VIALTA INC
Form 10-K/A
May 04, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2003.**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from: to: .**

Commission file number 0-32809

Vialta, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3337236**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

48461 Fremont Boulevard

Fremont, California 94538
(Address, including zip code, of Registrant s principal executive offices)

(510) 870-3088

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendments to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 126-2). Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2003 (based on the average bid and ask price on the OTC Bulletin Board as of such date) was approximately $16,500,000.

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, on March 5, 2004 was 82,841,468 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None

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EXPLANATORY NOTE

Vialta, Inc. (the Company, Vialta, we, us or our) is filing this Amendment No. 1 on Form 10-K/ A to our Annual Report on Form 10-K the fiscal year ended December 31, 2003 (the Report) for the purpose of including information that was to be incorporated by reference from our definitive proxy statement pursuant to Regulation 14A of the Securities and Exchange Act of 1934. We will not file our proxy statement within 120 days of our fiscal year ended December 31, 2003, and are, therefore, amending and restating in their entirety Items 10, 11, 12, 13 and 14 of Part III of the Report. In addition, in connection with the filing of this Amendment and pursuant to Rules 12b-15 and 13a-14 under the Securities and Exchange Act of 1934, as amended, we are including with this Amendment certain currently dated certifications. Except as described above, no other amendments are being made to the Report. This Form 10-K/ A does not reflect events occurring after the March 26, 2004 filing of our Report, modify or update the disclosure contained in the Report in any way other than as required to reflect the amendments discussed above and reflected below.

VIALTA, INC.

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PART III

Item 10. ***Directors and Executive Officers of the Registrant***

DIRECTORS

Our current directors were elected at the 2003 annual meeting of shareholders to serve as directors until the 2004 annual meeting of shareholders, until their respective successors have been elected and qualified or until such directors earlier resignation or removal. The information of members of the Board of Directors as of March 31, 2004 is set forth below:

Name	Age	Position(s) with Vialta	Director Since
Fred S.L. Chan	57	Chairman of the Board	1999
Didier Pietri	41	President, Chief Executive Officer and Director	2001
George M. Cain	59	Director	2003
Herbert Chang	41	Director	1999
Michael S. Dubester	56	Director	2003
Matthew K. Fong	50	Director	1999

Except as set forth below, each of the directors has been engaged in the principal occupation set forth next to his name above during the past five years. There are no family relationships among any of the directors or executive officers of the Company.

Fred S. L. Chan has served as the Company s Chairman of the Board of Directors since the Company s inception in 1999. He also served as the Company s President from its inception through April 2001 and as Chief Executive Officer from its inception through August 2001. Prior to joining the Company, Mr. Chan founded and held various executive positions at ESS Technology, Inc., a designer, developer and marketer of highly integrated digital system processor chips, since 1986, as well as being Chairman of the Board, in which capacity he still serves.

Didier Pietri has been a member of Vialta s board of directors since September 2001. Mr. Pietri joined the Company in April 2001 as its President and in August 2001 also became its Chief Executive Officer. Prior to joining Vialta, Mr. Pietri served as President and Chief Executive Officer of TVA/Motion International, a global entertainment production and distribution company from August 1999 to March 2001. From June 1995 to July 1999, Mr. Pietri was Senior Vice President of the ABC Television Network Group, as well as President of ABC Pictures, a division of The Walt Disney Company.

George M. Cain has been a member of Vialta s board of directors since February 2003. Mr. Cain is the founder and President of C3 Media & Marketing Group, LLC, a media marketing consulting company. He has held that position since 1996. Mr. Cain is also the founder and CEO of Strategic Media & Marketing Group, LLC, a marketing and sales company which has assisted a German enterprise software company with the introduction of its products in North America. He has held that position since 2001.

Herbert Chang has been a member of Vialta s board of directors since November 1999. Mr. Chang is the President of InveStar Capital, Inc., a venture capital firm. He has held that position since August 1996. In addition, Mr. Chang is the managing member of Forefront Associates, LLC, which is the general partner of Forefront Venture Partners, L.P., a position he has held since February 1998. Mr. Chang currently serves as a director of Marvell Technology Group Ltd. and Oplink Communications, Inc.

Michael S. Dubester has been a member of Vialta s board of directors since February 2003. Mr. Dubester is the Senior Vice President of Business Development of Vulcan Sports Media, Inc., a U.S. sports media company whose principal business is The Sporting News. He has held that position since 2000. Prior to that, Mr. Dubester served as the President of Times Mirror Interzines, the online network of Internet sites affiliated with Times Mirror Magazine titles, the previous owner of The Sporting News, from 1998 until 2000. He was the founder and President of The Sporting News Online, from 1996 until 1998.

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Matthew K. Fong has been a member of Vialta s board of directors since April 1999. Mr. Fong was employed by the Company from September 2001 through January 31, 2003, as an Advisor to the Chairman of the Board. In addition, since February 1999, Mr. Fong has been an attorney with the law firm of Sheppard, Mullin, Richter & Hampton, LLP and the Chief Executive Officer of Strategic Advisory Group, a financial and high technology consulting group that he founded. Prior to that, Mr. Fong served as California State Treasurer from January 1995 to January 1999.

Board of Directors Meetings and Committees

The Board of Directors met four times during fiscal year 2003. The Board of Directors, during 2003, had an Audit Committee and a Compensation Committee, but did not have a Nominating Committee or any other standing committees. Nominations to the Board of Directors are handled as discussed below. Each incumbent director attended at least 75% of the meetings of the Board and meetings of the Committees of the Board on which he served during the fiscal year 2003. The Company invites Board members to attend annual meetings of the stockholders. Didier Pietri attended the last annual meeting of stockholders.

Audit Committee. The Audit Committee is currently comprised of three members: Matthew Fong (Chairman), Michael Dubester and Herbert Chang. Mr. Dubester was elected to the Audit Committee on May 1, 2003. Mr. Chang was elected to the Audit Committee on April 23, 2002. Currently, Mr. Chang and Mr. Dubester are both independent as defined by the listing standard of NASDAQ as now in effect. Prior to January 31, 2003, Mr. Fong was employed by the Company as the Advisor to the Chairman so is not independent under such standard. During 2003, the Board did not designate any member as a financial expert within the meaning of applicable regulatory standards, but believes that each member has the appropriate experience and ability to perform their duties as Audit Committee members.

The Audit Committee pre-approves the performance of audit and non-audit services by the Company s accountants and reviews the Company s internal control systems, financial reporting procedures, the general scope of the Company s annual audit, the fees charged by the independent accountants, and the fairness of any proposed transaction between any officer, director or other affiliate of the Company and the Company. With respect to the foregoing, the Audit Committee makes recommendations to the full Board and performs such further functions as may be required or delegated to the Committee by the Board of Directors. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is attached to the Proxy Statement filed by the Company on April 30, 2002. During fiscal year 2003, the Audit Committee of the Board held four meetings independent of the entire Board of Directors.

Compensation Committee. The Compensation Committee is comprised of three members: Matthew Fong (Chairman), George Cain and Michael Dubester. The Compensation Committee reviews and approves compensation and benefits for the Company s key executive officers, administers the Company s stock purchase and equity incentive plans and makes recommendations to the Board of Directors regarding such matters. During fiscal year 2003, the Compensation Committee held two meetings independent of the entire Board of Directors.

Nominations. The Company does not have a nominating committee. In light of the relatively small size of the Board of Directors, the Company does not believe that a separate nominating committee is currently necessary. In the interim, all current directors will take part, as necessary, in selecting any required nominees. The Board currently considers candidates for Board membership suggested by its members. A stockholder who wishes to recommend a prospective nominee for the Board should notify the Company s Corporate Secretary in writing with whatever supporting material the stockholder considers appropriate. The Board will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Company s bylaws relating to stockholder nominations.

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EXECUTIVE OFFICERS

Our current Executive Officers are Fred S.L. Chan, Didier Pietri and William Scharninghausen. Information about Mr. Scharninghausen is set forth below. Information about Messrs. Chan and Pietri is set forth above in Directors.

William M. Scharninghausen, 47, has been Chief Financial Officer of the Company since October 2002. Prior to joining Vialta, he was the Chief Financial Officer of Diva Systems, Inc., a video on demand technology company, from January 1999 to September 2002. He also served as the Senior Vice President of Finance and Administration of Diva Systems, Inc. from June 1997 to September 2002. As part of Gemstar-TV Guide International, Inc. s proposed purchase of Diva s assets, Diva filed a Chapter 11 bankruptcy petition and pre-negotiated plan of reorganization on May 29, 2002 in the Northern District of California.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934, as amended, requires the Company s directors and officers, and persons who own more than 10% of the Company s Common Stock to file initial reports of ownership and reports of changes in ownership. Such persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file. Based solely on its review of the copies of such forms furnished to the Company and written representations from the executive officers and directors, the Company believes that all transactions required to be reported pursuant to Section 16(a) for the year ended December 31, 2003 were reported on a timely basis with the exception of Mr. Pietri, who filed a report in July 2003 for options granted in June 2003; Mr. Cain, who filed a form in March 2003 for options granted in February 2003; Mr. Chang, who filed a report in June 2003 for options granted in March 2003; Mr. Dubester, who filed a form in March 2003 for options granted in February 2003, and Mr. Fong, who filed a form in June 2003 for options granted in April 2003.

Code of Ethics

Vialta has not adopted a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. In view of Vialta s small size and the limited number of personnel who are responsible for its operations, the Company has determined that a formal code of ethics is not currently necessary. Our Board of Directors will, however, revisit this issue in the future to determine if adoption of a code of ethics is appropriate. In the meantime, our management has adopted an insider trading policy and is committed to promoting honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

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Item 11. ***Executive Compensation***

EXECUTIVE COMPENSATION

The following table sets forth the compensation earned by the Named Executive Officers: (1) the Company s Chief Executive Officer and (2) the Company s four other most highly compensated executive officers for the fiscal year 2003.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
					Awards	
Name and Principal Position	Fiscal Year	Salary	Bonus	Other Annual Compensation(1)	Securities Underlying Options	All Other Compen-sation(2)
Fred S.L. Chan(3)	2003	$252,762	$			$175
Chairman of the Board	2002	248,000				950
of Directors	2001	248,000				966
Didier Pietri(4)	2003	$310,663	$150,000		2,000,000	$175
President and Chief	2002	300,000	175,000(5)			950
Executive Officer	2001	188,636			2,000,000	252
William M. Scharninghausen(6)	2003	$183,729			15,000	$175
Chief Financial Officer	2002	28,038			250,000	86
	2001					

(1) In accordance with SEC rules, perquisites and personal benefits have been omitted because such benefits, if any, did not exceed the reporting thresholds under SEC rules.

(2) Includes dollar value of premiums paid by the Company under the Company s long term disability policy on behalf of the Named Executive Officers.

(3) Mr. Chan was President of the Company from its inception through April 2001 and was its Chief Executive Officer from its inception through August 28, 2001.

(4) Mr. Pietri joined the Company as President on April 30, 2001 and became Chief Executive Officer on August 29, 2001.

(5) Includes $75,000 earned in 2002 that was deferred, at Mr. Pietri s election, to 2003.

(6) Mr. Scharninghausen joined the Company as Chief Financial Officer on October 16, 2002

Option Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	5%	10%

Fred S. L. Chan		0%				
Didier Pietri(1)	2,000,000	83%	$0.34	6/5/13	$1,230,800	$1,564,000
William M. Scharninghausen(1)	15,000	1%	0.50	7/1/13	13,575	17,250

(1) Options vest at a rate of 25% on each of the one and two year anniversary of grant and 1/48 on each one month anniversary thereafter.

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Aggregate Options Exercises in Last Fiscal Year and

Fiscal Year-End Values

The following table sets forth certain information concerning the exercise of options by each of the Named Executive Officers during fiscal year 2003, including the aggregate amount of gains on the date of exercise. In addition, the table includes the number of shares covered by both exercisable and unexercisable stock options as of December 31, 2003.

			Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year-End(1)	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Fred S. L. Chan	0	$ 0	515,155	1,182,225	$278,184	$363,402
Didier Pietri	0	$ 0	1,750,000	2,250,000	170,000	350,000
William M. Scharninghausen	0	$ 0	62,500	202,500	2,500	10,650

(1) Valuation of these options is based on the closing bid price of $0.54 per share, as quoted on the over the counter bulletin board on December 31, 2003.

COMPENSATION OF DIRECTORS

During 2003, non-employee directors of the Company received cash compensation for their services, along with reimbursement for their reasonable expenses in attending meetings of the Board of Directors or any meetings of a Committee of the Board of Directors. Commencing with the first quarter of 2003, each non-employee director received the following fees:

$2,000 for each Board meeting attended in person;

$1,000 for each Board meeting attended by telephone;

$8,000 per year for service on the Audit Committee or $12,000 per year for service as the Chairman of the Audit Committee, in each case payable in four quarterly installments; and

an annual stock grant of 20,000 shares under our 2000 Directors Stock Option Plan, as amended on April 30, 2003. Prior to its amendment, the 2000 Directors Stock Option Plan provided for an initial grant of 32,000 shares and subsequent grants of 8,000 shares each year for services as a director. All options are granted at an exercise price equal to the fair market value of a share of Common Stock on the date of grant and vest in four equal annual installments, starting on the first anniversary of the date of grant. For a more detailed description of the Directors Plan, including the amendment, see Exhibit 10.2 of the Company s 2003 Form 10-K for the 2003 fiscal year filed with the SEC.

Up until January 2003, Mr. Fong served as an advisor to the Chairman of the Board and received $8,025 in 2003 as compensation for advisory services provided to the Company. Subsequent to January 2003, Mr. Fong, as a non-employee director, received $20,000 for Board and committee meetings attended in 2003. Mr. Cain received $8,000; Mr. Chang received $10,000, and Mr. Dubester received $13,000 for Board and committee meetings attended in 2003.

Directors who are employees of the Company do not receive additional compensation for their services as directors. During fiscal 2003, Mr. Chan and Mr. Pietri were the only employees who served as directors.

COMPENSATION COMMITTEE INTERLOCKS

AND INSIDER PARTICIPATION

Fred Chan, who is the Chairman of the Company, participated in deliberations of the Company s Board of Directors concerning executive officer compensation.

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Vialta employs Fred S.L. Chan s brother as its Senior Director of IT and one of his sons as its Director of Product Marketing and Design. The salary and benefits provided to these individuals for fiscal 2003 was $107,194 and $91,528, respectively. Another of Mr. Chan s sons is employed as a Marketing Coordinator and received salary and benefits during the last fiscal year that did not exceed $60,000.

No Compensation committee interlocks existed during 2003.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

General

The Committee acts on behalf of the Board to examine and implement the general compensation policy of the Company for all executive officers and such other employees of the Company as the Board of Directors may deem appropriate. The Committee reviews the general compensation policy applicable to the Chief Executive Officer (CEO) and other executive officers on an annual basis. The Committee administers the Company s incentive and equity plans, including the 1999 Stock Incentive Plan, the 2000 Directors Stock Option Plan and the 2001 Nonstatutory Stock Option Plan.

The Company s policy in compensating its executive officers is intended to attract, motivate and retain these executives. Consistent with this policy, key executives are eligible to receive, in addition to their base salaries, stock option grants under the 1999 Stock Incentive Plan in amounts determined by the Board of Directors based on recommendations by the Compensation Committee. Stock options have value for these executives only if the price of the Company s stock increases above the fair market value on the grant date and the executive remains in the Company s employ for the period required for the shares to vest. Additional incentive compensation is also considered by the Committee based on individual performance and the achievement of short term goals.

The base salary, incentive compensation and stock option grants of the executive officers are determined in part by the Committee reviewing data on prevailing compensation practices in technology companies with whom the Company competes for executive talent and by their evaluating such information in connection with the Company s corporate goals. To this end, the Committee attempts to compare the compensation of the Company s CEO and other executive officers with the compensation practices of comparable companies to determine base salary, target bonuses and target total cash compensation.

Compensation of Executive Officers

During the fiscal year that ended on December 31, 2003, the Company s executive compensation program was comprised of the following key components: base salary, annual bonus, and equity-based incentives.

Base Salary. The Company sets the base salaries of its executives at levels believed to be consistent with comparably sized companies engaged in similar industries.

Equity-Based Incentive Compensation. Stock options are an important component of the total compensation of executives. The Company believes that stock options align the interests of each executive with those of the stockholders. They also provide executives a significant, long-term interest in the Company s success and help retain key executives in a competitive market for executive talent. The Company s 1999 Equity Incentive Plan authorizes the Committee to grant stock options to executives. The number of shares owned by, or subject to options held by, each executive officer is periodically reviewed and additional awards are considered based upon past performance of the executive and the relative holdings of other executives in the Company. The option grants generally utilize four-year vesting periods to encourage executives to continue contributing to the Company, and they expire not later than ten years from the date of grant.

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Compensation of the Chief Executive Officer

The Company s CEO s compensation plans include the same elements and performance measures as the plans of the Company s other executive officers. The Compensation Committee evaluates the performance of the Company s CEO, sets his base compensation and determines bonuses and awards stock or option grants, if any. In May 2003 the Compensation Committee approved continuing Mr. Pietri s basic compensation at the rate he has been paid since joining the Company in April of 2001. In addition, the Compensation Committee voted to provide a guaranteed bonus of $75,000, which was paid in November 2003. A discretionary bonus of $75,000 has not yet been paid as of the date of this proxy statement filing. The Compensation Committee also approved a stock option grant to Mr. Pietri of 2,000,000 shares of common stock to vest 25% immediately, 25% on the first anniversary of the grant and 2 1/2% each month thereafter. In determining the terms of his agreement, the Compensation Committee considered a number of factors and criteria including, Mr. Pietri s depth of experience, his past accomplishments with other companies, his vision and leadership abilities, and the future needs of the Company. In making its compensation decisions with Mr. Pietri, the Compensation Committee also considered the need to provide continuity of leadership. The Compensation Committee exercised its discretion and judgment based on the above factors, and no specific formula was applied to determine the weight of any factor.

Deductibility of Executive Compensation

The Compensation Committee has considered the impact of Section 162(m) of the Code, which disallows a deduction for any publicly held corporation for individual compensation exceeding $1 million in any taxable year for the CEO and four other most highly compensated executive officers, unless such compensation meets the requirements for the performance-based exception to the general rule. Since the cash compensation paid by the Company to each of its executive officers is expected to be below $1 million, the Compensation Committee believes that this section will not affect the tax deductions available to the Company. It will be the Compensation Committee s policy to qualify, to the extent reasonable, the executive officers compensation for deductibility under applicable tax law.

COMPENSATION COMMITTEE

Matt Fong (Chairman)
George Cain
Michael Dubester

EMPLOYMENT AGREEMENTS

Didier Pietri originally entered into an employment letter agreement on April 2001, with the Company pursuant to which he was entitled to receive an annual salary of $300,000. In addition to basic compensation, Mr. Pietri was entitled to participation in employee benefit plans, stock option grants and a guaranteed bonus of $100,000 after one year of service. Mr. Pietri was also awarded an additional $150,000 bonus, which was paid in 2003. In April 2002, the Compensation Committee approved continuing Mr. Pietri s basic compensation at the previous rate, but the guaranteed bonus for his second year of service was reduced to $75,000, and a discretionary bonus of $75,000 was added. Any discretionary bonus must be paid before the expiration of the agreement. In May, 2003, the Compensation Committee again approved continuing Mr. Pietri s base salary and retaining his guaranteed and discretionary bonuses. In addition, the compensation committee approved a stock option grant to Mr. Pietri of 2,000,000 shares of common stock to vest 25% immediately, 25% on the first anniversary of the grant and 2 1/2% each month thereafter.

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PERFORMANCE GRAPH

The graph below compares the cumulative total stockholder return on the Common Stock of the Company from the first day of trading of the Company s Common Stock after the Company s spin-off from ESS Technology, Inc. (August 21, 2001) to December 31, 2003 with the cumulative total return on the NASDAQ Stock Market Index and the Dow Jones Consumer Electronics Industry Index (assuming the investment of $100 in the Company s Common Stock and in each of the indexes on the date of the Company s initial public offering, and reinvestment of all dividends). The stock price performance on the following graph is not necessarily indicative of future stock price performance.

Stock Price Performance

August 23 (Inception), 2001 December 31, 2003

The following description data are supplied in accordance with Rule 304(d) of Regulation S-T:

	Vialta, Inc.	NASDAQ Composite	Dow Jones Consumer Electronics Index
Date	Investment Value	Investment Value	Investment Value
8/23/01	$100.00	$100.00	$100.00
12/31/01	$263.83	$ 81.94	$112.05
12/31/02	$ 64.89	$ 75.35	$138.89
12/31/03	$114.89	$106.18	$345.82

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Item 12. ***Security Ownership of Certain Beneficial Owners and Management***
Equity Compensation Plan Information

The following table summarizes information with respect to options under our equity compensation plans at December 31, 2003:

	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)) (c)
Equity compensation plans approved by security holders	12,148,744	$0.31	4,518,490
Equity compensation plans not approved by security holders			
	12,148,744	$0.31	4,518,490

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information, as of March 31, 2004, known to the Company regarding the beneficial ownership of the Company s Common Stock by (i) each person known by the Company to be the beneficial owner of more than 5% of the Company s Common Stock, (ii) each of the Company s directors, (iii) each executive officer named in the Summary Compensation Table below (the Named Executive Officers) and (iv) all directors and executive officers as a group. Unless otherwise indicated in the footnotes hereto, each director and executive officer has (or could have upon exercise of an option vested or vesting within 60 days of March 31, 2004) sole vesting and investment power, subject to community property laws where applicable.

	Common Stock Beneficially Owned	
Name and Address of Beneficial Owners(1)	Number	Percent
State of Wisconsin Investment Board(2) P.O. Box 7842, Madison, WI 53707	7,892,600	10%
Trusts for the Benefit of the children of Fred S.L. Chan(3)	11,083,757	13%
Fred S.L. Chan(4)	21,495,863	26%
Didier Pietri(5)	2,496,936	2%
George M. Cain(6)	5,000	*
Herbert Chang(7)	33,833	*
Matthew K. Fong	80,974	*
Michael S. Dubester(8)	5,000	*
William Scharninghausen(9)	62,500	*
All executive officers and directors as a group (7 persons)	24,180,106	29%

* Less than 1% of the outstanding shares of the Company s Common Stock.

(1) Unless otherwise indicated, the address for each beneficial owner is c/o Vialta, Inc., 48461 Fremont Boulevard, Fremont, CA 94538.

(2) Based on a filing with the Securities Exchange Commission on February 16, 2004 indicating beneficial ownership as of December 31, 2003.

(3) Includes shares held by trusts for the benefit of the children of Mr. and Mrs. Chan. Includes 8,800,000 shares held by Evershine XVI, L.P., an entity controlled by a trust for the benefit of Mr. Chan s children.

(4) Includes 539,780 shares which Mr. Chan has the right to acquire on or within 60 days of March 31, 2004 through the exercise of options.

(5) Includes 2,437,500 shares which Mr. Pietri has the right to acquire on or within 60 days of March 31, 2004 through the exercise of options.

(6) Includes 5,000 shares which Mr. Cain has the right to acquire on or within 60 days of March 31, 2004 through the exercise of options.

(7) Includes 33,833 shares which Mr. Chang has the right to acquire on or within 60 days of March 31, 2004 through the exercise of options.

(8) Includes 5,000 shares which Mr. Dubester has the right to acquire on or within 60 days of March 31, 2004 through the exercise of options.

(9) Includes 62,500 shares which Mr. Scharninghausen has the right to acquire on or within 60 days of March 31, 2004 through the exercise of options.

Item 13. *Certain Relationships and Related Transactions*

Vialta employs Fred S.L. Chan s brother as its Senior Director of IT and one of his sons as its Director of Product Marketing and Design. The salary and benefits provided to these individuals for fiscal 2002 was $107,194 and $91,528, respectively, and they also received the Company s standard employee benefits package. Another of Mr. Chan s sons was employed as a Marketing Coordinator during a portion of fiscal 2003 and received salary and benefits during the last fiscal year that did not exceed $60,000.

Mr. Chan is Chairman of the Board of ESS Technology, Inc., and owns approximately 14.1% of the outstanding common stock of ESS. Prior to its spin-off in August 2001, Vialta was a subsidiary of ESS. Vialta leases its corporate headquarters and purchases component parts from ESS. The companies are also parties to an Administrative and Management Services Agreement. During 2003, Vialta made payments to ESS of $1,182,000 under the lease, $194,000 for component parts, $10,000 for administrative and management services, $33,000 for services received in fiscal 2002, and received payments from ESS of $4,000 for other services. Effective as of July 2003, Vialta renegotiated its lease with ESS Technology to extend the duration of the lease at fair market rate. Vialta believes it paid fair market value for the lease based on a review of lease rental rates in its area and believes the prices it was charged for parts is equivalent to those charged by ESS to other manufactures.

Item 14. *Principal Accountant Fees and Services*

Fees Paid to PricewaterhouseCoopers LLP

The following table lists the aggregate fees paid for professional services by PricewaterhouseCoopers LLP for all Audit Fees, Audit-Related Fees, Tax Fees, and All Other Fees for the last two fiscal years. Certain amounts for the fiscal year 2002 have been reclassified to conform to the 2003 presentation.

	Fiscal 2003	Fiscal 2002
Audit Fees	$208,000	$227,000
Audit Related Fees	0	0
Tax Fees	40,900	60,000
All Other Fees	0	0
	$248,900	$287,000

The Audit fees for the years ended December 31, 2003 and 2002, respectively, were for services rendered for the audit of the Company s annual financial statements for the fiscal years 2003 and 2002, and for reviews of the financial statements included in the Company s quarterly reports on Form 10-Q for the first three quarters of the fiscal years 2003 and 2002. Tax fees for the years ended December 31, 2003 and 2002, respectively, were for tax compliance, tax advice and tax preparation.

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Policy of Audit Committee with respect to Independent Auditors

The Audit Committee of the Board pre-approved all non-audit services provided by PricewaterhouseCoopers LLP and concluded, based on information provided by PricewaterhouseCoopers LLP, that providing such services is compatible with maintaining PricewaterhouseCoopers LLP s independence.

The Company s management has the primary responsibility for the integrity of the Company s financial information. The Company s independent accountants are responsible for conducting independent audits of the Company s financial statements in accordance with generally accepted auditing standards and expressing an opinion on the financial statements based on those audits. The Audit Committee nominates the independent accountants for approval by the Board and is responsible for overseeing the conduct of the above activities by management and such accountants.

As part of its responsibility, the Audit Committee has met with the Company s independent accountants to review and discuss the adequacy of the Company s internal control system, financial reporting procedures and other matters required to be discussed by the Statement of Auditor Standards 61 such as the independent accountant s judgments as to the quality of the financial statements, changes in the accounting policies and sensitive accounting estimates. The Audit Committee has reviewed and discussed the audited financial statements with management and the Company s independent accountants. The Audit Committee preapproved the general scope of the Company s annual audit and performance of non-audit services by the Company s accountants and reviewed the fees charged by the independent accountants. The Audit Committee has received the written disclosures and the letter from the independent accountants required by Independent Standards Board Standard No. 1 and has discussed with the independent accountants that firm s independence.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a)(3) *Exhibits*

The exhibit index below lists the exhibits that are filed as a part of this amendment

Exhibit Number	Exhibit Title
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized

VIALTA, INC.
(Registrant)

By: /s/ DIDIER PIETRI

Didier Pietri
President and Chief Executive Officer

Dated: May 4, 2004

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INDEX TO EXHIBITS

Exhibit Number	Exhibit Title
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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159,164

Provision for income taxes
33,743

23,508

57,251

Net income
$
62,075

$
39,838

$
101,913

(in thousands)	June 30, 2016		
	Community Banking	Home Lending	Consolidated
Total assets	$20,812,211	$3,320,296	$24,132,507
Total loans and leases	$14,723,290	$2,631,950	$17,355,240
Total deposits	$18,003,950	$254,524	$18,258,474

(in thousands)	December 31, 2015		
	Community Banking	Home Lending	Consolidated
Total assets	$20,214,498	$3,191,883	$23,406,381

Total loans and leases	$14,183,919	$2,682,617	$16,866,536
Total deposits	$17,689,815	$17,374	$17,707,189

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Note 14 – Fair Value Measurement

The following table presents estimated fair values of the Company's financial instruments as of June 30, 2016 and December 31, 2015, whether or not recognized or recorded at fair value in the Condensed Consolidated Balance Sheets:

(in thousands)		June 30, 2016		December 31, 2015	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS:					
Cash and cash equivalents	1	$905,363	$905,363	$773,725	$773,725
Trading securities	1,2	10,188	10,188	9,586	9,586
Investment securities available for sale	2	2,482,072	2,482,072	2,522,539	2,522,539
Investment securities held to maturity	3	4,382	5,250	4,609	5,590
Loans held for sale	2	552,681	552,762	363,275	363,275
Loans and leases, net	3	17,224,198	17,386,430	16,736,214	16,661,079
Restricted equity securities	1	47,542	47,542	46,949	46,949
Residential mortgage servicing rights	3	112,095	112,095	131,817	131,817
Bank owned life insurance assets	1	295,444	295,444	291,892	291,892
Derivatives	2,3	93,747	93,747	43,549	43,549
Visa Class B common stock	3	—	56,198	—	58,751
FINANCIAL LIABILITIES:					
Deposits	1,2	$18,258,474	$18,271,000	$17,707,189	$17,709,555
Securities sold under agreements to repurchase	2	360,234	360,234	304,560	304,560
Term debt	2	902,999	914,008	888,769	890,852
Junior subordinated debentures, at fair value	3	258,660	258,660	255,457	255,457
Junior subordinated debentures, at amortized cost	3	101,093	76,597	101,254	75,654
Derivatives	2	95,103	95,103	41,514	41,514

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016			
Description	Total	Level 1	Level 2	Level 3
FINANCIAL ASSETS:				
Trading securities				
Obligations of states and political subdivisions	$76	$—	$76	$—
Equity securities	10,112	10,112	—	—
Investment securities available for sale				
Obligations of states and political subdivisions	298,106	—	298,106	—
Residential mortgage-backed securities and collateralized mortgage obligations	2,181,923	—	2,181,923	—
Investments in mutual funds and other equity securities	2,043	—	2,043	—
Loans held for sale, at fair value	542,917	—	542,917	—
Residential mortgage servicing rights, at fair value	112,095	—	—	112,095
Derivatives				
Interest rate lock commitments	11,028	—	—	11,028
Interest rate swaps	82,588	—	82,588	—
Foreign currency derivative	131	—	131	—
Total assets measured at fair value	$3,241,019	$10,112	$3,107,784	$123,123
FINANCIAL LIABILITIES:				
Junior subordinated debentures, at fair value	$258,660	$—	$—	$258,660
Derivatives				
Interest rate forward sales commitments	7,224	—	7,224	—
Interest rate swaps	87,545	—	87,545	—
Foreign currency derivative	334	—	334	—
Total liabilities measured at fair value	$353,763	$—	$95,103	$258,660

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(in thousands)	December 31, 2015			
Description	Total	Level 1	Level 2	Level 3
FINANCIAL ASSETS:				
Trading securities				
Obligations of states and political subdivisions	$75	$—	$75	$—
Equity securities	9,511	9,511	—	—
Investment securities available for sale				
Obligations of states and political subdivisions	313,117	—	313,117	—
Residential mortgage-backed securities and collateralized mortgage obligations	2,207,420	—	2,207,420	—
Investments in mutual funds and other equity securities	2,002	—	2,002	—
Loans held for sale, at fair value	363,275	—	363,275	—
Residential mortgage servicing rights, at fair value	131,817	—	—	131,817
Derivatives				
Interest rate lock commitments	3,631	—	—	3,631
Interest rate forward sales commitments	1,155	—	1,155	—
Interest rate swaps	38,567	—	38,567	—
Foreign currency derivative	196	—	196	—
Total assets measured at fair value	$3,070,766	$9,511	$2,925,807	$135,448
FINANCIAL LIABILITIES:				
Junior subordinated debentures, at fair value	$255,457	$—	$—	$255,457
Derivatives				
Interest rate forward sales commitments	971	—	971	—
Interest rate swaps	40,238	—	40,238	—
Foreign currency derivative	305	—	305	—
Total liabilities measured at fair value	$296,971	$—	$41,514	$255,457

The following methods were used to estimate the fair value of each class of financial instrument in the tables above:

Cash and Cash Equivalents— For short-term instruments, including noninterest bearing cash and interest bearing cash, the carrying amount is a reasonable estimate of fair value.

Securities— Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, or broker indicative bids, when market quotes are not readily accessible or available. Management periodically reviews the pricing information received from the third-party pricing service and compares it to a secondary pricing service, evaluating significant price variances between services to determine an appropriate estimate of fair value to report.

Loans Held for Sale— Fair value for residential mortgage loans originated as held for sale is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights. For loans not originated as held for sale, these loans are accounted for at lower of cost or market, with the fair value estimated based on the expected sales price.

Loans and Leases— Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, including commercial, real estate and consumer loans. Each loan category is further segregated by fixed and adjustable rate loans. The fair value of loans is calculated by discounting expected cash flows at rates which similar loans are currently being made. These amounts are discounted further by embedded probable losses expected to be realized in the portfolio.

Restricted Equity Securities— The carrying value of restricted equity securities approximates fair value as the shares can only be redeemed by the issuing institution at par.

Residential Mortgage Servicing Rights— The fair value of mortgage servicing rights is estimated using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and

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ancillary fee income net of servicing costs. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Management believes the significant inputs utilized are indicative of those that would be used by market participants.

Bank Owned Life Insurance Assets— Fair values of insurance policies owned are based on the insurance contract's cash surrender value.

Visa Inc. Class B Common Stock— The fair value of Visa Class B common stock is estimated by applying a 5% discount to the value of the unredeemed Class A equivalent shares. The discount primarily represents the risk related to the further potential reduction of the conversion ratio between Class B and Class A shares and a liquidity risk premium.

Deposits— The fair value of deposits with no stated maturity, such as non-interest bearing deposits, savings and interest checking accounts, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold under Agreements to Repurchase— For short-term instruments, including securities sold under agreements to repurchase and federal funds purchased, the carrying amount is a reasonable estimate of fair value.

Term Debt— The fair value of term notes is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Junior Subordinated Debentures— The fair value of junior subordinated debentures is estimated using an income approach valuation technique. The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. The Company periodically utilizes an external valuation firm to determine or validate the reasonableness of inputs and factors that are used to determine the fair value. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, we have classified this as a Level 3 fair value measure.

Derivative Instruments— The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The pull-through rate assumptions are considered Level 3 valuation inputs and are significant to the interest rate lock commitment valuation; as such, the interest rate lock commitment derivatives are classified as Level 3. The fair value of the interest rate swaps is determined using a discounted cash flow technique incorporating credit valuation adjustments to reflect nonperformance risk in the measurement of fair value. Although the Bank has determined that the majority of the inputs used to value its interest rate swap derivatives fall within Level 2 of the fair value hierarchy, the CVA associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2016, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its interest rate swap positions and has determined that the CVA are not significant to the overall valuation of its interest rate swap derivatives. As a result, the Bank has classified its interest rate swap derivative valuations in Level 2 of the fair value hierarchy.

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Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

The following table provides a description of the valuation technique, significant unobservable inputs, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at June 30, 2016:

Financial Instrument	Valuation Technique	Unobservable Input	Weighted Average
Residential mortgage servicing rights	Discounted cash flow		
		Constant Prepayment Rate	14.95%
		Discount Rate	9.70%
Interest rate lock commitment	Internal Pricing Model		
		Pull-through rate	83.16%
Junior subordinated debentures	Discounted cash flow		
		Credit Spread	5.84%

Generally, any significant increases in the constant prepayment rate and discount rate utilized in the fair value measurement of the residential mortgage servicing rights will result in negative fair value adjustments (and a decrease in the fair value measurement). Conversely, a decrease in the constant prepayment rate and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement).

An increase in the pull-through rate utilized in the fair value measurement of the interest rate lock commitment derivative will result in positive fair value adjustments (and an increase in the fair value measurement.) Conversely, a decrease in the pull-through rate will result in a negative fair value adjustment (and a decrease in the fair value measurement.)

Management believes that the credit risk adjusted spread utilized in the fair value measurement of the junior subordinated debentures carried at fair value is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. The widening of the credit risk adjusted spread above the Company's contractual spreads has primarily contributed to the positive fair value adjustments. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of June 30, 2016, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments (and decrease the fair value measurement). Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments (and increase the fair value measurement).

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The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three and six months ended June 30, 2016 and 2015.

(in thousands)

Three Months Ended June 30,	Beginning Balance	Change included in earnings	Purchases and issuances	Sales and settlements	Ending Balance	Net change in unrealized gains or (losses) relating to items held at end of period
2016						
Residential mortgage servicing rights	$ 117,172	$ (13,940)	$ 8,863	$ —	$ 112,095	$ (12,134)
Interest rate lock commitment, net	8,255	1,677	16,319	(15,223)	11,028	11,028
Junior subordinated debentures, at fair value	256,917	4,380	—	(2,637)	258,660	4,380
2015						
Residential mortgage servicing rights	$ 116,365	$ (423)	$ 11,264	$ —	$ 127,206	$ 1,456
Interest rate lock commitment, net	7,025	(781)	11,604	(13,787)	4,061	4,061
Junior subordinated debentures, at fair value	250,652	3,957	—	(2,395)	252,214	3,957

(in thousands)

Six Months Ended June 30,	Beginning Balance	Change included in earnings	Purchases and issuances	Sales and settlements	Ending Balance	Net change in unrealized gains or (losses) relating to items held at end of period
2016						
Residential mortgage servicing rights	$ 131,817	$ (34,565)	$ 14,843	$ —	$ 112,095	$ (31,961)
Interest rate lock commitment, net	3,631	3,721	31,282	(27,606)	11,028	11,028
Junior subordinated debentures, at fair value	255,457	8,674	—	(5,471)	258,660	8,674
2015						
Residential mortgage servicing rights	$ 117,259	$ (10,154)	$ 20,101	$ —	$ 127,206	$ (6,315)
Interest rate lock commitment, net	2,867	(3,648)	30,665	(25,823)	4,061	4,061
Junior subordinated debentures, at fair value	249,294	7,835	—	(4,915)	252,214	7,835

Changes in residential mortgage servicing rights carried at fair value are recorded in residential mortgage banking revenue within non-interest income. Gains (losses) on interest rate lock commitments carried at fair value are recorded in residential mortgage banking revenue within non-interest income. Gains (losses) on junior subordinated debentures carried at fair value are recorded in non-interest income. The contractual interest expense on the junior subordinated debentures is recorded on an accrual basis as interest on junior subordinated debentures within interest expense.

Settlements related to the junior subordinated debentures represent the payment of accrued interest that is embedded in the fair value of these liabilities.

Additionally, from time to time, certain assets are measured at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment, typically on collateral dependent loans.

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Fair Value of Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported upon.

(in thousands)	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Loans and leases	$25,906	$ —	$ —	$25,906
Other real estate owned	9,089	—	—	9,089
	$34,995	$ —	$ —	$34,995

(in thousands)	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Loans and leases	$24,690	$ —	$ —	$24,690
Other real estate owned	802	—	—	802
	$25,492	$ —	$ —	$25,492

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Loans and leases	$7,091	$6,957	$13,170	$17,440
Other real estate owned	39	95	1,462	2,487
Total loss from nonrecurring measurements	$7,130	$7,052	$14,632	$19,927

The following provides a description of the valuation technique and inputs for the Company’s assets and liabilities classified as Level 3 and measured at fair value on a nonrecurring basis. Unobservable inputs and qualitative information about the unobservable inputs are not presented as the fair value is determined by third-party information. The loans and leases amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral.

The other real estate owned amount above represents impaired real estate that has been adjusted to fair value. Other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on other real estate owned for fair value adjustments based on the fair value of the

real estate.

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Fair Value Option

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale accounted for under the fair value option as of June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016			December 31, 2015		
	Fair Value	Aggregate Unpaid Principal Balance	Fair Value Less Aggregate Unpaid Principal Balance	Fair Value	Aggregate Unpaid Principal Balance	Fair Value Less Aggregate Unpaid Principal Balance
Loans held for sale	$542,917	$517,247	$ 25,670	$363,275	$351,414	$ 11,861

Residential mortgage loans held for sale accounted for under the fair value option are measured initially at fair value with subsequent changes in fair value recognized in earnings. Gains and losses from such changes in fair value are reported as a component of residential mortgage banking revenue, net in the Consolidated Statements of Income. For the three and six months ended June 30, 2016, the Company recorded a net increase in fair value of $8.9 million and $13.8 million, respectively. For the three and six months ended June 30, 2015, the Company recorded a net decrease in fair value of $5.2 million and $282,000, respectively, representing the change in fair value reflected in earnings.

There were no nonaccrual residential mortgage loans held for sale or residential mortgage loans held for sale 90 days or more past due and still accruing interest as of June 30, 2016 and December 31, 2015, respectively.

The Company selected the fair value measurement option for existing junior subordinated debentures (the Umpqua Statutory Trusts) and for junior subordinated debentures acquired from Sterling. The remaining junior subordinated debentures were acquired through previous business combinations and were measured at fair value at the time of acquisition and subsequently measured at amortized cost.

Accounting for the selected junior subordinated debentures at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost are presented as separate line items on the balance sheet. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants under current market conditions as of the measurement date.

Due to inactivity in the junior subordinated debenture market and the lack of observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The Company monitors activity in the trust preferred and related markets, to the extent available, evaluates changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Regarding the activity in and condition of the junior subordinated debt market, we noted no observable changes in the current period as it relates to companies comparable to our size and condition, in either the primary or secondary markets. Relating to the interest rate environment, we considered the change in slope and shape of the forward LIBOR swap curve in the current period, the effects of which did not result in a significant change in the fair value of these liabilities.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which 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 that expressly or implicitly predict future results, performance or events. 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," "intends" and "forecast," and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds; our securities portfolio; loan sales; availability of acquisition and growth opportunities; adequacy of our allowance for loan and lease losses and reserve for unfunded commitments; provision for loan and lease losses; performance of troubled debt restructurings; our commercial real estate portfolio and subsequent charge-offs; resolution of non-accrual loans; litigation; Pivotus Ventures, Inc.; and store consolidations. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission (the "SEC") and the following factors that might cause actual results to differ materially from those presented:

- our ability to attract new deposits and loans and leases;
- demand for financial services in our market areas;
- competitive market pricing factors;
- our ability to effectively develop and implement new technology;
- deterioration in economic conditions that could result in increased loan and lease losses;
- risks associated with concentrations in real estate related loans;
- market interest rate volatility and prolonged low interest rate environments;
- compression of our net interest margin;
- stability of funding sources and continued availability of borrowings;
- changes in legal or regulatory requirements;
- the results of regulatory examinations;
- our ability to recruit and retain key management and staff;
- availability of, and competition for, acquisition opportunities;
- risks associated with merger and acquisition integration;
- significant decline in the market value of the Company that could result in an impairment of goodwill;
- our ability to raise capital or incur debt on reasonable terms;
- regulatory limits on the Bank's ability to pay dividends to the Company;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the Company's business operations, including the impact of provisions and regulations related to FDIC deposit insurance, interchange fees, stress testing and executive compensation;
- competition, including from financial technology companies.

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Forward-looking statements are made as of the date of this Form 10-Q. We do not intend to update these forward-looking statements. Readers should consider any forward-looking statements in light of this explanation, and we caution readers about relying on forward-looking statements.

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General

Umpqua Holdings Corporation (referred to in this report as "we," "our," "Umpqua," and "the Company"), an Oregon corporation, is a financial holding company with two principal operating subsidiaries, Umpqua Bank (the "Bank") and Umpqua Investments, Inc. ("Umpqua Investments").

With headquarters located in Roseburg, Oregon, the Bank is considered one of the most innovative community banks in the United States, recognized nationally and internationally for its unique company culture and customer experience strategy, which differentiate the Company from its competition. The Bank provides a wide range of banking, wealth management, mortgage and other financial services to corporate, institutional and individual customers, and also has a wholly-owned subsidiary, Financial Pacific Leasing, Inc., a commercial equipment leasing company.

Umpqua Investments is a registered broker-dealer and registered investment advisor with offices in Portland, Lake Oswego, and Medford, Oregon, Vancouver, Washington, and Santa Rosa, California, and also offers products and services through Umpqua Bank stores. The firm is one of the oldest investment companies in the Northwest and is actively engaged in the communities it serves. Umpqua Investments offers a full range of investment products and services including: stocks, fixed income securities (municipal, corporate, and government bonds, CDs, and money market instruments), mutual funds, options, retirement planning, advisory account services, goals based planning, insurance and annuities.

In 2015, we formed Pivotus Ventures, Inc. as a subsidiary of Umpqua Holdings Corporation. Pivotus will use small cross-functional teams with a startup dynamic to validate, develop, and test new bank platforms that could have a significant impact on the experience and economics of banking. The collaborative model will enhance its ability to imagine and develop disruptive technologies, test them with a broad range of customers and deliver them to scale.

Along with its subsidiaries, the Company is subject to the regulations of state and federal agencies and undergoes periodic examinations by these regulatory agencies.

Executive Overview

Significant items for the three and six months ended June 30, 2016 were as follows:

Financial Performance

- Net earnings available to common shareholders per diluted common share were $0.25 and $0.46 for the three and six months ended June 30, 2016, compared to $0.25 and $0.46 for the three and six months ended June 30, 2015.

- Net interest margin, on a tax equivalent basis, was 4.08% and 4.21% for the three and six months ended June 30, 2016, respectively, as compared to 4.48% and 4.49% for the three and six months ended June 30, 2015, respectively. The decreases in net interest margin for the three and six months ended June 30, 2016, compared to the same periods in the prior year, were primarily driven by a decrease in the average yield on interest-earning assets as well as an increase in the cost of interest-bearing liabilities.

- Residential mortgage banking revenue was $36.8 million and $52.2 million for the three and six months ended June 30, 2016, respectively, as compared to $40.0 million and $68.2 million for the three and six months ended June 30, 2015, respectively. The linked quarter decrease was primarily driven by a $13.9 million negative fair value adjustment to the mortgage servicing rights ("MSR") asset for the three months ended June 30, 2016, as compared to a negative fair value adjustment of $423,000 for the same period of the prior year. This was partially offset by a 5% increase in closed for sale mortgage originations for the three months ended June 30, 2016, relative to the same period

in the prior year, along with a higher gain on sale margin, which increased to 4.02% for the three months ended June 30, 2016, as compared to 3.38% in the same period of the prior year. The decrease for the six months ended June 30, 2016 was primarily driven by a $34.6 million negative fair value adjustment to the MSR, as compared to a negative fair value adjustment of $10.2 million for the same period of the prior year. It was also driven by a decrease of 3% in closed for sale mortgage volume for the six months ended June 30, 2016, as compared to the prior year same period, partially offset by an increase in the gain on sale margin from 3.50% to 3.89%.

Total gross loans and leases were $17.4 billion as of June 30, 2016, an increase of $488.7 million, as compared to December 31, 2015. The increase is mainly due to loan growth in the non-owner occupied commercial real estate portfolio, construction & development portfolio, as well as the lease and equipment finance portfolio, partially offset

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by portfolio loan sales of $303.7 million. In addition, $9.8 million of portfolio residential mortgage loans were transferred to held for sale and are expected to be sold during the third quarter of 2016. These loans were transferred to held for sale at the lower of cost or market, and no gain or loss has been recorded.

- Total deposits were $18.3 billion as of June 30, 2016, an increase of $551.3 million, compared to December 31, 2015. This increase was primarily driven by growth in all deposit categories, but primarily non-interest bearing demand and money market accounts.

- Total consolidated assets were $24.1 billion as of June 30, 2016, compared to $23.4 billion at December 31, 2015.

Credit Quality

- Non-performing assets decreased to $64.6 million, or 0.27% of total assets, as of June 30, 2016, as compared to $66.7 million, or 0.28% of total assets, as of December 31, 2015. Non-performing loans were $48.2 million, or 0.28% of total loans, as of June 30, 2016, as compared to $44.4 million, or 0.26% of total loans, as of December 31, 2015.

- The provision for loan and lease losses was $10.6 million and $15.4 million for the three and six months ended June 30, 2016, as compared to the $11.3 million and $23.9 million recognized for the three and six months ended June 30, 2015. The decrease for the three and six months ended June 30, 2016 compared to the same prior year period is primarily due to improved credit performance within the loan and lease portfolio, offset by an increase in net charge-offs. Net charge-offs on loans were $9.8 million for the three months ended June 30, 2016, or 0.23% of average loans and leases (annualized), as compared to net charge-offs of $4.3 million, or 0.11% of average loans and leases (annualized), for the three months ended June 30, 2015. Net charge-offs on loans were $14.7 million for the six months ended June 30, 2016, or 0.17% of average loans and leases (annualized), as compared to net charge-offs of $13.0 million or 0.17% of average loans and leases (annualized), for the six months ended June 30, 2015.

Capital and Growth Initiatives

- Based on Basel III rules, the Company's total risk based capital was 14.3% and its Tier 1 common to risk weighted assets ratio was 11.0% as of June 30, 2016. As of December 31, 2015, the Company's total risk based capital ratio was 14.3% and its Tier 1 common to risk weighted assets ratio was 11.4%.

- Cash dividends declared in the second quarter of 2016 were $0.16 per common share, an increase of 7% over the comparable period of the prior year.

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Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2015 included in the Form 10-K filed with the SEC on February 25, 2016. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC's definition.

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The Bank performs regular credit reviews of the loan and lease portfolio to determine credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management Allowance for Loan and Lease Losses Committee ("ALLL Committee"), which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans and leases with similar risk rating. Credit loss factors may vary by region based on management's belief that there may ultimately be different credit loss rates experienced in each region.

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses.

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of June 30, 2016, there was no unallocated allowance amount.

The RUC is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management's evaluation of numerous factors. These factors include the quality of the current loan portfolio; the trend in the loan portfolio's risk ratings; current economic conditions; loan concentrations; loan growth rates; past-due and

non-performing trends; evaluation of specific loss estimates for all significant problem loans; historical charge-off and recovery experience; and other pertinent information.

Management believes that the ALLL was adequate as of June 30, 2016. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 77% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses.

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Acquired Loans

Acquired loans and leases are recorded at their fair value at the acquisition date. For purchased non-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income using the effective interest method over the remaining contractual period to maturity. The acquired loans that are purchased impaired loans are aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flows were estimated for each pool. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The cash flows expected to be received over the life of the pool were estimated by management. These cash flows were input into an accounting loan system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions are periodically reassessed and updated within the accounting model to update our expectation of future cash flows. The excess of the cash flows expected to be collected over a pool's carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows. Changes in the accretable yield are disclosed quarterly.

Residential Mortgage Servicing Rights ("MSR")

The Company determines its classes of servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company measures its residential mortgage servicing assets at fair value and reports changes in fair value through earnings. Fair value adjustments encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are separately reported. Under the fair value method, the MSR is carried in the balance sheet at fair value and the changes in fair value are reported in earnings under the caption residential mortgage banking revenue in the period in which the change occurs.

Retained mortgage servicing rights are measured at fair values as of the date of the related loan sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected net future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income net of servicing costs. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available.

Valuation of Goodwill and Intangible Assets

Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstances indicate impairment potentially exists. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption may result in additional impairment of all, or some portion of, goodwill.

The Company performed its annual goodwill impairment analysis of the Community Banking reporting segment as of December 31, 2015. The Company assessed qualitative factors to determine whether the existence of events and circumstances indicated that it is more likely than not that the indefinite-lived intangible asset is impaired, and determined no factors indicated an impairment. The Company recorded a goodwill impairment loss of $142,000 relating to the discontinued operations of an immaterial subsidiary during the first quarter of 2016.

Stock-based Compensation

We recognize expense in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions.

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Fair Value

A hierarchical disclosure framework associated with the level of pricing observability is utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which creates Topic 606 and supersedes Topic 605, Revenue Recognition. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which postponed the effective date of 2014-09. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net, which amended the principal versus agent implementation guidance set for in ASU 2014-09. Among other things, ASU 2016-08 clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The ASU amends certain aspects of the guidance set forth in the FASB's new revenue standard related to identifying performance obligations and licensing implementation. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In May 2016, the FASB issued ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force (EITF) meeting which were codified in Topic 605, Revenue Recognition and Topic 932, Extractive Activities - Oil and Gas. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and adds some practical expedients, but does not change the core revenue recognition principle in Topic 606. The standard is effective for public entities for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair

value with changes in fair value recognized in net income. In addition, the amendment requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. This ASU also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendment also requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for certain provisions. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this update require lessees, among other things, to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous authoritative guidance. This update also introduces new disclosure requirements for leasing arrangements. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The ASU eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an adjustment must be made to the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The ASU is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for certain financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

Results of Operations

Overview

For the three months ended June 30, 2016, net earnings available to common shareholders were $54.3 million, or $0.25 per diluted common share, as compared to net earnings available to common shareholders of $54.7 million, or $0.25 per diluted common share, for the three months ended June 30, 2015. For the six months ended June 30, 2016, net earnings available to common shareholders were $101.8 million, or $0.46 per diluted common share, as compared to net earnings available to common shareholders of $101.7 million, or $0.46 per diluted common share, for the six months ended June 30, 2015. The comparable net earnings for the three and six months ended June 30, 2016 compared to the same periods of the prior year were principally attributable to a decrease in net interest income and non-interest income, partially offset by a decline in non-interest expense, primarily related to decreases in merger expense, and decline in the provision for loan and lease losses.

The Company incurs significant expenses related to the completion and integration of mergers and acquisitions. It also recognizes gains or losses on its junior subordinated debentures carried at fair value resulting from changes in interest rates and the estimated market credit risk adjusted spread that do not directly correlate with the Company’s operating performance. Additionally, it may recognize goodwill impairment losses that have no direct effect on the Company’s or the Bank’s cash balances, liquidity, or regulatory capital ratios. The Company recognizes gains and losses related to the change in the fair value of its MSR, which are primarily tied to movements in interest rates, and are not indicative of the fundamental operating activities for the period. It also recognizes gains or losses related to the change in the fair value of its swap derivatives, which are driven by movements in interest rates and are beyond our control. On occasion, the Company may sell certain securities in its investment portfolio, and recognize an associated gain or loss, which can be highly discretionary based on the timing of the sales, market opportunities, and interest rates, and therefore are not reflective of the Company's operating performance. The Company also may incur expenses related to the exit or disposal of certain business activities, such as the consolidation of bank branches, which do not reflect the on-going operating performance of the Company. Lastly, the Company may recognize one-time bargain purchase gains on certain acquisitions that are not reflective of the Company’s on-going earnings power.

Accordingly, management believes that our operating results are best measured on a comparative basis excluding the after-tax impact of merger related expenses, gains or losses on junior subordinated debentures carried at fair value, gains or losses from the change in fair value of MSR asset, gains or losses from the change in fair value of the swap derivative, net gains or losses on investment securities, exit or disposal costs and other charges related to business combinations such as goodwill impairment charges or bargain purchase gains. The Company defines operating earnings as earnings available to common shareholders before these items, and calculates operating earnings per diluted share by dividing operating earnings by the same diluted share total used in determining diluted earnings per common share. Operating earnings and operating earnings per diluted share are considered "non-GAAP" financial measures. Although we believe the presentation of non-GAAP financial measures provides investors with information useful in understanding the Company's financial performance, readers of this report are urged to review the GAAP results as presented in the Financial Statements and Supplementary Data in Item 1 above.

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The following table provides the reconciliation of earnings available to common shareholders (GAAP) to operating earnings (non-GAAP), and earnings per diluted common share (GAAP) to operating earnings per diluted share (non-GAAP) for the three and six months ended June 30, 2016 and 2015:

Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings

(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net earnings available to common shareholders	$54,255	$54,691	$101,795	$101,736
Adjustments:				
Loss from change in fair value of MSR asset	13,940	423	34,565	10,151
Gain on investment securities, net	(162)	(19)	(858)	(135)
Net loss on junior subordinated debentures carried at fair value	1,572	1,572	3,144	3,127
Loss (gain) from change in fair value of swap derivative	1,493	(1,408)	3,286	(627)
Merger related expenses	6,634	21,797	10,084	35,879
Goodwill impairment	—	—	142	—
Exit or disposal costs	1,434	—	1,781	—
Total pre-tax adjustments:	$24,911	$22,365	$52,144	$48,395
Income tax effect (1)	(9,965)	(8,946)	(20,801)	(19,358)
Net adjustments	14,946	13,419	31,343	29,037
Operating earnings	$69,201	$68,110	$133,138	$130,773
Per diluted share:				
Net earnings available to common shareholders	$0.25	$0.25	$0.46	$0.46
Adjustments:				
Loss from change in fair value of MSR asset	0.06	—	0.16	0.05
Gain on investment securities, net	—	—	—	—
Net loss on junior subordinated debentures carried at fair value	0.01	0.01	0.01	0.01
Loss from change in fair value of swap derivative	0.01	(0.01)	0.01	—
Merger related expenses	0.02	0.10	0.05	0.16
Goodwill impairment	—	—	—	—
Exit or disposal costs	0.01	—	0.01	—
Total pre-tax adjustments:	$0.11	$0.10	$0.24	$0.22
Income tax effect (1)	(0.05)	(0.04)	(0.10)	(0.09)
Net adjustments	0.06	0.06	0.14	0.13
Operating earnings	$0.31	0.31	$0.60	$0.59

(1) Income tax effect of operating earnings adjustments at 40% for tax-deductible items.

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The following table presents the returns on average assets, average common shareholders' equity and average tangible common shareholders' equity for the three and six months ended June 30, 2016 and 2015. For each of the periods presented, the table includes the calculated ratios based on reported net earnings available to common shareholders and operating earnings as shown in the table above. Our return on average common shareholders' equity is negatively impacted as the result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger and acquisition-related intangible assets, we believe it beneficial to also consider the return on average tangible common shareholders' equity. The return on average tangible common shareholders' equity is calculated by dividing net earnings available to common shareholders by average shareholders' common equity less average goodwill and intangible assets, net (excluding MSRs). The return on average tangible common shareholders' equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders' equity.

Return on Average Assets, Common Shareholders' Equity and Tangible Common Shareholders' Equity

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Returns on average assets:				
Net earnings available to common shareholders	0.91 %	0.96 %	0.87 %	0.90 %
Operating earnings	1.16 %	1.20 %	1.13 %	1.16 %
Returns on average common shareholders' equity:				
Net earnings available to common shareholders	5.61 %	5.76 %	5.27 %	5.39 %
Operating earnings	7.16 %	7.17 %	6.89 %	6.93 %
Returns on average tangible common shareholders' equity:				
Net earnings available to common shareholders	10.59 %	11.16 %	9.97 %	10.45 %
Operating earnings	13.51 %	13.89 %	13.04 %	13.43 %
Calculation of average common tangible shareholders' equity:				
Average common shareholders' equity	$3,889,593	$3,807,703	$3,884,067	$3,805,879
Less: average goodwill and other intangible assets, net	(1,829,407)	(1,841,535)	(1,830,726)	(1,841,960)
Average tangible common shareholders' equity	$2,060,186	$1,966,168	$2,053,341	$1,963,919

Additionally, management believes tangible common equity and the tangible common equity ratio are meaningful measures of capital adequacy. Umpqua believes the exclusion of certain intangible assets in the computation of tangible common equity and tangible common equity ratio provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results and capital of the Company. Tangible common equity is calculated as total shareholders' equity less preferred stock and less goodwill and other intangible assets, net (excluding MSRs). In addition, tangible assets are total assets less goodwill and other intangible assets, net (excluding MSRs). The tangible common equity ratio is calculated as tangible common shareholders' equity divided by tangible assets. The tangible common equity and tangible common equity ratio is considered a non-GAAP financial measure and should be viewed in conjunction with the total shareholders' equity and the total shareholders' equity ratio.

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The following table provides a reconciliation of ending shareholders' equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of June 30, 2016 and December 31, 2015:

Reconciliations of Total Shareholders' Equity to Tangible Common Shareholders' Equity and Total Assets to Tangible Assets

(dollars in thousands)	June 30, 2016	December 31, 2015
Total shareholders' equity	$3,902,158	$3,849,334
Subtract:		
Goodwill	1,787,651	1,787,793
Other intangible assets, net	40,620	45,508
Tangible common shareholders' equity	$2,073,887	$2,016,033
Total assets	$24,132,507	$23,406,381
Subtract:		
Goodwill	1,787,651	1,787,793
Other intangible assets, net	40,620	45,508
Tangible assets	$22,304,236	$21,573,080
Tangible common equity ratio	9.30 %	9.35 %

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not reviewed or audited. Although we believe these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

Net Interest Income

Net interest income is the largest source of our income. Net interest income for the three months ended June 30, 2016 was $209.2 million, a decrease of $8.3 million, compared to the same period in 2015. Net interest income for the six months ended June 30, 2016 was $426.9 million, a decrease of $5.7 million, compared to the same period in 2015. The decrease in net interest income for the three and six months ended June 30, 2016 as compared to the same periods in 2015 is primarily attributable to a decrease in the margin on interest-earning assets, specifically the decrease in interest income on loans and leases. The decrease is also the result of an increase in average interest-bearing liabilities, primarily relating to deposits, partially offset by increases in average interest-earning assets, primarily loans and leases.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 4.08% for the three months ended June 30, 2016, a decrease of 40 basis points as compared to the same period in 2015. The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 4.21% for the six months ended June 30, 2016, a decrease of 28 basis points as compared to the same period in 2015.

The decreases in the net interest margin for both periods is the result of decreased yields on earning assets, most notably the yield on loans and leases decreased by 64 basis points for the three months ended June 30, 2016 as compared to the same period in 2015, and decreased 57 basis points for the six months ended June 30, 2016 as compared to 2015. The decrease reflects the lower level of accretion of the credit discount recorded on loans acquired as well as lower average yields on interest-earning assets resulting from the continued low interest rate environment.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds.

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The following tables present condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the three and six months ended June 30, 2016 and 2015:

Average Rates and Balances

(dollars in thousands)	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:						
Loans held for sale	$403,964	$3,840	3.82 %	$368,111	$2,969	3.24 %
Loans and leases (1)	17,234,220	206,450	4.82 %	15,730,269	214,174	5.46 %
Taxable securities	2,304,998	12,328	2.14 %	2,303,879	11,686	2.03 %
Non-taxable securities (2)	280,841	3,321	4.73 %	313,899	3,668	4.67 %
Temporary investments and interest-bearing cash	514,881	652	0.51 %	861,775	549	0.26 %
Total interest-earning assets	20,738,904	226,591	4.39 %	19,577,933	233,046	4.77 %
Allowance for loan and lease losses	(131,562)			(123,063)		
Other assets	3,288,973			3,326,609		
Total assets	$23,896,315			$22,781,479		
INTEREST-BEARING LIABILITIES:						
Interest-bearing demand deposits	$2,185,545	$597	0.11 %	$2,085,395	$435	0.08 %
Money market deposits	6,744,106	2,589	0.15 %	6,347,066	2,357	0.15 %
Savings deposits	1,224,768	128	0.04 %	1,040,572	148	0.06 %
Time deposits	2,490,023	5,226	0.84 %	2,801,781	4,441	0.64 %
Total interest-bearing deposits	12,644,442	8,540	0.27 %	12,274,814	7,381	0.24 %
Repurchase agreements	345,672	32	0.04 %	324,960	43	0.05 %
Term debt	900,875	3,848	1.72 %	928,587	3,492	1.51 %
Junior subordinated debentures	358,360	3,835	4.30 %	352,119	3,406	3.88 %
Total interest-bearing liabilities	14,249,349	16,255	0.46 %	13,880,480	14,322	0.41 %
Non-interest-bearing deposits	5,466,098			4,852,455		
Other liabilities	291,275			240,841		
Total liabilities	20,006,722			18,973,776		
Common equity	3,889,593			3,807,703		
Total liabilities and shareholders' equity	$23,896,315			$22,781,479		
NET INTEREST INCOME		$210,336			$218,724	
NET INTEREST SPREAD			3.93 %			4.36 %
AVERAGE YIELD ON EARNING ASSETS (1), (2)			4.39 %			4.77 %
INTEREST EXPENSE TO EARNING ASSETS			0.31 %			0.29 %
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)			4.08 %			4.48 %

(1) Non-accrual loans and leases are included in the average balance.
(2)

Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $1.1 million and $1.3 million for the three months ended June 30, 2016 and 2015, respectively.

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(dollars in thousands)	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:						
Loans held for sale	$350,848	$6,863	3.93 %	$320,545	$5,531	3.48 %
Loans and leases (1)	17,121,152	421,355	4.95 %	15,534,593	425,487	5.52 %
Taxable securities	2,308,294	25,749	2.23 %	2,265,801	23,576	2.08 %
Non-taxable securities (2)	283,963	6,719	4.73 %	316,258	7,446	4.71 %
Temporary investments and interest bearing cash	435,777	1,132	0.52 %	1,091,447	1,374	0.25 %
Total interest-earning assets	20,500,034	461,818	4.53 %	19,528,644	463,414	4.79 %
Allowance for loan and lease losses	(132,014)			(120,508)		
Other assets	3,287,857			3,328,941		
Total assets	$23,655,877			$22,737,077		
INTEREST-BEARING LIABILITIES:						
Interest-bearing demand deposits	$2,161,463	$1,215	0.11 %	$2,068,735	$718	0.07 %
Money market deposits	6,678,158	5,423	0.16 %	6,267,260	4,593	0.15 %
Savings deposits	1,200,351	288	0.05 %	1,019,875	728	0.14 %
Time deposits	2,487,751	10,027	0.81 %	2,877,187	8,445	0.59 %
Total interest-bearing deposits	12,527,723	16,953	0.27 %	12,233,057	14,484	0.24 %
Repurchase agreements	329,035	68	0.04 %	317,892	91	0.06 %
Term debt	898,768	8,034	1.80 %	959,138	6,956	1.46 %
Junior subordinated debentures	357,487	7,562	4.25 %	351,369	6,743	3.87 %
Total interest-bearing liabilities	14,113,013	32,617	0.46 %	13,861,456	28,274	0.41 %
Non-interest-bearing deposits	5,377,954			4,830,793		
Other liabilities	280,843			238,949		
Total liabilities	19,771,810			18,931,198		
Common equity	3,884,067			3,805,879		
Total liabilities and shareholders' equity	$23,655,877			$22,737,077		
NET INTEREST INCOME		$429,201			$435,140	
NET INTEREST SPREAD			4.07 %			4.38 %
AVERAGE YIELD ON EARNING ASSETS (1), (2)			4.53 %			4.79 %
INTEREST EXPENSE TO EARNING ASSETS			0.32 %			0.30 %
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)			4.21 %			4.49 %

(1) Non-accrual loans and leases are included in the average balance.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $2.3 million and $2.6 million for the six months ended June 30, 2016 and 2015, respectively.

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The following tables set forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for the three and six months ended June 30, 2016 as compared to the same periods in 2015. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

Rate/Volume Analysis (in thousands)	Three Months Ended June 30, 2016 compared to 2015 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total
INTEREST-EARNING ASSETS:			
Loans held for sale	$307	$564	$871
Loans and leases	19,387	(27,111)	(7,724)
Taxable securities	6	636	642
Non-taxable securities (1)	(388)	41	(347)
Temporary investments and interest bearing cash	(284)	387	103
Total (1)	19,028	(25,483)	(6,455)
INTEREST-BEARING LIABILITIES:			
Interest bearing demand deposits	22	140	162
Money market deposits	150	82	232
Savings deposits	24	(44)	(20)
Time deposits	(534)	1,319	785
Repurchase agreements	3	(14)	(11)
Term debt	(107)	463	356
Junior subordinated debentures	61	368	429
Total	(381)	2,314	1,933
Net increase in net interest income (1)	$19,409	$(27,797)	$(8,388)

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 35% tax rate.

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(in thousands)	Six Months Ended June 30, 2016 compared to 2015 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total
INTEREST-EARNING ASSETS:			
Loans held for sale	$552	$780	$1,332
Loans and leases	41,243	(45,375)	(4,132)
Taxable securities	447	1,726	2,173
Non-taxable securities (1)	(760)	33	(727)
Temporary investments and interest bearing cash	(1,142)	900	(242)
Total (1)	40,340	(41,936)	(1,596)
INTEREST-BEARING LIABILITIES:			
Interest bearing demand deposits	33	464	497
Money market	313	517	830
Savings	111	(551)	(440)
Time deposits	(1,257)	2,839	1,582
Repurchase agreements	3	(26)	(23)
Term debt	(460)	1,538	1,078
Junior subordinated debentures	119	700	819
Total	(1,138)	5,481	4,343
Net increase in net interest income (1)	$41,478	$(47,417)	$(5,939)

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 35% tax rate.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $10.6 million and $15.4 million for the three and six months ended June 30, 2016, as compared to $11.3 million and $23.9 million for the same periods in 2015. As an annualized percentage of average outstanding loans and leases, the provision for loan and lease losses recorded for the three and six months ended June 30, 2016 was 0.25% and 0.18%, as compared to 0.29% and 0.31% in the same periods in 2015.

The decrease in the provision for loan and lease losses for the three and six months ended June 30, 2016 as compared to the three and six months ended June 30, 2015, is principally attributable to decreasing credit factors used in the calculation of the allowance for loan and lease losses due to the improving credit quality of the portfolio, offset by the increase in the loan portfolio. The loan portfolio increased by $488.7 million or 3%, since December 31, 2015. For the second quarter of 2016, $276,000 of the provision for loan and lease losses was recaptured related to previously acquired loans that were not purchased credit impaired. For the second quarter of 2015, $285,000 of the provision for loan and lease losses related to previously acquired loans that were not purchased credit impaired. The economy in the Pacific Northwest has improved causing the risk ratings of many of our borrowers to improve as well as the value of the underlying collateral for real estate collateral loans to improve over past quarters.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral-dependent loans. Therefore, the non-accrual loans of $25.1 million as of June 30, 2016 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices.

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Non-Interest Income

Non-interest income for the three months ended June 30, 2016 was $74.7 million, a decrease of $6.4 million, or 8%, as compared to the same period in 2015. Non-interest income for the six months ended June 30, 2016 was $120.6 million, a decrease of $24.4 million, or 17%, as compared to the same period in 2015. The following table presents the key components of non-interest income for the three and six months ended June 30, 2016 and 2015:

Non-Interest Income (in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	Change Amount	Change Percent	2016	2015	Change Amount	Change Percent
Service charges on deposits	$15,667	$14,811	$856	6 %	$30,183	$29,085	$1,098	4 %
Brokerage revenue	4,580	4,648	(68)	(1)%	8,674	9,417	(743)	(8)%
Residential mortgage banking revenue, net	36,783	40,014	(3,231)	(8)%	52,209	68,241	(16,032)	(23)%
Gain on investment securities, net	162	19	143	753 %	858	135	723	536 %
Gain on loan sales, net	5,640	8,711	(3,071)	(35)%	8,011	15,439	(7,428)	(48)%
Loss on junior subordinated debentures carried at fair value	(1,572)	(1,572)	—	— %	(3,144)	(3,127)	(17)	1 %
BOLI income	2,152	2,043	109	5 %	4,291	4,345	(54)	(1)%
Other income	11,247	12,428	(1,181)	(10)%	19,528	21,472	(1,944)	(9)%
Total	$74,659	$81,102	$(6,443)	(8)%	$120,610	$145,007	$(24,397)	(17)%

Residential mortgage banking revenue decreased for the three and six months ended June 30, 2016 as compared to the same period of 2015 due to an increase in negative fair value adjustments to the MSR asset, driven by a decline in long-term interest rates during the periods, and its impact on the prepayment speed assumption for the MSR asset. Closed for-sale mortgage volume for the three and six months ended June 30, 2016 was $1.0 billion and $1.8 billion, compared to $997.2 million and $1.9 billion for the three and six months ended June 30, 2015.

The gain on loan sales for the three and six months ended June 30, 2016 decreased by $3.1 million and $7.4 million due to the mix of loans sold during the periods.

Other income for the three and six months ended June 30, 2016 compared to the same period in the prior year decreased by $1.2 million and $1.9 million, respectively, primarily due to a charge of $2.9 million and $3.9 million, respectively, related to the change in the fair value of debt capital market swap derivatives, driven by the decline in long-term interest rates during the periods. The decline was offset by an increase in the debt capital market swap revenue of $2.0 million and $2.8 million, respectively.

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Non-Interest Expense

Non-interest expense for the three months ended June 30, 2016 was $188.5 million, a decrease of $13.4 million, or 7% as compared to the same period in 2015. Non-interest expense for the six months ended June 30, 2016 was $372.5 million, a decrease of $22.0 million, or 6% as compared to the same period in 2015. The following table presents the key elements of non-interest expense for the three and six months ended June 30, 2016 and 2015:

Non-Interest Expense

(in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	Change Amount	Change Percent	2016	2015	Change Amount	Change Percent
Salaries and employee benefits	$107,545	$110,807	$(3,262)	(3)%	$214,083	$218,251	$(4,168)	(2)%
Occupancy and equipment, net	37,850	34,868	2,982	9%	76,145	67,018	9,127	14%
Communications	5,296	5,894	(598)	(10)%	10,859	10,688	171	2%
Marketing	3,004	2,038	966	47%	5,854	5,074	780	15%
Services	11,529	10,866	663	6%	22,200	24,993	(2,793)	(11)%
FDIC assessments	3,693	3,155	538	17%	7,414	6,369	1,045	16%
(Gain) loss on other real estate owned, net	(1,457)	480	(1,937)	(404)%	(68)	2,294	(2,362)	(103)%
Intangible amortization	2,328	2,807	(479)	(17)%	4,888	5,613	(725)	(13)%
Merger related expenses	6,634	21,797	(15,163)	(70)%	10,084	35,879	(25,795)	(72)%
Goodwill impairment	—	—	—	—%	142	—	142	nm
Other expenses	12,089	9,206	2,883	31%	20,899	18,358	2,541	14%
Total	$188,511	$201,918	$(13,407)	(7)%	$372,500	$394,537	$(22,037)	(6)%

nm = Not Meaningful

Salaries and employee benefits costs decreased by $3.3 million in the three months ended June 30, 2016, as compared to the same period prior year. Salaries and employee benefits costs decreased by $4.2 million in the six months ended June 30, 2016, as compared to the same period prior year. The decrease for the three and six months ended is primarily related to decreased employee stock-based compensation, as well as declining incentives and commissions.

Net occupancy and equipment expense increased by $3.0 million for the three months ended June 30, 2016, and increased by $9.1 million in the six months ended June 30, 2016, as compared to the same periods in the prior year. The increase is primarily as a result of additional maintenance contracts related to the system contracts, following conversions over the past two years.

Services increased by $663,000 and decreased by $2.8 million for the three and six months ended June 30, 2016, respectively as compared to the same periods in the prior year. The decrease for the six months ended is primarily due to decreased fees for hosting services related to the system conversions.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. These merger expenses are recorded in accordance with a Board approved accounting policy with respect to merger related charges, including internal and external charges. These expenses include acquisition related expenses, certain facility closure related costs, customer communications, restructuring expenses (including associate severance and retention charges) and expenses related to conversions of systems, including consulting costs. The merger related expenses incurred in 2016 and 2015 relate to the merger with Sterling.

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The following table provides a breakout of Merger related expense for the three and six months ended June 30, 2016 and 2015.

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Premises and Equipment	$3,636	$2,248	$4,430	$5,265
Legal and professional	2,380	13,826	3,520	17,739
Personnel	345	3,363	1,257	7,730
Communication	22	998	267	1,432
Other	251	1,362	610	3,713
Total merger related expense	$6,634	$21,797	$10,084	$35,879

Income Taxes

The Company's consolidated effective tax rate as a percentage of pre-tax income for the three and six months ended June 30, 2016 was 35.9% and 36.2%, as compared to 35.8% and 36.0% for the three and six months ended June 30, 2015. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 5.2% (net of the federal tax benefit) principally because of the relative amount of income earned in each state jurisdiction, non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities and tax credits arising from low income housing investments.

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Investment Securities

Trading securities were $10.2 million at June 30, 2016, up from $9.6 million at December 31, 2015.

Investment securities available for sale were $2.5 billion as of June 30, 2016 and December 31, 2015. The consistent balance was due to $247.6 million of purchases and a $41.1 million increase to the unrealized gain on investments, offset by sales and paydowns of $319.9 million.

Investment securities held to maturity were $4.4 million as of June 30, 2016, as compared to $4.6 million at December 31, 2015. The change primarily related to paydowns and maturities of investment securities held to maturity of $282,000.

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of June 30, 2016 and December 31, 2015:

Investment Securities Composition

(dollars in thousands)	Investment Securities Available for Sale			
	June 30, 2016		December 31, 2015	
	Fair Value	%	Fair Value	%
Obligations of states and political subdivisions	$298,106	12 %	$313,117	12 %
Residential mortgage-backed securities and collateralized mortgage obligations	2,181,923	88 %	2,207,420	88 %
Investments in mutual funds and other equity securities	2,043	— %	2,002	— %
Total	$2,482,072	100%	$2,522,539	100%

(dollars in thousands)	Investment Securities Held to Maturity			
	June 30, 2016		December 31, 2015	
	Amortized Cost	%	Amortized Cost	%
Residential mortgage-backed securities and collateralized mortgage obligations	$4,382	100%	$4,609	100%
Total	$4,382	100%	$4,609	100%

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

Gross unrealized losses in the available for sale investment portfolio were $2.3 million at June 30, 2016. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $2.0 million. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the

underlying collateral.

Restricted Equity Securities

Restricted equity securities were $47.5 million at June 30, 2016 and $46.9 million at December 31, 2015 with the increase attributable to purchases of FHLB stock during the six months ended June 30, 2016. Of the $47.5 million at June 30, 2016, $46.1 million represented the Bank's investment in the FHLBs of Des Moines and San Francisco. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

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Loans and Leases

Loans and Leases, net

Total loans and leases outstanding at June 30, 2016 were $17.4 billion, an increase of $488.7 million as compared to year-end 2015. The increase included net new loan and lease originations of $1.1 billion, partially offset by loans sold of $303.7 million, charge-offs of $20.5 million, transfers to loans held for sale of $265.7 million, and transfers to other real estate owned of $4.5 million during the period.

The following table presents the concentration distribution of the loan and lease portfolio, net of deferred fees and costs, as of June 30, 2016 and December 31, 2015.

Loan and Lease Concentrations (dollars in thousands)	June 30, 2016			December 31, 2015		
	Amount	Percentage		Amount	Percentage	
Commercial real estate						
Non-owner occupied term, net	$3,377,464	19.6	%	$3,226,836	19.1	%
Owner occupied term, net	2,581,786	14.9	%	2,582,874	15.3	%
Multifamily, net	3,004,890	17.3	%	3,151,516	18.7	%
Construction & development, net	367,879	2.1	%	271,119	1.6	%
Residential development, net	111,941	0.6	%	99,459	0.7	%
Commercial						
Term, net	1,440,704	8.3	%	1,408,676	8.4	%
LOC & other, net	1,116,876	6.4	%	1,036,733	6.1	%
Leases and equipment finance, net	884,506	5.1	%	729,161	4.3	%
Residential						
Mortgage, net	2,882,076	16.6	%	2,909,306	17.2	%
Home equity loans & lines, net	989,814	5.7	%	923,667	5.5	%
Consumer & other, net	597,304	3.4	%	527,189	3.1	%
Total, net of deferred fees and costs	$17,355,240	100.0	%	$16,866,536	100.0	%

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Asset Quality and Non-Performing Assets

Non-Performing Assets

The following table summarizes our non-performing assets and restructured loans as of June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016		December 31, 2015	
Loans and leases on non-accrual status	$25,136		$29,215	
Loans and leases past due 90 days or more and accruing [1]	23,076		15,169	
Total non-performing loans and leases	48,212		44,384	
Other real estate owned	16,437		22,307	
Total non-performing assets	$64,649		$66,691	
Restructured loans [2]	$40,848		$31,355	
Allowance for loan and lease losses	$131,042		$130,322	
Reserve for unfunded commitments	3,531		3,574	
Allowance for credit losses	$134,573		$133,896	
Asset quality ratios:				
Non-performing assets to total assets	0.27	%	0.28	%
Non-performing loans and leases to total loans and leases	0.28	%	0.26	%
Allowance for loan and leases losses to total loans and leases	0.76	%	0.77	%
Allowance for credit losses to total loans and leases	0.78	%	0.79	%
Allowance for credit losses to total non-performing loans and leases	279	%	302	%

(1) Excludes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more totaling $11.3 million and $19.2 million at June 30, 2016 and December 31, 2015, respectively.
(2) Represents accruing restructured loans performing according to their restructured terms.

The purchased non-credit impaired loans had remaining credit discount that is expected to accrete into interest income over the life of the loans of $57.5 million and $72.8 million, as of June 30, 2016 and December 31, 2015, respectively. The purchased credit impaired loan pools had remaining discount of $54.3 million and $68.0 million, as of June 30, 2016 and December 31, 2015, respectively.

Loans acquired with deteriorated credit quality are accounted for as purchased credit impaired pools. Typically this would include loans that were considered non-performing or restructured as of acquisition date. Accordingly, subsequent to acquisition, loans included in the purchased credit impaired pools are not reported as non-performing loans based upon their individual performance status, so the categories of nonaccrual, impaired and 90 day past due and accruing do not include any purchased credit impaired loans.

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The Bank has written down impaired, non-accrual loans as of June 30, 2016 to their estimated net realizable value and expects resolution with no additional material loss, absent further decline in market prices. The following tables summarize our non-performing loans and leases by loan type as of June 30, 2016 and December 31, 2015:

Non-Performing Loans by Type

(in thousands)	June 30, 2016	December 31, 2015
Commercial real estate		
Non-owner occupied term, net	$2,515	$ 2,770
Owner occupied term, net	5,695	6,351
Multifamily, net	514	—
Residential development, net	—	—
Commercial		
Term, net	11,065	15,185
LOC & other, net	817	672
Leases and equipment finance, net	7,308	5,623
Residential		
Mortgage, net (1)	18,717	10,057
Home equity loans & lines, net	1,310	3,080
Consumer & other, net	271	646
Total	$48,212	$ 44,384

(1) Excludes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more totaling $11.3 million and $19.2 million at June 30, 2016 and December 31, 2015, respectively.

The Company has performed, and will continue to perform, extensive reviews of our permanent commercial real estate portfolio, including stress testing. We perform reviews on both our non-owner and owner occupied credits to verify leasing status, to ensure the accuracy of risk ratings, and to develop proactive action plans with borrowers on projects where debt service coverage has dropped below the Bank's benchmark. There can be no assurance that any further declines in economic conditions, such as potential increases in retail or office vacancy rates, will exceed the projected assumptions utilized in the stress testing and may result in additional non-performing loans in the future.

Restructured Loans

At June 30, 2016 and December 31, 2015, impaired loans of $40.8 million and $31.4 million, respectively, were classified as performing restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The performing restructured loans on accrual status represent principally the only impaired loans accruing interest at June 30, 2016. In order for a restructured loan to be considered performing and on accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan must be current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow.

A further decline in the economic conditions in our general market areas or other factors could adversely impact individual borrowers or the loan portfolio in general. Accordingly, there can be no assurance that loans will not become 90 days or more past due, become impaired or placed on non-accrual status, restructured or transferred to other real estate owned in the future.

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Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The ALLL totaled $131.0 million at June 30, 2016, an increase of $720,000 from $130.3 million at December 31, 2015. The following table shows the activity in the ALLL for the three and six months ended June 30, 2016 and 2015:

Allowance for Loan and Lease Losses

(in thousands)	Three months ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$130,243	$120,104	$130,322	$116,167
Charge-offs	(12,682)	(7,442)	(20,532)	(19,987)
Recoveries	2,892	3,155	5,840	7,000
Net charge-offs	(9,790)	(4,287)	(14,692)	(12,987)
Provision for loan and lease losses	10,589	11,254	15,412	23,891
Balance, end of period	$131,042	$127,071	$131,042	$127,071
As a percentage of average loans and leases (annualized):				
Net charge-offs	0.23%	0.11%	0.17%	0.17%
Provision for loan and lease losses	0.25%	0.29%	0.18%	0.31%
Recoveries as a percentage of charge-offs	22.80%	42.39%	28.44%	35.02%

The increase in allowance for loan and lease losses as of June 30, 2016 compared to the same period of the prior year was primarily the result of growth in our loan and lease portfolios, partially offset by improving credit quality characteristics of the lease and loan portfolio. Additional discussion on the change in provision for loan and lease losses is provided under the heading Provision for Loan and Lease Losses above.

The following table sets forth the allocation of the allowance for loan and lease losses and percent of loans in each category to total loans and leases as of June 30, 2016 and December 31, 2015:

(dollars in thousands)	June 30, 2016		December 31, 2015	
	Amount	% Loans to total loans	Amount	% Loans to total loans
Commercial real estate	$50,584	54.5%	$54,293	55.4%
Commercial	52,355	19.8%	47,487	18.8%
Residential	20,146	22.3%	22,017	22.7%
Consumer & other	7,957	3.4%	6,525	3.1%
Allowance for loan and lease losses	$131,042		$130,322	

At June 30, 2016, the recorded investment in loans classified as impaired totaled $54.8 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $819,000. The valuation allowance on impaired loans represents the impairment reserves on performing current and former restructured loans and nonaccrual loans. At December 31, 2015, the total recorded investment in impaired loans was $52.1 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $788,000.

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The following table presents a summary of activity in the RUC:

Summary of Reserve for Unfunded Commitments Activity

(in thousands)	Three months ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$3,482	$3,194	$3,574	$3,539
Net change to other expense	49	(330)	(43)	(675)
Balance, end of period	$3,531	$2,864	$3,531	$2,864

We believe that the ALLL and RUC at June 30, 2016 are sufficient to absorb losses inherent in the loan and lease portfolio and credit commitments outstanding as of that date based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan and lease growth, and a detailed review of the quality of the loan and lease portfolio, involves uncertainty and judgment. Therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

Residential Mortgage Servicing Rights

The following table presents the key elements of our residential mortgage servicing rights portfolio for the three and six months ended June 30, 2016 and 2015:

Summary of Residential Mortgage Servicing Rights

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$117,172	$116,365	$131,817	$117,259
Additions for new MSR capitalized	8,863	11,264	14,843	20,101
Changes in fair value:				
Due to changes in model inputs or assumptions [1]	(6,836)	5,077	(17,087)	934
Other[2]	(7,104)	(5,500)	(17,478)	(11,088)
Balance, end of period	$112,095	$127,206	$112,095	$127,206

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.
(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our residential serviced loan portfolio as of June 30, 2016 and December 31, 2015 was as follows:

(dollars in thousands)	June 30, 2016	December 31, 2015
Balance of loans serviced for others	$13,564,242	$13,047,266
MSR as a percentage of serviced loans	0.83 %	1.01 %

Mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue.

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Goodwill and Other Intangibles Assets

At June 30, 2016 and December 31, 2015, we had goodwill of $1.8 billion. Goodwill is recorded in connection with business combinations and represents the excess of the purchase price over the estimated fair value of the net assets acquired. For the six months ended June 30, 2016, goodwill impairment losses of $142,000 were recognized related to a small subsidiary that is winding down operations. There were no goodwill impairment losses recognized during the year ended December 31, 2015.

At June 30, 2016, we had other intangible assets of $40.6 million, as compared to $45.5 million at December 31, 2015. As part of a business acquisition, the fair value of identifiable intangible assets such as core deposits, which include all deposits except certificates of deposit, are recognized at the acquisition date. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. The decrease from December 31, 2015 relates to the amortization of the other intangible assets of $4.9 million for the six months ended June 30, 2016.

Deposits

Total deposits were $18.3 billion at June 30, 2016, an increase of $551.3 million, as compared to December 31, 2015. The increase is attributable to growth in all deposit categories, but primarily non-interest bearing demand and money market accounts.

The following table presents the deposit balances by major category as of June 30, 2016 and December 31, 2015:

(dollars in thousands)	June 30, 2016			December 31, 2015		
	Amount	Percentage		Amount	Percentage	
Non-interest bearing demand	$5,475,986	30	%	$5,318,591	30	%
Interest bearing demand	2,186,164	12	%	2,157,376	12	%
Money market	6,782,232	37	%	6,599,516	37	%
Savings	1,254,675	7	%	1,136,809	6	%
Time, $100,000 or greater	1,660,409	9	%	1,604,446	9	%
Time, less than $100,000	899,008	5	%	890,451	6	%
Total	$18,258,474	100	%	$17,707,189	100	%

At June 30, 2016 and December 31, 2015, the Company's brokered deposits, including Certificate of Deposit Account Registry Service ("CDARS"), totaled $997.3 million and $758.9 million, respectively.

Borrowings

At June 30, 2016, the Bank had outstanding $360.2 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Bank had outstanding term debt of $903.0 million at June 30, 2016. Term debt outstanding as of June 30, 2016 increased $14.2 million since December 31, 2015. Advances from the FHLB amounted to $902.5 million of the total term debt and are secured by investment securities and loans secured by real estate. The FHLB advances have fixed interest rates ranging from 0.69% to 7.10% and mature in 2016 through 2033.

Junior Subordinated Debentures

We had junior subordinated debentures with carrying values of $359.8 million and $356.7 million at June 30, 2016 and December 31, 2015, respectively. The increase is due to the change in fair value for the junior subordinated

debentures selected to be carried at fair value. As of June 30, 2016, the majority of the junior subordinated debentures had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR. Interest expense for junior subordinated debentures increased for the six months ended June 30, 2016, compared to the same period in 2015, primarily resulting from increases in the LIBOR rate during the period.

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Liquidity and Cash Flow

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs.

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance. Public deposits represented 9% of total deposits at June 30, 2016 and 11% of total deposits at December 31, 2015. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state's risk assessment of depository institutions. Changes in the pledging requirements for uninsured public deposits may require pledging additional collateral to secure these deposits, drawing on other sources of funds to finance the purchase of assets that would be available to be pledged to satisfy a pledging requirement, or could lead to the withdrawal of certain public deposits from the Bank. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities under agreements to repurchase, borrow on a secured basis from the FHLB or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling $5.6 billion at June 30, 2016, subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had available lines of credit with the Federal Reserve totaling $327.9 million, subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $450.0 million at June 30, 2016. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

The Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Company's revenues are obtained from dividends declared and paid by the Bank. There were $87.0 million of dividends paid by the Bank to the Company in the six months ended June 30, 2016. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the outstanding junior subordinated debentures. As of June 30, 2016, the Company did not have any borrowing arrangements of its own.

As disclosed in the Consolidated Statements of Cash Flows, net cash provided by operating activities was $293.3 million during the six months ended June 30, 2016, with the difference between cash provided by operating activities and net income largely consisting of originations of loans held for sale of $1.8 billion, offset by proceeds from the sale of loans held for sale of $2.0 billion. This compares to net cash provided by operating activities of $82.8 million during the six months ended June 30, 2015, with the difference between cash provided by operating activities and net income largely consisting of originations of loans held for sale of $1.9 billion, offset by proceeds from the sale of loans held for sale of $1.8 billion.

Net cash of $705.8 million used in investing activities during the six months ended June 30, 2016 consisted principally of net loan originations of $1.1 billion and purchases of investment securities available for sale of $247.6 million, offset by proceeds from sale of loans and leases of $311.7 million and proceeds from investment securities available for sale of $319.9 million. This compares to net cash of $885.2 million used in investing activities during the six months ended June 30, 2015, which consisted principally of purchases of investment securities available for sale of $619.1 million and net loan originations of $817.6 million, partially offset by proceeds from investment

securities available for sale of $337.1 million and proceeds from the sale of loans and leases of $164.9 million.

Net cash of $544.2 million provided by financing activities during the six months ended June 30, 2016 primarily consisted of $552.7 million increase in net deposits and proceeds from term debt borrowings of $285.0 million, offset by the $270.0 million repayment of term debt and the dividends paid on common stock of $70.5 million. This compares to net cash of $77.2 million provided by financing activities during the six months ended June 30, 2015, which consisted primarily of $255.8 million increase in net deposits, offset by $115.0 million repayment of term debt and $66.2 million in dividends paid on common stock.

Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2016, it is possible that our deposit balance for 2016 may not be maintained at previous levels due to pricing pressure or, in order to generate deposit growth, our pricing may need to be adjusted in a manner that results in increased interest expense on deposits.

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Off-balance-Sheet Arrangements

Information regarding Off-Balance-Sheet Arrangements is included in Note 8 of the Notes to Condensed Consolidated Financial Statements.

Concentrations of Credit Risk
Information regarding Concentrations of Credit Risk is included in Note 8 of the Notes to Condensed Consolidated Financial Statements.

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Capital Resources

Shareholders' equity at June 30, 2016 was $3.9 billion, an increase of $52.8 million from December 31, 2015. The increase in shareholders' equity during the six months ended June 30, 2016 was principally due to net income for the period and other comprehensive income, net of tax, offset by declared common dividends.

The following table shows the Company's consolidated and the Bank's capital adequacy ratios compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a "well-capitalized" institution, as calculated under regulatory guidelines of Basel III at June 30, 2016 and December 31, 2015:

(dollars in thousands)	Actual		For Capital Adequacy purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2016						
Total Capital (to Risk Weighted Assets)						
Consolidated	$2,611,244	14.27%	$1,464,147	8.00%	$1,830,183	10.00%
Umpqua Bank	$2,426,145	13.27%	$1,462,889	8.00%	$1,828,611	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$2,015,521	11.01%	$1,098,110	6.00%	$1,464,147	8.00 %
Umpqua Bank	$2,291,698	12.53%	$1,097,167	6.00%	$1,462,889	8.00 %
Tier I Common (to Risk Weighted Assets)						
Consolidated	$2,015,521	11.01%	$823,582	4.50%	$1,189,619	6.50 %
Umpqua Bank	$2,291,698	12.53%	$822,875	4.50%	$1,188,597	6.50 %
Tier I Capital (to Average Assets)						
Consolidated	$2,015,521	9.16 %	$880,156	4.00%	$1,100,195	5.00 %
Umpqua Bank	$2,291,698	10.40%	$881,032	4.00%	$1,101,291	5.00 %
As of December 31, 2015						
Total Capital (to Risk Weighted Assets)						
Consolidated	$2,553,161	14.34%	$1,424,127	8.00%	$1,780,159	10.00%
Umpqua Bank	$2,368,213	13.32%	$1,422,495	8.00%	$1,778,118	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$2,073,402	11.65%	$1,068,096	6.00%	$1,424,127	8.00 %
Umpqua Bank	$2,234,458	12.57%	$1,066,871	6.00%	$1,422,495	8.00 %
Tier I Common (to Risk Weighted Assets)						
Consolidated	$2,020,814	11.35%	$801,072	4.50%	$1,157,104	6.50 %
Umpqua Bank	$2,234,458	12.57%	$800,153	4.50%	$1,155,777	6.50 %
Tier I Capital (to Average Assets)						
Consolidated	$2,073,402	9.73 %	$852,091	4.00%	$1,065,114	5.00 %
Umpqua Bank	$2,234,458	10.50%	$851,554	4.00%	$1,064,443	5.00 %

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The phase-in period for the final rules that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework ("Basel III") began for the Company on January 1, 2015, with full compliance with the final rules in their entirety required to be phased in on January 1, 2019.

The final rules, among other things, include a new common equity Tier 1 capital ("CET1") to risk-weighted assets ratio, including a capital conservation buffer, which will gradually increase from 4.5% on January 1, 2015 to 7.0% on January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% on January 1, 2015, and to 8.5% on January 1, 2019, as well as require a minimum leverage ratio of 4.0%.

Under the final rules, as Umpqua grew above $15.0 billion in assets as a result of an acquisition, the combined trust preferred security debt issuances were required to be phased out of Tier 1 and into Tier 2 capital (75% starting in the first quarter of 2015 and 100% starting in the first quarter of 2016).

The Company's dividend policy considers, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth to determine the amount of dividends declared, if any, on a quarterly basis. There is no assurance that future cash dividends on common shares will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the three and six months ended June 30, 2016 and 2015:

Cash Dividends and Payout Ratios per Common Share

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Dividend declared per common share	$0.16	$0.15	$0.32	$0.30
Dividend payout ratio	64 %	60 %	70 %	65 %

As of June 30, 2016, a total of 11.2 million shares are available for repurchase under the Company's current share repurchase plan. During the six months ended June 30, 2016, the Company repurchased 235,000 shares under this plan. The Board of Directors approved an extension of the repurchase plan to 2017. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan. In addition, our stock plans provide that option and award holders may pay for the exercise price and tax withholdings in part or whole by tendering previously held shares.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our assessment of market risk as of June 30, 2016 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

Our management, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, has concluded that our disclosure controls and procedures are effective in timely alerting them to information relating to us that is required to be included in our periodic filings with the SEC. The disclosure controls and procedures were last evaluated by management as of June 30, 2016.

No change in our internal controls occurred during the second quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of our business, we are involved in legal proceedings that arise in the ordinary course of our business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

The Company assumed, as successor-in-interest to Sterling, the defense of litigation matters pending against Sterling. Sterling previously reported that on December 11, 2009, a putative securities class action complaint captioned City of Roseville Employees' Retirement System v. Sterling Financial Corp., et al., No. CV 09-00368-EFS, was filed in the United States District Court for the Eastern District of Washington against Sterling and certain of its current and former officers. On June 18, 2010, lead plaintiff filed a consolidated complaint alleging that the defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 by making false and misleading statements concerning Sterling's business and financial results. Plaintiffs sought unspecified damages and attorneys' fees and costs. On August 30, 2010, Sterling moved to dismiss the Complaint, and the court granted the motion to dismiss without prejudice on August 5, 2013. On October 11, 2013, the lead plaintiff filed an amended consolidated complaint with the same defendants, class period, alleged violations, and relief sought. On January 24, 2014, Sterling moved to dismiss the amended consolidated complaint, and on September 17, 2014, the court entered an order dismissing the amended consolidated complaint in its entirety with no further leave to amend. On October 24, 2014, plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit from the district court's order granting the motion to dismiss the amended consolidated complaint. Appellant filed its opening brief on April 3, 2015 and the Company filed its reply brief on June 17, 2015; additional appellate briefing was filed in the third quarter 2015. The appellate court has not set a hearing date as of the date of this filing.

Item 1A. Risk Factors

In addition to the other information set forth in this report, including the updated risk factors stated below, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended December 31, 2015. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. There have been no material changes from the risk factors described in our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a)Not applicable

(b)Not applicable

(c)The following table provides information about repurchases of common stock by the Company during the quarter ended June 30, 2016:

Period	Total number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced	Maximum Number of Remaining Shares that May be Purchased at Period

			Plan (2)	End under the Plan
4/1/16-4/30/16	226,341	$ 16.38	—	11,207,429
5/1/16-5/31/16	319	$ 15.07	—	11,207,429
6/1/16-6/30/16	492	$ 15.90	—	11,207,429
Total for quarter	227,152	$ 16.38	—	

(1) Common shares repurchased by the Company during the quarter consist of cancellation of 185,746 shares to be issued upon vesting of restricted stock awards and 41,406 shares to be issued upon vesting of restricted stock units to pay withholding taxes. During the three months ended June 30, 2016, no shares were repurchased pursuant to the Company's publicly announced corporate stock repurchase plan described in (2) below.

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(2) The Company's share repurchase plan, which was first approved by its Board of Directors and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. The repurchase program has been extended multiple times by the board with the current expiration date of July 31, 2017. As of June 30, 2016, a total of 11.2 million shares remained available for repurchase. The timing and amount of future repurchases will depend upon the market price for our common stock, laws and regulations restricting repurchases, asset growth, earnings, and our capital plan.

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

The exhibits filed as part of this Report and exhibits incorporated herein by reference to other documents are listed in the Exhibit Index to this Report, which follows the signature page.

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SIGNATURES

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

UMPQUA HOLDINGS CORPORATION
(Registrant)

Dated August 5, 2016 /s/ Raymond P. Davis
Raymond P. Davis
President and Chief Executive Officer

Dated August 5, 2016 /s/ Ronald L. Farnsworth
Ronald L. Farnsworth
Executive Vice President/ Chief Financial Officer and
Principal Financial Officer

Dated August 5, 2016 /s/ Neal T. McLaughlin
Neal T. McLaughlin
Executive Vice President/Treasurer and
Principal Accounting Officer

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EXHIBIT INDEX

Exhibit #	Description
3.1	(a) Restated Articles of Incorporation, as amended
3.2	(b) Bylaws, as amended
4.1	(c) Specimen Common Stock Certificate
4.2	The Company agrees to furnish upon request to the Commission a copy of each instrument defining the rights of holders of senior and subordinated debt of the Company.
10.1**	(d) 2013 Incentive Plan, as amended
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document *
101.SCH XBRL Taxonomy Extension Schema Document *
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB XBRL Taxonomy Extension Label Linkbase Document *
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities and
Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.
** Indicates compensatory plan or arrangement

(a) Incorporated by reference to Exhibit 3.1 to Form 8-K filed May 7, 2014
(b) Incorporated by reference to Exhibit 3.2 to Form 8-K filed April 22, 2008
(c) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 (No. 333-77259) filed April 28, 1999
(d) Incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 6, 2016

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