. Philpott
EVP/General Counsel/Secretary
March 6, 2007

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QUESTIONS AND ANSWERS ABOUT VOTING AND THE SHAREHOLDER MEETING

Q: What are Umpqua shareholders being asked to vote on at the annual shareholder meeting?

A: Umpqua shareholders will vote on:

Item 1: The election of eleven directors to serve until the next annual meeting of shareholders;

Item 2: Ratification of the selection of Moss Adams LLP as Umpqua s independent auditor for 2007;

Item 3: Amendment of the 2003 Stock Incentive Plan to increase the maximum aggregate number of shares subject to awards that may be granted to an individual within a calendar year; and

Item 4: Adoption of the Umpqua Holdings Corporation 2007 Long Term Incentive Plan, which authorizes the issuance of performance-based restricted stock units and reserves 1,000,000 shares of Company common stock for issuance under the plan.

The board of directors recommends that you vote FOR each of these proposals.

Q: What do I need to do now?

A: First, carefully read this document in its entirety.

Then, vote your shares by following the instructions from your broker if your shares are held in street name or by one of the following methods:

mark, sign, date and return your proxy card in the enclosed return envelope as soon as possible;

call the toll-free number on the proxy card and follow the directions provided;

go to the web site listed on the proxy card and follow the instructions provided; or

attend the shareholder meeting and submit a properly executed proxy or ballot. If a broker holds your shares in street name, you will need to get a legal proxy from your broker to vote in person at the meeting.

Q: What are my choices when voting?

A: Item 1: You may vote in favor of electing the nominees as directors or withhold your vote on one or more nominees.

Items 2, 3 and 4: You may cast your vote in favor of or against each proposal, or you may elect to abstain from voting your shares.

Q: Who is eligible to vote?

A: Holders of record of Umpqua common stock at the close of business on February 9, 2007 are eligible to vote at Umpqua s annual meeting of shareholders. As of that date, there were 58,186,846 shares of Umpqua common stock outstanding held by approximately 4,518 holders of record, a number that does not include beneficial owners who hold shares in street name.

Q: How many shares are owned by Umpqua s directors and executive officers?

A: On February 9, 2007, Umpqua s directors and executive officers owned 1,543,234 shares entitled to vote at the annual meeting, constituting approximately 2.65% of the total shares outstanding and entitled to vote at the meeting.

Q: Can I vote if I hold shares of Umpqua common stock in the Umpqua Bank 401(k) and Profit Sharing Plan?

A: If you are a participant in the Umpqua 401(k) Plan you will receive with this document separate voting instruction cards for shares of Umpqua common stock allocated to your account as a participant or beneficiary under the Umpqua 401(k) Plan. These voting instruction cards will appoint the trustee of the Umpqua 401(k) Plan to vote shares in accordance with the instructions noted on the card. Please follow the instructions that accompany the card.

Q: Can I change my vote after I have mailed my signed proxy card or voted by telephone or electronically?

A: Yes. If you have not voted through your broker, you can do this by:

calling the toll-free number on the proxy card at least 24 hours before the meeting and following the directions provided;

going to the web site listed on the proxy card at least 24 hours before the meeting and following the instructions provided;

submitting a properly executed proxy prior to the meeting bearing a later date than your previous proxy;

notifying Umpqua s corporate Secretary, in writing, of the revocation of your proxy before the meeting; or

voting in person at the meeting, but simply attending the meeting will not, in and of itself, revoke a proxy.

If you voted through your broker, please contact your broker to change or revoke your vote.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, but only if you give your broker instructions. If your shares are held by your broker (or other nominee), you should receive this document and an instruction card from your broker. Your broker will vote your shares if you provide instructions on how to vote. If you do not tell your broker how to vote, your broker may vote your shares in favor of the election of directors and ratification of the auditor appointment but not on the amendments to the 2003 Stock Incentive Plan or the adoption of the 2007 Long Term Incentive Plan. However, your broker is not required to vote your shares in this manner if you don t provide instructions.

Q: Can I attend the shareholder meeting even if I vote by proxy?

A: Yes. All shareholders are welcome to attend and we encourage you to do so.

Q: Why did I receive more than one proxy card?

A: You will receive multiple proxy cards if you hold your shares in different ways (e.g. joint tenancy, in trust, custodial accounts). You should vote on and sign each proxy card that you receive.

Q: How do you determine a quorum?

A: Umpqua must have a quorum to conduct any business at the annual meeting. Shareholders holding at least a majority of the outstanding shares of Umpqua common stock as of the record date must attend the meeting in person or by proxy to have a quorum. Umpqua shareholders who attend the meeting or submit a proxy but abstain from voting on a given matter will have their shares counted as present for determining a quorum. Broker non-votes will also be counted as present for establishing a quorum.

Q: How do you count votes?

A: Each share is entitled to one vote. The named proxies will vote shares as instructed on the proxies. In the election of directors, each share is entitled to one vote for each director position to be filled, and shareholders may not cumulate votes. A representative of ADP, will count the votes and serve as our inspector of elections.

Item 1 requires a plurality of the votes cast to elect a director. The eleven director positions to be filled at the annual meeting will be filled by the nominees who receive the highest number of votes.

Item 2 does not require shareholder approval, but the Audit and Compliance Committee and the board are submitting the selection of Moss Adams LLP for ratification to obtain the views of our shareholders. The ratification of the appointment of Moss Adams LLP as the Company s independent auditors requires the affirmative vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote.

Items 3 and 4 each require the affirmative vote of a majority of those shares present in person or represented by proxy and entitled to vote thereon at the meeting.

If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of each director nominee and in favor of Proposals 2, 3 and 4.

Q: Who pays the cost of proxy solicitation?

A: Umpqua pays the cost of soliciting proxies. We have hired The Altman Group to solicit proxies for this meeting. For these services, we will pay The Altman Group $8,000 plus expenses estimated at $5,000. Proxies will be solicited by mail, telephone, facsimile, e-mail and personal contact. We may reimburse brokers and other nominee holders, for their expenses in sending proxy material and obtaining proxies. In addition to solicitation of proxies by mail, our officers and employees may solicit proxies in person or by telephone, fax, or letter, without extra compensation.

Q: Where do I get more information?

A: If you have questions about the meeting or submitting your proxy, or if you need additional copies of this document, the proxy card or any documents incorporated by reference, you should contact one of the following:

Steven Philpott
Executive Vice President, General Counsel & Secretary
Umpqua Holdings Corporation
Legal Department
675 Oak Street, Suite 200
P.O. Box 1560
Eugene, OR 97440
(541) 434-2997 (voice)
(541) 342-1425 (fax)
stevenphilpott@umpquabank.com

Michelle Bressman
Assistant Vice President Shareholder Relations Officer
Umpqua Holdings Corporation
Finance Department
One SW Columbia Street, Suite 1400
Portland, OR 97258
(503) 727-4109 (voice)
(503) 727-4233 (fax)
michellebressman@umpquabank.com

ANNUAL MEETING BUSINESS

Item 1. Election of Directors

In 2006, Umpqua s shareholders voted to declassify the board of directors. Umpqua s articles of incorporation and bylaws now provide that directors are elected to serve one-year terms of office. Our articles of incorporation establish the number of directors at between six and nineteen, with the exact number to be fixed from time to time by resolution of the board of directors. The number of directors is currently set at fifteen and it will be reduced to eleven at the time of the annual meeting. In December 2006, the board of directors decided to reduce the size of the board to eleven members effective with the 2007 annual meeting. The board believes that a smaller number of directors will make the board more effective.

Directors are elected by a plurality of votes, which means that the nominees receiving the most votes will be elected, regardless of the number of votes each nominee receives. Shareholders are not entitled to cumulate votes in the election of directors.

The board of directors has nominated the following directors for election to one-year terms that will expire at the 2008 annual meeting:

Ronald F. Angell
Scott D. Chambers
Raymond P. Davis
Allyn C. Ford
David B. Frohnmayer
Stephen M. Gambee
Dan Giustina
William A. Lansing
Theodore S. Mason
Diane D. Miller
Bryan L. Timm

Each of the nominees currently serves as a director of Umpqua and of Umpqua Bank. The individuals appointed as proxies in the enclosed proxy intend to vote FOR the election of the nominees listed above. If any nominee is not available for election, the individuals named in the proxy intend to vote for such substitute nominee as the board of directors may designate. Each nominee has agreed to serve on the board and we have no reason to believe any nominee will be unavailable.

Board Recommendation

The board of directors recommends a vote FOR the election of all nominees.

Item 2. Ratification of Auditor Appointment

The Audit and Compliance Committee has selected the firm of Moss Adams LLP (Moss Adams), the Company s independent auditors for the year ended December 31, 2006, to act in such capacity for the fiscal year ending December 31, 2007, and recommends that shareholders vote in favor of such appointment. There are no affiliations between the Company and Moss Adams, its partners, associates or employees, other than those which pertain to the engagement of Moss Adams in the previous year (i) as independent auditors for the Company and (ii) for certain tax advice and tax planning services. Moss Adams has served as the Company s independent auditors since 2005.

Shareholder approval of the selection of Moss Adams as our independent auditors is not required by law, by our Bylaws or otherwise. The Sarbanes-Oxley Act of 2002 requires the Audit and Compliance Committee to be directly responsible for the appointment, compensation and oversight of the audit work and the independent auditors. The Committee will consider the results of the shareholder vote on this proposal and, in the event of a negative vote, will reconsider its selection of Moss Adams. However, the Audit and Compliance Committee is not bound by the shareholder vote.

Even if Moss Adams appointment is ratified by the shareholders, the Audit and Compliance Committee may, in its discretion, appoint a new independent registered public accounting firm at any time if it determines that such a change would be in the best interests of the Company and its shareholders. A representative of Moss Adams is expected to attend the annual meeting and that representative will have the opportunity to make a statement, if they desire to do so, and to answer appropriate questions.

Board Recommendation

The board of directors recommends a vote FOR the ratification of Moss Adams as independent auditor.

Item 3. Amendment of 2003 Stock Incentive Plan

Eligible Participants in 2003 Stock Incentive Plan. Under the 2003 Stock Incentive Plan (the Plan), the board of directors, or its Compensation Committee, may grant equity awards of the Company s common stock in the form of stock options or restricted stock awards to employees, directors, and other persons who provide important services to the Company. There are approximately 1,800 employees, 14 non-employee directors, and other persons from time to time designated by the Committee who are currently eligible to participate in the Plan.

Proposed Amendment. Under Section 3.4 of the Plan, the maximum aggregate number of shares subject to awards granted under the Plan to an individual in any calendar year is 75,000, except in connection with the hiring or commencement of services from such person, in which case such limit is 100,000 shares during the calendar year. The board of directors desires to amend Section 3.4 of the Plan to increase the maximum limit to 125,000 shares to an individual in any calendar year. The proposed amendment also limits the number of shares subject to restricted stock grants in any calendar year to 40,000 shares. The following is the text of the proposed amendment:

3.4 Annual Limit on Number of Shares to Any One Person. No person will be eligible to receive Awards pursuant to this Plan which, in aggregate, exceed 125,000 shares in any calendar year. In addition to the overall Awards limitation, no person will be eligible to receive Restricted Stock Grants that exceed 40,000 shares in any calendar year. The foregoing limitations shall not apply to Awards of Stock Options in substitution for outstanding stock options of an Acquired Company that are cancelled in connection with the acquisition of an Acquired Company.

Reasons for the Amendment. The above proposed amendment is necessary for the effectiveness of certain grants made in 2007 to the Company s President and Chief Executive Officer, Raymond P. Davis, which in the aggregate would exceed the existing limitations under the Plan. On March 5, 2007, the Executive/Governance Committee, on behalf of the board and acting on the recommendation of the Compensation Committee, granted Mr. Davis a ten-year nonqualified stock option to purchase 50,000 shares of stock exercisable at $26.12 per share, the fair market value on the date of the grant. The option vests 60% as of December 31, 2007, and 20% each on December 31, 2008 and 2009. The Compensation Committee determined that the size of the option grant was appropriate in part to make-up for the smaller than usual option grant to Mr. Davis in 2006. In addition to this grant, the Executive/Governance Committee, acting with the authority of the board and upon the recommendation of the Compensation Committee, approved a deferred restricted stock grant of 38,284 shares to Mr. Davis in connection with a restructuring of his Supplemental Executive Retirement Plan (Davis SERP) to provide a fixed schedule of annual retirement benefits. The deferred restricted stock grant and the restructuring of the Davis SERP will become effective only if the shareholders approve Item 3 on the ballot. In the absence of this restructuring, the annual retirement benefits would continue to increase as Mr. Davis annual salary and cash bonus increases. The Compensation Committee determined that it was in the best interest of the Company to fix the level of the SERP benefits based upon a growth factor of 3.44% per year, significantly lower than the average 24% increase of annual salary and cash bonus actually received from 2002 to 2006. The Compensation Committee recommended the deferred restricted stock grant in consideration for the agreement by Mr. Davis to fix the benefits under the amended Davis SERP. The size of the grant was based on the projected cut-back in benefits under the Davis SERP as a result of fixing the benefit schedule and the vesting schedule for the deferred restricted stock grant was determined based on the existing SERP vesting schedule. Mr. Davis is not entitled to receive any of the shares until after termination of his employment and the number of shares to which he is entitled will be reduced if his termination of employment occurs for any reason prior to July 1, 2011 when Mr. Davis is 62.

For further information regarding restructuring of the Davis SERP, see the section entitled *Executive Compensation Discussion and Analysis.*

The increase in the size of equity grants upon commencement of hiring is also necessary for the Company to remain competitive in the hiring of key employees by offering equity based incentives.

The following table reflects those grants under the Plan that are subject to shareholder approval of the proposed amendment.

Name and Position	**2003 Stock Incentive Plan (Grants Subject to Amendment) Dollar Value ($)(1)**	**Number of Shares Covered by Grants**
Raymond P. Davis, Pres. & CEO	$ 1,000,000	38,284
Daniel A. Sullivan, EVP CFO		
Brad F. Copeland, SEVP-Operations & Chief Credit Officer		
David M. Edson, EVP, President Umpqua Bank NW Region		
William T. Fike, EVP, President Umpqua Bank California		
Executive Group	$ 1,000,000	38,284
Non-Executive Director Group		
Non-Executive Employee Group		

(1) The number of shares subject to the deferred restricted stock grant to Mr. Davis was determined based on dividing $1.0 million by the fair market value of the Company s common stock on the date of grant ($26.12) per share. The $1.0 million represents the negotiated value of the projected cost to Mr. Davis of fixing the benefit schedule under the Davis SERP, assuming a 6.24% increase in annual compensation.

The Compensation Committee and the Board retain the discretion to issue or not issue awards under the Plan.

Other Amendments to the Plan. Shareholder approval is required for any amendment to the Plan which increases the number of shares of common stock issuable pursuant to the Plan, expands the group of persons eligible to receive awards or any other amendment which otherwise requires shareholder approval under any applicable law, accounting principle or listing requirements. The board of directors may otherwise amend the Plan as it deems advisable. Pursuant to this discretionary amendment authority, the board of directors has recently made the following amendments to the Plan to bring the Plan into compliance with best practices for corporate governance:

Determination of Fair Market Value. The definition of fair market value under the Plan has been amended so that fair market value is the reported closing sales price of the Company s common stock on the date of grant, or if no such transaction occurred on such date, on the last date on which trades occurred. Prior to amendment, fair market value was determined based on the average between the lowest and highest reported sales prices on such dates. The change simplifies the methodology for determining fair market value and is consistent with the Securities and Exchange Commission s new compensation reporting requirements.

Prohibiting Repricing. The Plan as amended expressly indicates that neither the board of directors, nor the Committee, has the authority to reprice outstanding stock options or to cancel outstanding stock option and grant new stock options in substitution having an exercise price less than the cancelled stock options, without shareholder approval. This repricing prohibition provision may not be amended without shareholder approval. The board of directors believe that this amendment is consistent with corporate governance best practices.

Prohibiting Loans. The Plan as amended expressly prohibits the Company from extending loans to a participant in connection with the exercise or receipt of an award under the Plan. Consistent with this prohibition, the provisions in the Plan related to payment of exercise price were also amended to delete payment by promissory note as a permissible method of payment. This amendment is consistent with the prohibition on extension of credit or arrangement for the extension of credit to executive officers under Section 13(k) of the Securities Exchange Act of 1934, enacted under the Sarbanes-Oxley Act of 2002.

Mandatory Adjustment Based on Changes in Capital Structure. Prior to amendment, the Plan permitted the Committee, in its discretion, to make adjustments in the number and kind of authorized shares under the Plan, the securities covered by outstanding options, and the exercise price of outstanding options, in event of certain changes in the Company s capital structure, including as a result of a merger, consolidation, reclassification, stock split or combination or stock dividend. As amended, such adjustments are now required to reflect the applicable change in capital structure. This amendment was necessary for compliance with Statement of Financial Accounting Standards 123R.

A copy of the amended 2003 Stock Incentive Plan, including the amendment proposed for shareholder approval and the recent amendments by the board, is included in this proxy statement as Appendix A.

Board Recommendation

The board of directors recommends a vote FOR amendment of the 2003 Stock Incentive Plan.

Item 4. Adoption of the 2007 Long Term Incentive Plan

Based on the recommendation of the Compensation Committee, the Executive/Governance Committee, acting with the authority of the board of directors adopted the 2007 Long Term Incentive Plan (the 2007 Plan) on March 5, 2007, subject to shareholder approval. Shareholder approval is required for performance based compensation earned under the 2007 Plan to be exempt from the deduction limitations contained in Section 162(m) of the Internal Revenue Code and related regulations.

Summary of the 2007 Plan

Shares Reserved for Issuance. The 2007 Plan reserves 1,000,000 shares of the Company s common stock for issuance to executive officers in the form of restricted stock units.

Maximum Award. The maximum number of shares that may be subject to an award to any participant in a calendar year under the 2007 Plan is 70,000, except in connection with hiring, in which case the maximum award for that year is 100,000.

Participants. Each executive officer of the Company or of a subsidiary of the Company is eligible to participate in the 2007 Plan.

Administration. The Compensation Committee, which is comprised solely of independent directors, is responsible for administering the 2007 Plan.

Restricted Stock Unit Grants. The Plan authorizes the award of restricted stock unit grants, which are subject to performance-based vesting, as well as any other vesting requirements established by the Compensation Committee for a grant, such as time-based service vesting. The performance goals for vesting must be established by the

Compensation Committee within the first 90 days of the performance period, not to exceed the first 25% of the performance period. The performance goals must be objectively determinable, such that a third party having knowledge of the relevant facts could determine whether the goal is met. The outcome of a performance goal must be substantially uncertain at the time the performance goal is established. The performance period for performance-based vesting of any grant may extend over one to five calendar years, and may overlap the performance period of another grant to the same executive, provided no two performance periods for the same executive may consist solely of the same calendar years.

Performance Criteria. For compensation to be deemed performance based under Section 162(m) of the Internal Revenue Code, the performance goals must be based on one or more business criteria approved by shareholders (the Performance Criteria), which may relate to total Company performance or the performance of an identifiable business unit. The 2007 Plan provides for the following Performance Criteria:

net income of the Company;

earnings per share net income divided by the Company s fully diluted outstanding shares;

return on average equity net income divided by average shareholders total equity or tangible equity for the period; and

total shareholder return percent increase over a period in the value of an investor s holdings in the Common Stock assuming reinvestment of dividends.

The Committee may base the performance goals for a Restricted Stock Unit Grant on one or more of these Performance Criteria. The performance goals are specific targets, schedules or thresholds against which actual performance is to be measured for purpose of determining the amount of vesting of a Restricted Stock Unit Grant. A Performance Goal may be expressed in any form as the Committee may determine including, but not limited to:

percentage growth;

absolute growth;

cumulative growth;

performance in relation to an index;

performance in relation to peer company performance;

a designated absolute amount; or

per share of common stock outstanding.

The formula with respect to Performance Criteria may include or exclude items to measure specific objectives, such as discontinued operations, extraordinary gains or losses, the cumulative effect of accounting changes, acquisitions or divestitures, merger or acquisition related expenses and any unusual, nonrecurring gain or loss, and will be based on accounting rules and accounting policies and practices in effect on the date the Performance Goals as approved by the Committee.

Grants under the 2007 Plan (subject to Shareholder Approval). The Compensation Committee granted restricted stock units to Raymond P. Davis, President and Chief Executive Officer; Brad F. Copeland, Senior Executive Vice President and Chief Credit Officer; David M. Edson, Executive Vice President and President Umpqua Bank NW Region; and William T. Fike, Executive Vice President and President Umpqua Bank California. The issuance of shares pursuant to these grants is conditioned on shareholder approval of the 2007 Plan.

The grants are subject to both a performance-based vesting requirement and a three-year service vesting requirement. The performance-based vesting is based on the Company s earnings per share growth (EPS Growth), as compared to specified peer financial institutions with total assets ranging from $4.0 billion to $15.0 billion. The following companies were selected as the peer group with respect to the 2007 grants: *City National Corp, UCBH Holding Inc, Wintrust Financial Corp, Sterling Financial Corp, Trustmark Corp, First Midwest Bancorp, Susquehanna Bancshares*

Inc, Old National Bancorp, Cathay General Bancorp, Greater Bay Bancorp, Pacific Capital Bancorp, United Bankshares Inc, Chittenden Corp, Provident Bancshares Inc, Irwin Financial Corp, CVB Financial Corp, SVB Financial Corp, First Community Bancorp, and Glacier Bancorp.

Under circumstances such as a merger, bankruptcy, delisting or sale of a peer financial institution, prior to the end of the performance period, the peer institution is removed from the list. The Committee reserves the right to change the composition of the peer group from time to time.

EPS Growth means the compounded annual fully diluted earnings per share growth rate over the measurement period, with earnings per share based on net income excluding merger or acquisition related expenses for any applicable period, but including any amortization for core deposit intangible.

For performance-based vesting purposes, the units under each grant are divided into three tranches. The performance-based vesting of the first tranche is based on EPS Growth for the fiscal year ending December 31, 2007; vesting of the second tranche is based on EPS Growth over the two year period ending December 31, 2008; and vesting of the third tranche is based on EPS Growth over the three year period ending December 31, 2009. Provided however, if the Company s EPS Growth is negative for 2007, the performance period for both the first and second tranches will be based upon the Company s comparative EPS Growth rate over the two year period and if the EPS Growth rate is negative for the two year period, vesting period for units otherwise vesting in the second year will be based on the EPS Growth rate over the three year period ending December 31, 2009. Units vested based on the performance-based measurement will not be fully vested unless the executive s employment continues through February 15, 2010. The time-based service vesting requirement is accelerated and waived, however, in the event the executive s employment terminates before February 15, 2010, as a result of termination by the Company without Cause (as defined in the 2007 Plan) or by the executive for Good Reason (as defined in the 2007 Plan), or in the event of a Change in Control (as defined in the 2007 Plan). Under these circumstances, any tranches which have not been measured for performance-based vesting will be measured based on the Company s performance for the performance period ended as of the fiscal quarter end prior to such termination or Change in Control. In the event of termination without Cause or for Good Reason, the vested amount of units will be prorated for the portion of the three-year service period actually served. In the event of a Change in Control, there is no reduction in vested units based on the shortened service period. The number of shares issued in settlement of the grant is based on the number of vested units.

The target number of units under Mr. Davis s grant is 39,000 (15,000; 14,000; and 10,000 units for each of the respective tranches). The target number of units under Messrs. Copeland, Edson, and Fike s grants are each 24,000 (12,000; 8,000; and 4,000 units for each of the respective tranches). Each of the executives has the possibility of receiving a maximum of 175% of their target units; therefore, the maximum number of shares issuable under Mr. Davis s grant is 68,250 shares and under each of the three other executive officers grants is 42,000 shares.

For purposes of these grants, the following is the applicable Performance Vesting Matrix.

(A) **EPS Growth Peer Group** **Value Range (Rank/Total in Peer Group)**	**(B)** **Vesting Percentage of Target Units** **in Tranche**
0.00 0.175	175 %
0.176 0.275	150 %
0.276 0.375	125 %
0.376 0.625	100 %
0.626 0.725	75 %
0.726 0.825	50 %
0.826 0.925	25 %
0.926 1.00	0 %

The Peer Group institutions are ranked and assigned integer numbers with the highest performing institution receiving a ranking = 1. To determine the EPS Growth Peer Group Value (Column A), the Company s rank is divided by the total number of institutions in the Peer Group (including the Company). The applicable vesting percentage (Column B) is determined based on the corresponding EPS Growth Peer Group Value, as shown in the matrix above.

The following table reflects the number of restricted stock units under the 2007 Plan that have been granted, subject to shareholder approval of the 2007 Plan. The number of units indicated below represents the maximum number of shares that may be issuable in connection with these grants made in 2007. The actual number of shares that will be issued is subject to the performance-based and service vesting requirement previously discussed.

Name and Position	2007 Long Term Incentive Plan Dollar Value ($)(1)	Number of Units(2)
Raymond P. Davis, President, CEO	$ 1,782,690	68,250
Daniel A. Sullivan, EVP, CFO		
Brad F. Copeland, SEVP, Chief Credit Officer	$ 1,097,040	42,000
David M. Edson, EVP, President Umpqua Bank NW Region	$ 1,097,040	42,000
William T. Fike, EVP, President Umpqua Bank California	$ 1,097,040	42,000
Executive Group	$ 5,073,810	194,250
Non-Executive Directors		
Non-Executive Officer Employee Group		

(1) The dollar value is based on the closing price of the Company s common stock on March 5, 2007 of $26.12, multiplied by the number of units, which represents the maximum number of shares issuable, assuming maximum vesting of the award.

(2) The number of units represents the maximum number of shares issuable, assuming maximum vesting of the award.

Future Grants. The above-described grants made in 2007 may not reflect the grant recipients, performance periods, performance vesting criteria, peer group, peer group performance goals, or applicable vesting percentages for future grants under the 2007 Plan. The Committee has broad discretion in making Restricted Stock Unit Grants and determining the applicable performance goals and other vesting requirements, provided the performance goals are based on one or more of the above-listed Performance Criteria.

Amendments. The board may modify or amend the 2007 Plan as it deems advisable except amendments that increase the number of shares of common stock issuable under the 2007 Plan, expand the group of persons eligible to receive grants or must be approved by shareholders under applicable law, would not be effective unless also subsequently approved by shareholders.

Federal Tax Consequences. For federal income tax purposes, Section 162(m) of the Internal Revenue Code generally prohibits us from deducting employee compensation that otherwise would be deductible to the extent such compensation exceeds $1.0 million for the Chief Executive Officer and other four highest compensated officers in any fiscal year. Compensation that is performance-based, as defined in Section 162(m), is not subject to the deductibility limitations if the plan pursuant to which performance-based compensation is paid satisfies certain criteria. The 2007 Plan is intended to address the limitation on deductibility by providing for compensation that qualifies as performance-based compensation.

Compensation paid under the 2007 Plan will not be subject to the deduction limit if:

it is payable on account of the attainment of pre-established, objective performance goals based Performance Criteria set forth within the 2007 Plan;

the Compensation Committee, which is comprised solely of outside directors, approves the maximum individual awards on or near the beginning of each performance period;

the 2007 Plan, which sets forth the material terms of the compensation and the Performance Criteria, is disclosed to and approved by shareholders before payment; and

the Compensation Committee certifies that the performance goals have been satisfied before payment.

The 2007 Plan provides for each of the above requirements. A copy of the 2007 Plan is included as Appendix B to this document.

Board Recommendation

The board of directors recommends a vote FOR the adoption of the 2007 Long Term Incentive Plan.

Other Business

The board of directors knows of no other matters to be brought before the shareholders at the meeting. In the event other matters are presented for a vote at the meeting, the proxy holders will vote shares represented by properly executed proxies at their discretion in accordance with their judgment on such matters. At the meeting, management will report on our business and shareholders will have the opportunity to ask questions.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document contains and incorporates by reference forward-looking statements about Umpqua that are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements regarding business strategies, management plans and objectives for future operations. All statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as anticipates, expects, believes, estimates and intends and or phrases of similar meaning. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of Umpqua. Risks and uncertainties include, but are not limited to:

Competitive market pricing factors for compensation and benefits;

Changes in legal or regulatory requirements; and

The ability to recruit and retain certain key management and staff.

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. For a more detailed discussion of some of the risk factors, see the section entitled *Risk Factors* in Umpqua s 10-K and other filings with the SEC that are incorporated by reference into this document. Umpqua does not intend to update these forward-looking statements. You should consider any written or oral forward-looking statements in light of this explanation, and we caution you about relying on forward-looking statements.

INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

Directors

The age (as of March 1, 2007), business experience, and position of each of the directors currently serving are as follows:

Ronald F. Angell, age 64, was appointed to the board in July 2004. He served as a director of Humboldt Bancorp from 1996 until it was acquired by the Company in 2004. He served as a director of Humboldt Bank from 1989 to the date of the merger. Mr. Angell is a retired attorney and was a partner in the Eureka, California firm of Roberts, Hill, Bragg, Angell & Perlman.

Mathew A. Bruno, age 63, was appointed to the board in June 2006. Mr. Bruno was a former Western Sierra Bancorp director. He was a founding director of Central California Bank and is currently the President of Turlock Dairy & Refrigeration, Inc., a large distributor of dairy equipment.

Scott D. Chambers, age 47, has served as a director since 1999. Mr. Chambers is President of Chambers Communications Corp. of Eugene, Oregon, a telecommunications company that owns and operates a cable television system, network broadcast television stations, and a film and video production company.

Raymond P. Davis, age 57, serves as director, President and Chief Executive Officer of Umpqua, positions he has held since the Company s formation in 1999. Mr. Davis has served as a director of Umpqua Bank since June 1994. He has served as Chief Executive Officer of Umpqua Bank from June 1994 to December 2000 and from November 2002 to the present. He has also served as President of Umpqua Bank from June 1994 to December 2000 and from March 2003 to the present. Prior to joining Umpqua Bank in 1994, he was President of US Banking Alliance in Atlanta, Georgia, a bank consulting firm. He has over 20 years experience in banking and related industries.

Allyn C. Ford, age 65, serves as Chairman of the board of directors and has served as a director since the Company s formation in 1999 and as a director of Umpqua Bank for 30 years. Mr. Ford is President of Roseburg Forest Products, a fully integrated wood products manufacturer located in Roseburg, Oregon. Mr. Ford has over 30 years of management experience with Roseburg Forest Products.

David B. Frohnmayer, age 66, has served as a director since the Company s formation in 1999 and as a director of Umpqua Bank since 1996. Mr. Frohnmayer is the President of the University of Oregon in Eugene, and has served in that capacity since 1994. He is the former Dean of the University of Oregon School of Law and former Attorney General of the State of Oregon. Until December 2003, he served on the board of Tax-Free Trust of Oregon.

Stephen M. Gambee, age 43, was appointed to the board in July 2005. He is the President and CEO and a shareholder of Rogue Valley Properties, Inc. and a Managing Member of Rogue Waste Systems LLC, solid waste collection and disposal businesses. Prior to assuming the duties of the family businesses, Mr. Gambee was employed by Robert Charles Lesser & Co./Hobson & Associates as the Pacific Northwest Director of Consulting.

Dan Giustina, age 57, serves as Vice-Chair of Umpqua s board and has served as a director since the Centennial Bancorp merger in November 2002. He served as a director of Centennial Bancorp and Centennial Bank from 1995 to 2002. Mr. Giustina is managing partner of Giustina Resources, which owns and manages timberland, and a member and manager of G Group LLC, which owns and manages residential and commercial real estate. Mr. Giustina is the past Chairman of the University of Oregon Foundation, a board member of the Oregon Forest Industries Council, and serves on the advisory boards of University of Oregon s Lundquist College of Business and States Industries, Inc.

Diana E. Goldschmidt, age 59, was appointed as a director of Umpqua in May 2003 and was elected to the board in 2004. Since 1999, she has been the owner of Urban Design Works, LLC, a consulting firm in Portland, Oregon. She is also the former Vice Chair of the Oregon Investment Council and previously served on the Advisory Board of Directors for Key Bank of Oregon from 1997 to 2003. In 1999, she served as interim superintendent of the Portland Public School District. Her principal career was spent in the senior human resources and later senior operations executive officer positions of Pacific Power & Light Company and Pacific Telecom, Inc.

Lynn K. Herbert, age 55, has served as a director since the Company s formation and as a director of Umpqua Bank since 1993. Mr. Herbert is General Manager of Herbert Lumber Company in Riddle, Oregon, and has served in that capacity since 1988. Mr. Herbert has over 20 years of management experience with Herbert Lumber Company.

William A. Lansing, age 61, has served as a director since December 2001. He previously served as a director of Independent Financial Network, Inc. from 1991 until its merger with Umpqua in December 2001. Mr. Lansing is the retired President and Chief Executive Officer of Menasha Forest Products Corporation in North Bend, Oregon, and has over 38 years of experience in the forest products industry. Mr. Lansing serves as a director of Torrent Energy Corporation.

Theodore S. Mason, age 64, was appointed to the board in July 2004 and elected in May 2005. Mr. Mason is retired and he was the President and Chief Executive Officer of Humboldt Bancorp from January 1996 to April 2002 and of Humboldt Bank from 1989 to 2000. He served as a director of Humboldt Bancorp from 1996 to 2004 and as a director of Humboldt Bank from 1989 to 2004.

Diane D. Miller, age 53, was appointed to the board in July 2004 and elected in May 2005. She has been President of Wilcox, Miller & Nelson an executive search and outplacement firm since August 1986. Ms. Miller served as a director of Humboldt Bancorp and Humboldt Bank from January to July 2004 and she currently serves on the boards of the California Chamber of Commerce and the Northern California Chapter of the National Association of Corporate Directors and as a Regent of the University of the Pacific.

Bryan L. Timm, age 43, was appointed to the board in December 2004 and elected in May 2005. He is the Vice President, Chief Financial Officer and Treasurer of Columbia Sportswear Company, a global leader in the design, sourcing, marketing, and distribution of active outdoor apparel and footwear. Prior to joining Columbia Sportswear in

1997, Mr. Timm, a CPA, held various financial positions for another Portland based public company, Oregon Steel Mills, Inc. He began his financial career with the international accounting firm of KPMG. The board has determined that Mr. Timm is independent and qualifies as an audit committee financial expert under applicable regulations.

Thomas W. Weborg, age 64, was appointed to the board in July 2004 and elected in May 2005. He is the retired President and Chief Executive Officer of Java City, a wholesale supplier and retailer of coffee-related products and services. Mr. Weborg served on the board of Humboldt Bancorp from November 2000 to July 2004. He was a director of Humboldt Bank from June 2002 to July 2004 and prior to that, chairman of Capitol Valley Bank from 1999 until June 2002.

Director Independence

The board of directors has determined that all directors except Mr. Davis are independent , as defined in the NASDAQ listing standards. In determining the independence of directors, the board considered the responses to Director & Officer Questionnaires that indicated no transactions with directors other than banking transactions with Umpqua Bank and arrangements under which Umpqua Bank leases certain facilities from entities in which directors have indirect material interests. The board also considered the lack of any other reported transactions or arrangements; directors are required to report conflicts of interest and transactions with the Company pursuant to our Corporate Governance Principles and Code of Ethics. See the section below entitled *Related Party Transactions* for additional information.

Executive Officers

The age (as of March 1, 2007), business experience, and position of our executive officers other than Raymond P. Davis, about whom information is provided above, are as follows:

Barbara J. Baker, age 57, serves as Executive Vice President Cultural Enhancement at Umpqua and Umpqua Bank, positions she has held since September 2002. Ms. Baker served as Oregon site executive for IBM s server division (formerly Sequent Computer Systems, Inc.), where she managed human resources services and programs as well as corporate communications and community relations. Prior to joining Sequent, Ms. Baker served as Vice President of Human Resources for First Interstate Bank (now Wells Fargo).

Brad F. Copeland, age 58, serves as Senior Executive Vice President and Chief Credit Officer of Umpqua and Umpqua Bank. He has served as Chief Credit Officer since December 1, 2000. Mr. Copeland served as Executive Vice President and Credit Administrator of VRB Bancorp and Valley of the Rogue Bank from January 1996 until their merger with Umpqua in December 2000.

David M. Edson, age 57, serves as Executive Vice President of Umpqua and as President-Umpqua Bank-NW Region, positions he has held since joining Umpqua in October 2002. Prior to that time, he served as President of Bank of America, Idaho. Mr. Edson has over 25 years of experience in banking in the Pacific Northwest including as Executive Vice President for First Interstate Bank and as Chairman, CEO and President of First Interstate Bank of Idaho.

Ronald L. Farnsworth, age 36, serves as Senior Vice President Finance of Umpqua, a position he has held since September 2004 and Principal Accounting Officer of Umpqua, a position he has held since March 2005. From January 2002 to September 2004, Mr. Farnsworth served as Vice President Finance of Umpqua. Mr. Farnsworth served as Chief Financial Officer of Independent Financial Network, Inc. (IFN) and its subsidiary Security Bank from July 1998 to the time of IFN s acquisition by Umpqua in December 2001.

William T. Fike, age 59, serves as Executive Vice President of Umpqua and as President-Umpqua Bank-California, positions he has held since joining Umpqua in May 2005. Prior to that time, he served as Executive Vice President of Bank of the West in Walnut Creek, California, a position he held since 1999.

Steven L. Philpott, age 55, serves as Executive Vice President and General Counsel of Umpqua and Umpqua Bank, positions he has held since November 2002. He has served as Corporate Secretary of Umpqua and Umpqua Bank since 2004. Mr. Philpott served as General Counsel for Centennial Bancorp from October 1995 until its merger with Umpqua in November 2002. Prior to that time, he was in private practice in Eugene, Oregon.

Daniel A. Sullivan, age 55, serves as Executive Vice President and Chief Financial Officer of Umpqua and Umpqua Bank. He has served as Chief Financial Officer of the Company since 1997. Prior to that time, Mr. Sullivan served as Vice President of Finance for Instromedix of Hillsboro, Oregon and worked as Senior Vice President and Controller for US Bancorp in Portland, Oregon.

SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS

The following table sets forth the shares of common stock beneficially owned as of February 9, 2007, by each director and each Named Executive Officer, the directors and executive officers as a group and those persons known to beneficially own more than 5% of Umpqua s common stock.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
*	Lynn K. Herbert	575,300(2)	1.0%
*	Raymond P. Davis	363,758(3,4)	**
*	Allyn C. Ford	166,789	**
*	Daniel A. Sullivan	138,352(5)	**
*	Theodore S. Mason	138,136(6)	**
*	Ronald F. Angell	127,797(7)	**
*	Dan Giustina	114,095(8)	**
*	Brad F. Copeland	82,635(3,9)	**
*	Mathew A. Bruno	59,318	**
*	David M. Edson	57,742(10)	**
*	Thomas W. Weborg	35,937(11)	**
*	William A. Lansing	33,835(3)	**
*	William T. Fike	20,161(12)	**
*	David B. Frohnmayer	14,043(3)	**
*	Scott D. Chambers	12,072	**
*	Stephen M. Gambee	8,174	**
*	Diana E. Goldschmidt	7,586	**
*	Diane D. Miller	5,913(3)	**
*	Bryan L. Timm	2,724	**
	All directors and executive officers as a group (22 persons)	2,056,547(2-12)	3.5%
	Name and Address of Beneficial Owner		
*	Capital Research and Management Company 333 South Hope Street, Los Angeles, CA 90071	3,049,700(13)	5.3%
*	Barclay s Global Investors, N.A./Barclay s Global Investors, LTD/Barclay s Global Fund Advisors (combined) 45 Fremont Street, San Francisco, CA 94105	3,772,102(14)	6.5%
*	Select Equity Group, Inc./ Select Offshore Advisors, LLC and George S. Loening (combined) 380 Lafayette Street, 6th Floor, New York, NY 10003	4,150,999(15)	7.15%

* No par value common stock.

** Less than 1.0%.

(1) Shares held directly with sole voting and investment power, unless otherwise indicated. Shares held in the Dividend Reinvestment Plan have been rounded down to the nearest whole share. Includes shares held indirectly in Director Deferred Compensation Plans, 401(k) Plans and IRAs.

(2) Includes shares held jointly with his spouse. Also includes shares held as trustee.

(3) Includes shares held with or by his/her spouse.

(4) Includes 212,500 shares covered by options exercisable within 60 days.

(5) Includes 74,000 shares covered by options exercisable within 60 days.

(6) Includes 55,546 shares covered by options exercisable within 60 days.

(7) Includes 15,208 shares covered by options exercisable within 60 days.

(8) Includes 6,316 shares covered by options exercisable within 60 days.

(9) Includes 56,920 shares covered by options exercisable within 60 days.

(10) Includes 42,000 shares covered by options exercisable within 60 days.

(11) Includes 10,227 shares covered by options exercisable within 60 days.

(12) Includes 7,500 shares covered by options exercisable within 60 days.

(13) This information is taken from a Schedule 13G/A filed February 12, 2007 with respect to holdings as of December 29, 2006. The reporting person has disclaimed beneficial ownership pursuant to SEC Rule 13d-4.

(14) This information is taken from a Schedule 13G filed January 23, 2007 with respect to holdings as of December 31, 2006. The reporting person reports that the shares are held in trust for the economic benefit of the account beneficiaries.

(15) This information is taken from a Schedule 13G/A filed February 15, 2007 with respect to holdings as of December 31, 2006.

Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that provide for the award of securities or the grant of options to purchase securities to employees and directors of Umpqua, its subsidiaries and its predecessors by merger that were in effect at December 31, 2006.

	Equity Compensation Plan Information		
Plan Category	**Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights(1) (a)**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans Excluding Securities Reflected in Column (a)(2)(3) (c)**

Equity compensation plans approved by security holders	1,806,818	$ 14.78	1,237,450
Equity compensation plans not approved by security holders	0	0	0
Total	1,806,818	$ 14.78	1,237,450

(1) Includes 198,326 shares issued under Centennial Bancorp s stock option plans, having a weighted average exercise price of $6.659 per share at December 31, 2006. Includes 371,206 shares issued under Humboldt Bancorp s stock option plans, having a weighted average exercise price of $8.5062 per share at December 31, 2006. Includes 209,305 shares issued under Western Sierra Bancorp s stock option plans, having a weighted average exercise price of $15.0431. In connection with mergers, Umpqua assumed Centennial s, Humboldt s and Western Sierra s obligations under their respective stock option plans.

(2) Includes 1,000 unvested restricted stock award shares under Humboldt Bancorp plans that were assumed in connection with the acquisition of Humboldt Bancorp in July 2004.

(3) At Umpqua s 2003 Annual Meeting, shareholders approved the 2003 Stock Incentive Plan. The plan authorized the issuance of 2,000,000 shares of stock through awards of incentive stock options, nonqualified stock options or restricted stock grants; provided awards of stock options and restricted stock grants under the 2003 Stock Incentive Plan, when added to options outstanding under all other plans, are limited to a maximum 10% of the outstanding shares on a fully diluted basis.

CORPORATE GOVERNANCE OVERVIEW

Our board of directors believes that its primary role is to ensure that we maximize shareholder value in a manner consistent with legal requirements and the highest standards of integrity. The board has adopted and adheres to a Statement of Governance Principles, which the board and senior management believe promote this purpose, are sound and represent the best practices for our Company. We regularly review these governance principles and practices in light of Oregon law, Securities Exchange Commission (SEC) regulations, the rules and listing standards of the National Association of Securities Dealers (NASD) and best practices suggested by recognized governance authorities.

Statement of Governance Principles and Charters

Our Statement of Governance Principles and the charter of each of our board committees can be viewed on our website at www.umpquaholdingscorp.com/corporate governance. This Statement is also available in print to any shareholder who requests it. Each board committee operates under a written charter.

Employee Code Of Conduct

The Company has adopted a code of conduct, referred to as the Business Ethics and Conflict of Interest Code. We require all employees to adhere to this code in addressing legal and ethical issues that they encounter in the course of doing their work. This code requires our employees to avoid conflicts of interest, comply with all laws and regulations, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company s best interest. All newly hired employees are required to certify that they have reviewed and understand this code. In addition, each year all other employees are reminded of, and asked to affirmatively acknowledge, their obligation to follow the code.

This code provides that our employees may report confidential and anonymous complaints to an ethics hotline maintained by an independent vendor. These complaints may be made online or by calling a toll-free phone number. Complaints relating to financial matters are routed to our Chief Auditor. Other complaints, such as those dealing with employee issues, are routed to another appropriate executive manager for review. Employees are encouraged to report any conduct that they believe in good faith to be an actual or apparent violation of law or a violation of our Business Ethics and Conflict of Interest Code.

In addition, the Company has adopted a Code of Ethics for Financial Officers, which applies to our chief executive officer, our chief financial officer, our principal accounting officer, our controller and all other officers serving in a finance, accounting, tax or investor relations role. This code for financial officers supplements our Business Ethics and Conflict of Interest Code and is intended to promote honest and ethical conduct, full and accurate financial reporting and to maintain confidentiality of the Company s proprietary and customer information.

Our Business Ethics and Conflict of Interest Code and Code of Ethics for Financial Officers are available in the Corporate Governance section of our web site www.umpquaholdingscorp.com.

Nomination Procedures

Our Statement of Governance Principles describes the qualifications that the Company looks for in its nominees to the board of directors. Directors should possess the highest personal and professional ethics, integrity and values and should be committed to representing the long-term interests of our shareholders. The board will consider the policy-making experience of the candidate in the major business activities of the Company and its subsidiaries. The board will also consider whether the nominee is representative of the major markets in which the Company operates. Directors must be willing to devote sufficient time to effectively carry out their duties and responsibilities and must be committed to serve on the board for at least the term to which they are elected. Nominees should not serve on more than three boards of public companies in addition to the Company s board. The board s policy provides that no person shall be eligible for election or reelection as a director if that person will reach the age of 70 at the time of that person s election or reelection, provided that a director who reaches age 70 during his or her term, shall complete the term for which that director was elected.

A shareholder may recommend a candidate to the board and that recommendation will be reviewed and evaluated by our Nominating Committee. Our Committee will use the same procedures and criteria for evaluating nominees recommended by shareholders as it does for nominees selected by the Company. Shareholder recommendations for board candidates should be submitted to the Company s Corporate Secretary, Steven Philpott at Umpqua Holdings Corporation s Legal Department, P.O. Box 1560, Eugene, OR 97440.

In 2006, we received no recommendations for board candidates from shareholders. As a part of the Western Sierra Bancorp acquisition, we invited their board members to apply for the one director position that was being added to our board in connection with that transaction. Following review of those applications, the board of directors selected Mathew Bruno for appointment to our board.

Changes in Nomination Procedures

There have been no material changes to the procedures by which shareholders may recommend nominee s to our board of directors since our procedures were disclosed in the proxy statement for the 2006 annual meeting.

Shareholder Communications

Our directors are active in their respective communities and they receive comments, suggestions, recommendations and questions from shareholders, customers and other interested parties on an ongoing basis. Our directors are encouraged to share those questions, comments and concerns with other directors and with our CEO. Comments and questions may be directed to our board by submitting them in writing to the Company s Corporate Secretary, Steven Philpott at Umpqua Holdings Corporation s Legal Department, P.O. Box 1560, Eugene, OR 97440. These comments will be communicated to the board at its next regular meeting. No communications of this type were received from shareholders in 2006. The Company has no formal policy regarding the attendance of directors at the annual meeting of shareholders, which have historically been held in Roseburg. The board has expressed a desire to increase board attendance at the annual meeting and the 2007 annual meeting is scheduled for Portland, Oregon on the day before a scheduled regular meeting of the board, to facilitate board attendance. Portland may also be a more convenient location for more of our shareholders. Four directors attended the 2006 annual meeting.

Board Evaluations

Each year, our board evaluates the performance of its committees and its members. This evaluation process occurs in two stages. Each board member answers a questionnaire designed to rate, on a scale of one to five, the performance of each board committee on which that director serves, with respect to a number of components relevant to that committee s functions. The answers and comments are compiled anonymously and reviewed by the committee as a whole, and reported to the full board. The Executive/Governance Committee then reviews those results and recommends changes in committee structure and function to the full board.

In addition, board members fill out a confidential self evaluation of their own performance, which is delivered to the board chair. The board chair then reviews that information with the board member and solicits input from each committee chair with respect to the board member s performance. The Nominating Committee considers this information when recommending a slate of candidates to be nominated by the full board.

Succession Planning

Succession planning for the CEO and other named executive officer positions is one of the board s most important duties. Each year, the CEO presents his written succession plan to the Nominating Committee, which is accompanied by his review of up to three internal candidates who should be considered to replace him and his recommendation as to which, if any, internal candidate should be considered to replace him in the event he cannot serve. Under the current plan, any internal candidate selected on an interim basis will have the opportunity to compete for the position with other candidates that come forward in an internal and external search. Each of the other named executive officers has a written succession plan that is reviewed with the CEO annually.

Meetings and Committees of the Board of Directors

The board of directors met seven times during 2006, including two special meetings relating to the acquisition of Western Sierra Bancorp and a three-day strategic planning retreat. At the retreat, the board and executive management focus on how to best sustain the Company s growth strategy while maintaining Umpqua s unique culture and commitment to community banking. All board committees have regularly scheduled meetings except the Nominating Committee, which meets as appropriate, upon the call of its chairperson. Board committee chairs call for additional regular and special meetings of their committees, as they deem appropriate. In 2006, each director attended at least 75% of the board meetings, as well as meetings of committees on which the director served. Mr. Bruno became a director in June 2006 and attended all board meetings and all meetings of committees on which he serves after that date.

The board and each of our board committees regularly meet in executive session.

At December 31, 2006, the board of directors had seven active board committees: The Audit and Compliance Committee, the Budget Committee, the Compensation Committee, the Executive/Governance Committee, the Financial Services Committee, the Loan and Investment Committee, and the Nominating Committee.

The table below shows current membership information for each board committee:

C Chairperson V Vice Chair Member

	Audit and Compliance	Budget	Compensation	Executive/ Governance	Financial Services	Loan and Investment	Nominating
Ronald F. Angell						C	
Mathew A. Bruno							
Scott D. Chambers					C		
Raymond P. Davis							
Allyn C. Ford				C			C
David B. Frohnmayer							
Stephen M. Gambee							
Dan Giustina	C						
Diana E. Goldschmidt	V				V		
Lynn K. Herbert						V	
William A. Lansing		C	C				
Theodore S. Mason							
Diane D. Miller			V				
Bryan L. Timm							

Thomas W.
Weborg

Audit and Compliance Committee

The board of directors has a standing Audit and Compliance Committee that meets with our independent registered public accounting firm to plan for and review the annual audit reports. The Committee meets at least four times per year and is responsible for overseeing our internal controls and the financial reporting process. As of January 1, 2007, the members of the Committee were directors Giustina (Chair), Angell, Frohnmayer, Goldschmidt (Vice Chair), Herbert, Miller and Timm. Each member of the Committee is independent, as independence is defined under Rule 4200(a)(15) of the listing standards of the NASD. The board of directors has adopted an Audit and Compliance Committee Charter, a copy of which is available on our web site in the Corporate Governance section of www.umpquaholdingscorp.com. The charter provides that only independent directors may serve on the Committee. The charter further provides that at least one member shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. The board of directors has determined that Bryan L. Timm meets the SEC criteria for an audit committee financial expert. The board of directors believes that each of the current members of the Committee has education and/or employment experience that provides them with appropriate financial sophistication to serve on the Committee. In 2006, the Audit and Compliance Committee met seven times. In addition to these formal meetings, the Committee previews earnings releases and periodic reports to be filed with the SEC and it usually meets by telephone conference to discuss those documents.

Budget Committee

The Budget Committee reviews and oversees our budgeting process, including the annual operating budget and the capital expenditure budget. It also oversees dividend planning and our stock repurchase programs. Effective January 1, 2007, the members of the Committee were directors Lansing (Chair), Chambers, Davis, Gambee, Miller, Timm and Weborg. The Committee meets at least quarterly. In 2006, the Budget Committee met five times, including one special meeting.

Compensation Committee

See *Introduction* to the section entitled, *Executive Compensation Discussion and Analysis.*

Executive/Governance Committee

The Executive/Governance Committee may, subject to limitations in our Bylaws and under Oregon law, exercise all authority of the full board when the full board in not in session. This Committee is responsible for the review and oversight of the Company s strategic planning process, corporate governance, consideration of the Company s merger and acquisition opportunities and oversight of the board s structure. This Committee is comprised of the chairman of the board, the chair of each board committee and Umpqua s CEO. Effective January 1, 2007, the members of the Committee were directors Ford (Chair), Angell, Chambers, Davis, Giustina and Lansing. This Committee meets at least quarterly. In 2006, the Executive/Governance Committee met four times.

Financial Services Committee

The Financial Services Committee reviews and oversees the operations of Strand Atkinson Williams & York, Inc. and Umpqua Bank s Private Client Services division. This Committee serves as Strand s board of directors, as well as the board of directors of Bancorp Financial Services, another subsidiary of the Company that is currently winding up a securitized lease portfolio acquired in the Humboldt Bancorp transaction. Effective January 1, 2007, the members of the Committee were directors Chambers (Chair), Davis, Frohnmayer, Goldschmidt (Vice Chair) and Mason. This Committee must meet at least quarterly and in 2006, the Committee met five times, including one special meeting.

Loan and Investment Committee

The Loan and Investment Committee approves certain loans, approves charge-offs to the loan loss reserve, sets investment and liquidity policies and monitors compliance with those policies and reviews Umpqua s loan and investment portfolios. Effective January 1, 2007, members of the Committee were directors Angell (Chair), Davis, Gambee, Goldschmidt, Herbert (Vice Chair), Mason and Weborg. The Loan and Investment Committee meets at least quarterly and in 2006 it met five times.

Nominating Committee

The Nominating Committee proposes nominees for appointment or election to the board of directors and conducts searches to fill the positions of President and CEO. The Committee is comprised of the chairman of the board and the chair of each board committee. All of the directors serving on the Nominating Committee are independent, as defined in the NASD listing standards. Effective January 1, 2007, the members of the Committee were directors Ford (Chair), Angell, Chambers, Giustina and Lansing. The Nominating Committee meets as often as it deems appropriate and in 2006, the Committee met three times.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon our review of (i) Forms 3, 4 and 5 that we filed on behalf of directors and executive officers, or received from them with respect to the fiscal year ended December 31, 2006, and (ii) their written representations that no Form 5 is required, we believe that all reporting persons made all required Section 16 filings with respect to the 2006 fiscal year on a timely basis.

SHAREHOLDER PROPOSALS FOR THE 2008 ANNUAL MEETING OF SHAREHOLDERS

If any shareholder intends to present a proposal to be considered for inclusion in the Company s proxy material in connection with the 2008 annual meeting of shareholders, the proposal must be in proper form under SEC Regulation 14A, Rule 14a-8-Proposals of Security Holders, and received by the Secretary of the Company on or before December 19, 2007. Shareholder proposals to be presented at the 2008 annual meeting of shareholders, which are not to be included in the Company s proxy materials must be received by the Company no later than January 18, 2008, in accordance with the Company s Bylaws.

RELATED PARTY TRANSACTIONS

Transactions with Related Persons/Approval Process

Umpqua has arrangements under which Umpqua Bank leases certain facilities from entities in which certain directors have indirect material interests. These leases are not required to be disclosed under Item 404 of Regulation S-K.

Umpqua has a formal process with respect to the review and approval of loans extended by Umpqua Bank to related persons, as described below. Umpqua has no formal process to approve other transactions with related persons. Under Nasdaq Rule 4350(h), all transactions with related persons must be approved by Umpqua s audit committee or another independent body of the board of directors. In each instance where Umpqua Bank has a facility lease with a director, the lease was (i) entered into before the director became a related person with respect to Umpqua and/or (ii) Umpqua Bank assumed the lease in connection with an acquisition, so no prior approval by Umpqua was required or obtained. Nonetheless, the leases are believed to be on terms fair to the Bank and consistent with terms available from unrelated third parties. On an ongoing basis, any transactions with related persons are reviewed and approved in accordance with Nasdaq Rule 4350(h).

Loans to Directors and Officers

Umpqua Holdings Corporation does not extend loans or credit to any officers or directors. However, many of our directors and officers, their immediate family members and businesses with which they are associated, borrow from and have deposits with Umpqua Bank. All such loans are made in the ordinary course of Umpqua Bank s business, and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Umpqua Bank. These loans did not and do not involve more than the normal risk of collection or present other unfavorable features to Umpqua Bank.

Loans by the bank to directors and designated executive officers are governed by Regulation O, 12 CFR Part 215. Under the bank s procedures, the Chief Credit Officer can approve individual credits subject to Regulation O up to a total credit exposure of $100,000 and report those loans to our Loan and Investment Committee. All Regulation O credits with a total credit exposure in excess of $100,000 must be approved by that Committee. Regulation O limits loans to executive officers to $100,000 unless the loan is secured by a first lien on the officer s primary or secondary residence or unless the loan is made to finance the education of the officer s children. All of our named executive officers are designated as executive officers under Regulation O.

As of December 31, 2006, the aggregate outstanding balance of all loans to Regulation O executive officers, directors, principal shareholders and their businesses was approximately $12.6 million, which represented approximately 1.81% of the consolidated shareholders equity at that date. All such loans are currently in good standing and are being paid in accordance with their terms.

DIRECTOR COMPENSATION

In January 2007, our Compensation Committee adopted the following statement of philosophy with regard to director compensation:

Umpqua s director compensation is designed to align the board of directors with its shareholders, and to attract, motivate, and retain high performing members critical to our company s success. Our director compensation philosophy is simple: we pay our directors a competitive rate when compared to similar size and performing financial services organizations.

Objectives Umpqua Bank is committed to providing competitive compensation to our directors. Within that context, our prime objectives are to:

Attract and retain highly qualified people that portray our company culture and values

Link the interests of our directors to the values derived by our shareholders

Align the interests of our directors, executives, and employees

Conform to the highest levels of fairness, ethics, transparency, and sound governance practice

Director Compensation On a regular basis the board will engage a third party professional to perform an evaluation to ensure director compensation is fair and competitive. Any change to director compensation is first reviewed by the Compensation Committee of the board prior to full board approval. Currently, it is the company s policy for director compensation to be paid 100% in company stock, which may be taken as deferred compensation.

Director Training We are committed to the continuing education of our directors. Umpqua provides an annual allowance for our directors to obtain director-specific education. Directors receiving such education shall provide an educational synopsis to the board or appropriate board committee.

The Compensation Committee is charged with reviewing director compensation and recommending changes to the full board. The board of directors has adopted a Director Compensation Plan that sets forth the terms and manner in which non-employee directors will be compensated for their service on the board of directors and committees of Umpqua and its subsidiaries.

All director fees are payable in shares of Umpqua Holdings Corporation common stock, purchased periodically on the open market by a brokerage firm for the account of each director with funds provided by the Company. Directors may choose to receive co