

COLUMBIA BANKING SYSTEM INC
Form DEF 14A
March 17, 2006
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SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
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COLUMBIA BANKING SYSTEM, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**1301 A Street
Tacoma, Washington 98402**

March 17, 2006

Dear Shareholder:

We are pleased to invite you to Columbia Banking System's Annual Meeting of Shareholders. The meeting will be at 1:00 p.m. on Wednesday, April 26, 2006 at the Greater Tacoma Convention & Trade Center, 1500 Broadway, Tacoma, Washington 98402.

At the meeting, you and the other shareholders will be asked to approve the election of nine directors to the Columbia Board. In addition, we are asking you to approve an amendment to our Employee Stock Purchase Plan to increase the number of shares available for issuance under the plan. You also will have the opportunity to hear what has happened in our business in the past year and to ask questions. You will find additional information concerning Columbia and its operations, including its audited financial statements, in the enclosed Annual Report for the year ended December 31, 2005.

We hope that you can join us on April 26th. **Whether or not you plan to attend, please sign and return your proxy card as soon as possible.** Your opinion and your vote are important to us. Voting by proxy will not prevent you from voting in person if you attend the meeting, but it will ensure that your vote is counted if you are unable to attend.

William T. Weyerhaeuser

Chairman

Melanie J. Dressel

President and CEO

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 26, 2006

TIME	1:00 p.m. on Wednesday, April 26, 2006
PLACE	Greater Tacoma Convention & Trade Center 1500 Broadway, Tacoma, Washington
ITEMS OF BUSINESS	<ol style="list-style-type: none">(1) To elect nine directors to serve on the Board until the 2007 Annual Meeting of Shareholders.(2) To amend Columbia's Employee Stock Purchase Plan to increase the number of shares available under the Plan.(3) To transact such other business as may properly come before the meeting or any adjournment thereof.
RECORD DATE	You are entitled to vote at the annual meeting and at any adjournments or postponements thereof if you were a shareholder at the close of business on Wednesday, March 1, 2006.
VOTING BY PROXY	Please submit your proxy card as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions in the Proxy Statement and on your enclosed proxy form.
By Order of the Board	
Cathleen L. Dent	
Secretary	

This proxy statement and the accompanying proxy card are being distributed on or about March 17, 2006

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COLUMBIA BANKING SYSTEM, INC.

1301 A Street

Tacoma, Washington 98402-4200

(253) 305-1900

PROXY STATEMENT

The Board of Directors is soliciting proxies for this year's Annual Meeting of Shareholders. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

The Board set March 1, 2006 as the record date for the meeting (the Record Date). Shareholders who owned Columbia common stock on that date are entitled to vote at the meeting, with each share entitled to one vote. There were 15,949,730 shares of Columbia common stock outstanding on the Record Date.

Voting materials, which include this Proxy Statement and a proxy card, together with the 2005 Annual Report are being mailed to shareholders on or about March 17, 2006.

ABOUT THE MEETING

Why am I receiving this Proxy Statement and proxy card?

You are receiving this Proxy Statement and proxy card because you own shares of Columbia common stock. This Proxy Statement describes issues on which we would like you to vote.

When you sign the proxy card you appoint William T. Weyerhaeuser and Melanie J. Dressel as your representatives at the meeting. Mr. Weyerhaeuser and Ms. Dressel will vote your shares at the meeting as you have instructed on the proxy card. This way, your shares will be voted even if you cannot attend the meeting.

Who is soliciting my proxy and who is paying the cost of solicitation?

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Columbia's Board of Directors is sending you this Proxy Statement in connection with its solicitation of proxies for use at the 2006 Annual Meeting. Certain directors, officers and employees of Columbia and its banking subsidiaries, Columbia State Bank and Bank of Astoria, may solicit proxies by mail, telephone, facsimile or in person.

Columbia will pay for the costs of solicitation. Columbia does not expect to pay any compensation for the solicitation of proxies, except to brokers, nominees and similar record holders for reasonable expenses in mailing proxy materials to beneficial owners of Columbia common stock. However, management may, if it determines it necessary to acquire to obtain the requisite shareholder vote, to retain the services of Georgeson Shareholder Communications, Inc. to aid it in the solicitation of proxies.

What am I voting on?

At the Annual Meeting you will be asked to vote on (i) the election of nine directors to serve on the Board until the 2007 Annual Meeting of Shareholders or until their successors have been elected and have qualified; and (ii) an amendment to the Employee Stock Purchase Plan (Plan) to increase the number of shares available for issuance under the Plan.

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Who is entitled to vote?

Only shareholders who owned Columbia common stock as of the close of business on the Record Date are entitled to receive notice of the Annual Meeting and to vote the shares that they held on that date at the meeting, or any postponement or adjournment of the meeting.

How do I vote?

You may vote your shares either in person at the Annual Meeting or by proxy. To vote by proxy, you should mark, date, sign and mail the enclosed proxy card in the prepaid envelope provided. If your shares are registered in your own name and you attend the meeting, you may deliver your completed proxy card in person. Street name shareholders, that is, those shareholders whose shares are held in the name of and through a broker or nominee, who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

Internet voting.

You may also grant a proxy to vote your shares by means of the Internet. The Internet voting procedures below are designed to authenticate your identity, to allow you to grant a proxy to vote your shares, and to confirm that your instructions have been recorded properly.

For shares registered in your name.

As a shareholder of record, you may go to <http://www.proxyvote.com> to grant a proxy to vote your shares by means of the Internet. You will be required to provide our number and the control number, both of which are contained on your proxy card. You will then be asked to complete an electronic proxy card. The votes represented by such proxy will be generated on the computer screen, and you will be prompted to submit or revise them as desired.

For shares registered in the name of a broker or bank.

Most beneficial owners, whose stock is held in *street name*, receive instructions for granting proxies from their banks, brokers or other agents, rather than a proxy card. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in *street name*, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker on how to vote. Your broker or nominee has enclosed a voting instruction card for you to use in directing your broker or nominee as to how to vote your shares.

A number of brokers and banks are participating in a program provided through ADP Investor Communication Services that offers the means to grant proxies to vote shares over the telephone and Internet. If your shares are held in an account with a broker or bank participating in the ADP Investor Communication Services program, you may grant a proxy to vote those shares telephonically by calling the telephone number shown on

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the instruction form received from your broker or bank, or via the Internet at ADP Investor Communication Services Web site at <http://www.bsg.adp.com>.

General information for all shares voted via the Internet.

We must receive votes submitted via the Internet by 11:59 p.m. on April 19, 2006. Submitting your proxy via the Internet will not affect your right to vote in person should you decide to attend the annual meeting.

Can I change my vote after I return my proxy card?

Yes. You may revoke your proxy and change your vote at any time before the proxy is exercised by filing with Columbia's Secretary either a notice of revocation or another signed proxy bearing a later date. The powers

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of the proxy holders will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

What are the Board's recommendations?

Unless you give other instructions on your proxy card, Mr. Weyerhaeuser and Ms. Dressel, as the persons named as proxy holders on the proxy card, will vote as recommended by the Board of Directors. The Board recommends a vote FOR the election of the nominated directors listed in this Proxy Statement and FOR the amendment to the Plan.

If any other matters are considered at the meeting, Mr. Weyerhaeuser and Ms. Dressel will vote as recommended by the Board of Directors. If the Board does not give a recommendation, Mr. Weyerhaeuser and Ms. Dressel will have discretion to vote as they think best.

Will my shares be voted if I do not sign and return my proxy card?

If your shares are registered in your name and you do not return your proxy card or do not vote in person at the Annual Meeting, your shares will not be voted.

If your shares are held in street name and you do not submit voting instructions to your broker, your broker may vote your shares at this meeting on the election of directors only. If no instructions are given with respect to amending the Plan, your broker cannot vote your shares.

How many votes are needed to hold the Annual Meeting?

A majority of Columbia's outstanding shares as of the Record Date (a quorum) must be present at the Annual Meeting in order to hold the meeting and conduct business. Shares are counted as present at the meeting if a shareholder is present and votes in person at the meeting or has properly submitted a proxy card. As of the Record Date for the Annual Meeting, 15,949,730 shares of Columbia common stock were outstanding and eligible to vote. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum. Broker non-votes, however, are not counted as shares present and entitled to be voted with respect to the matter on which the broker has expressly not voted. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote such shares.

What vote is required to elect directors?

The nine director nominees who receive the highest number of FOR votes will be elected. You may vote FOR all or some of the nominees or WITHHOLD AUTHORITY for all or some of the nominees. Votes that are withheld and broker non-votes will have no effect on the outcome of

the election.

What vote is required to amend the Plan?

The affirmative FOR vote of a majority of those shares present and entitled to vote are required to amend the Plan. You may vote FOR, AGAINST or ABSTAIN from amending the Plan. Abstentions and broker non-votes will have no effect on the outcome of the proposal.

Can I vote on other matters?

Columbia has not received timely notice of any shareholder proposals to be considered at the Annual Meeting, and the Board of Directors does not know of any other matters to be brought before the Annual Meeting.

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When are proposals for the 2007 Annual Meeting due?

Proposals by shareholders to transact business at Columbia's 2007 Annual Meeting must be delivered to Columbia's Secretary no later than November 28, 2006, in order to be considered for inclusion in Columbia's proxy statement and proxy card and should contain such information as is required under Columbia's Bylaws. Such proposals will need to comply with the SEC's regulations regarding the inclusion of stockholder proposals in Columbia-sponsored proxy materials. In order for a shareholder proposal to be raised from the floor during next year's annual meeting, written notice must be received by Columbia no later than November 28, 2006 and should contain such information as required under Columbia's Bylaws. If we do not receive notice of a shareholder proposal within this timeframe, the persons named as proxies in such proxy statement and form of proxy will use its discretionary authority to vote the shares it represents as the Board may recommend.

How do I nominate someone to be a director?

In order for a shareholder to nominate a director for consideration at an annual meeting, the shareholder must provide a written notice that contains the information required by our Bylaws to the Chairman of the Board, c/o Columbia's Corporate Secretary not less than 120 days in advance of the first anniversary of the date our proxy statement was mailed to shareholders for the preceding year's annual meeting. We did not receive any such nominations for directors for the 2006 annual shareholders meeting. For our annual meeting in 2007, we must receive this notice by November 28, 2006. You can obtain a copy of the full text of the bylaw provision by writing to the Corporate Secretary, 1301 A Street, Tacoma, Washington 98402. A copy of our bylaws was filed with the SEC as an exhibit to our report on Form 10-Q filed May 5, 2005.

You may contact Columbia's Corporate Secretary for a copy of the detailed procedures regarding the requirements for making shareholder proposals and nominating director candidates.

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As of December 31, 2005, the following shareholder owned more than 5% of the outstanding shares of Columbia common stock:

<u>Name and Address</u>	<u>Number of Shares</u>	<u>Percentage</u>
Barclays Bank PLC 45 Fremont Street, San Francisco, CA 94105	1,033,710	6.53%

How much stock do Columbia's directors and executive officers own?

The following table shows, as of December 31, 2005, the amount of Columbia common stock directly owned (unless otherwise indicated) by (a) each director and director nominee; (b) the executive officers named in the Summary Compensation Table below; and (c) all of Columbia's directors and executive officers as a group. Except as otherwise noted, Columbia believes that the beneficial owners of the shares listed below, based on information furnished by such owners, have or share with a spouse voting and investment power with respect to the shares. Beneficial ownership is determined under the rules of the SEC and includes shares that could be acquired within 60 days through the exercise of an option or other right. All share numbers and prices have been adjusted for applicable stock splits and stock dividends.

<u>Name</u>	<u>Position</u>	<u>Number⁽¹⁾</u>	<u>Percentage⁽¹⁾</u>
William T. Weyerhaeuser	Chairman of the Board	222,196 ⁽²⁾	1.4%
Melanie J. Dressel	Director, President and Chief Executive Officer	89,343 ⁽³⁾	*
John P. Folsom	Director	29,108 ⁽⁴⁾	*
Frederick M. Goldberg	Director	12,844 ⁽⁵⁾	*
Thomas M. Hulbert	Director	37,465	*
Thomas L. Matson, Sr.	Director	134,367	*
Andrew McDonald	Executive Vice President, Chief Credit Officer	699 ⁽⁶⁾	*
Mark W. Nelson	Executive Vice President, Chief Banking Officer	12,469 ⁽⁷⁾	*
Daniel C. Regis	Director	7,000	*
Donald Rodman	Director	21,919 ⁽⁸⁾	*
Gary R. Schminkey	Executive Vice President, Chief Financial Officer	24,423 ⁽⁹⁾	*
Evans Q. Whitney	Executive Vice President, Human Resources	69,339 ⁽¹⁰⁾	*
James M. Will	Director	22,907	*
Directors and executive officers as a group (13 persons)		684,079	4.3%

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* Represents less than 1% of Columbia's outstanding common stock.

- (1) The number and percentages shown are based on the number of shares of Columbia common stock deemed beneficially held under applicable securities regulations, including options or other rights exercisable on March 1, 2006, 60 days after December 31, 2005 as follows: Ms. Dressel 26,135 shares; Mr. Folsom 5,741 shares; Mr. Hulbert 3,640 shares; Mr. Matson 5,741 shares; Mr. Rodman 5,741 shares; Mr. Schminkey 8,865 shares; Mr. Weyerhaeuser 1,103 shares; Mr. Whitney 16,101 shares; Mr. Will 5,741; and directors and executive officers as a group 89,308 shares.

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- (2) 212,249 shares are held indirectly by WBW Trust No. One, for which Mr. Weyerhaeuser is the trustee with sole voting and investment power.
- (3) Includes 51,134 shares held in Ms. Dressel's Family LLC, 2,407 shares held by a corporation owned by Ms. Dressel and her spouse, 5,622 shares held in Ms. Dressel's 401(k) and 20 shares held by Ms. Dressel's children.
- (4) Includes 8,550 shares held indirectly in Mr. Folsom's IRA and 950 shares held in Mrs. Folsom's IRA.
- (5) Includes 2,801 shares held by a partnership for the equal benefit of Mr. Goldberg and his mother over which Mr. Goldberg exercises investment power and 1,793 shares held in Mr. Goldberg's IRA.
- (6) Includes 455 shares held in Mr. McDonald's 401(k).
- (7) Includes 386 shares held in Mr. Nelson's 401(k).
- (8) Includes 722 shares held in Mrs. Rodman's IRA, 579 shares held in Mr. Rodman's IRA, 12,877 shares held in a Living Trust for the benefit of the Rodman estate.
- (9) Includes 7,471 shares held in Mr. Schminkey's 401(k).
- (10) Includes 4,604 shares held in Mr. Whitney's IRA accounts, 141 shares held by Mr. Whitney as custodian for his grandchildren; 2,801 shares held in a brokerage account for Mr. Whitney's mother, over which Mr. Whitney exercises investment power.

PROPOSAL NO. 1: ELECTION OF DIRECTORS

How many directors are nominated?

Columbia's Bylaws provide that the number of directors to be elected by the shareholders will be at least five and not more than 25. Under the Bylaws, the Board has authority to decide the exact number of directors to be elected within these limits. The Bylaws further provide that up to two directors may be added by the Board between annual meetings of the shareholders. No new directors have been nominated since the 2005 Annual meeting. Columbia's Board has fixed the number of directors to be elected at the Annual Meeting at nine and has nominated the persons listed on the following pages for election as directors to serve until the 2007 Annual Meeting or until their successors are elected.

What is the retirement age for directors?

Columbia's Bylaws provide that any person who has attained the age of 75 prior to the next meeting of shareholders may not stand for election.

What happens if a nominee refuses or is unable to stand for election?

The Board may reduce the number of seats on the Board or designate a replacement nominee. If the Board designates a substitute, shares represented by proxy will be voted FOR the substitute nominee. The Board presently has no knowledge that any of the nominees will refuse or be unable to serve.

Who are the nominees?

Information regarding each of the nominees is provided below, including each nominee's name and age, principal occupation during the past five years, and the year first elected as a director of Columbia, its predecessor corporation or one of its former or current subsidiaries. All of the nominees are presently directors of Columbia and Columbia Bank, and certain of the directors also serve on the Board of Bank of Astoria.

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Melanie J. Dressel

Director since 1998

Ms. Dressel, 53, was named Chief Executive Officer of Columbia in February 2003 and continues to serve as the Company's President. From January 2000 prior to her appointment, Ms. Dressel was the President and Chief Operating Officer of Columbia, having served prior to that time and since May 1997 as Executive Vice President. She has also served as President and Chief Executive Officer of Columbia Bank since January 2000, having served prior to that time and since July 1998 as President and Chief Operating Officer, and from May 1997 to July 1998, as Executive Vice President. Ms. Dressel, who has over 20 years of banking experience, joined Columbia Bank in 1993, serving as Senior Vice President and Private Banking Manager until May 1997. Ms. Dressel also serves on the Board of Bank of Astoria

John P. Folsom

Director since 1997

Mr. Folsom, 62, is president of Brown & Brown, Inc. of Washington, formerly Raleigh, Schwarz & Powell (insurance brokers and consulting), Tacoma, Washington, since 1989.

Frederick M. Goldberg

Director since 2003

Mr. Goldberg, 66, has been a shareholder of SaltChuk Resources, Inc., Seattle, Washington, since 1982 and is currently a member of the Executive Committee and chairman of the Audit Committee of that company. Mr. Goldberg has been a managing partner of Goldberg Investments since 1986. Mr. Goldberg has also been chairman of the board of Panorama City, Lacey, Washington, since 1990 and Gibbons Lane Vineyard, Tenino, Washington, since 1997.

Thomas M. Hulbert

Director since 1999

Mr. Hulbert, 59, has been the president and chief executive officer of Winsor Corporation (lighting technologies), Olympia, Washington, since 1996 and the president and chief executive officer of Hulco, Inc. (real estate investments), Olympia, Washington, since 1984.

Thomas L. Matson, Sr.

Director since 1998

Mr. Matson, 68, has been the Chairman of Tom Matson Dodge, Inc. (automobile dealership), Auburn, Washington, since 1963. Mr. Matson served as the chairman of Cascade Bancorp, Inc. and its subsidiary, Cascade Community Bank, Auburn, Washington, from 1990 to 1997, when those institutions were acquired by Columbia.

Daniel C. Regis

Director since 2003

Mr. Regis, 66, has been part owner and managing director of Digital Partners, LLC, Kirkland, Washington since January 2000. He is currently a director of two other public companies; Cray, Inc. and Art Technology Group. Mr. Regis was president and a managing partner of Kirlan Venture Capital, a Seattle based company, from June 1996 until June 1999. Mr. Regis was a certified public accountant and a partner at Price Waterhouse from 1964 until 1996.

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Donald Rodman

Director since 1991

Mr. Rodman, 67, has been the owner and the Vice President of Rodman Realty, Longview, Washington, since 1961. Mr. Rodman also serves on the Board of Bank of Astoria.

William T. Weyerhaeuser

Director since 1998

Mr. Weyerhaeuser, 62, is the Chairman of the Board of Columbia. He is a clinical psychologist who retired from private practice in Tacoma, Washington in 1998. Mr. Weyerhaeuser is currently the chairman of the board

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of EDEN Bioscience Corporation and Vice Chairman of Potlatch Corporation (forest products), each of which has a class of securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934. From 1984 to July 2000, Mr. Weyerhaeuser was also the owner and chairman of the board of Comerco, Inc. (holding company for the Yelm Telephone Company), Tacoma, Washington.

James M. Will

Director since 1993

Mr. Will, 59, serves as the president of Titus-Will Enterprises (automobile leasing and property management), Tacoma, Washington and also as president of that company's subsidiary, Titus-Will Chevrolet, Cadillac & Hyundai, Olympia, Washington. Prior to that time and since 1969, Mr. Will was the president of Tam Engineering Corp. (automotive engine re-manufacturing), Tacoma, Washington.

The Board of Directors unanimously recommends a vote FOR the nominees for director.

What committees has the Board established?

The Board of Directors has established an Audit Committee, Personnel and Compensation Committee and a Nominating Committee.

Audit Committee. The Audit Committee is comprised of four directors, each of whom are considered independent as defined by the Nasdaq listing standards. The Audit Committee operates under a formal written charter, first adopted in 2000, and amended and approved by the Committee and adopted by the Board in 2003. Current members of the Audit Committee are: Messrs. Folsom (Chairman), Hulbert, Regis and Will. Mr. Regis has been identified as the qualified Audit Committee Financial Expert as required by SEC guidelines under the Sarbanes-Oxley. The committee held nine meetings during the year.

The Audit Committee is responsible for the oversight of the quality and integrity of Columbia's financial statements, its compliance with legal and regulatory requirements, the qualifications and independence of its independent auditors, the performance of its internal audit function and independent auditors and other significant financial matters. In discharging its duties, the Audit Committee is expected to, among other things:

have the sole authority to appoint, retain, compensate, oversee, evaluate and replace the independent auditors;

review and approve the engagement of the independent auditors to perform audit and non-audit services and related fees;

meet independently with the internal auditing department, independent auditors and senior management;

review the integrity of the financial reporting process;

review the financial reports and disclosures submitted to appropriate regulatory authorities; and

maintain procedures for the receipt, retention and treatment of complaints regarding financial matters.

Personnel and Compensation Committee. The Personnel and Compensation Committee is comprised of four directors, each of whom are considered independent as defined by the Nasdaq listing standards and operates under a formal charter. The Personnel and Compensation Committee reviews the performance of Columbia's Chief Executive Officer and other key employees and determines, approves and reports to the Board on the elements of their compensation and long-term equity based incentives. The Personnel and Compensation Committee reviews employee benefit plans as needed. In addition the Personnel and Compensation Committee:

administers all employee benefit plans; and

makes determinations in connection with compensation matters as may be necessary or advisable.

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The Personnel and Compensation Committee meets as needed, but at least annually. Current members of the Personnel and Compensation Committee are: Messrs. Hulbert (Chairman), Goldberg, Matson and Rodman. There were eight meetings of the Personnel and Compensation Committee during 2005.

Nominating Committee. The Nominating Committee is comprised of four directors, each of whom are considered independent as defined by the Nasdaq listing standards and is responsible for recommending a slate of directors to the full board for election at the annual meeting and appointing directors to fill vacancies as they occur.

The Nominating Committee will consider nominees recommended by shareholders provided that the recommendations are made in accordance with the procedures described in this proxy statement under the section *About the Meeting How do I nominate someone to be a director?* The Committee evaluates all candidates, including shareholder-proposed candidates, using generally the same methods and criteria. The Nominating Committee operates under a charter. The Committee is authorized to establish guidelines for the qualification, evaluation and selection of new directors to serve on the Board. The Committee has not, nor does it anticipate adopting specific minimum qualifications for Committee-recommended nominees. The Committee instead evaluates each nominee on a case-by-case basis, including assessment of each nominee's business experience, involvement in the communities served by Columbia, and special skills. The Nominating Committee also evaluates whether the nominee's skills are complementary to existing Board members' skills, and the Board's need for operational, management, financial, technological or other expertise.

Current members of the Nominating Committee are Messrs. Weyerhaeuser, Folsom, Hulbert and Matson. The chairman of the board is chairman of the Nominating Committee. The Nominating Committee held one meeting during 2005.

How often did the Board of Directors meet during 2005?

The Board met ten times during 2005. Each director attended at least 75% of the total number of meetings of the Board and committees on which he or she served. Columbia directors are expected to attend annual shareholder meetings. Last year, all of our directors attended the annual shareholder meeting. The Board has determined that each member of the Board, except for Melanie Dressel who serves as an executive officer, meets the applicable laws and listing standards regarding independence required by Nasdaq and that each such director is free of relationships that would interfere with the individual exercise of independent judgment. During 2005, the independent directors held four meetings.

How are directors compensated?

Columbia does not pay directors who are also employees of Columbia or Columbia Bank additional compensation for their service as directors. During 2005, each of Columbia's outside directors received an annual retainer of \$15,000 for serving on the Board. Each Director also received \$750 per meeting for attendance of Board meetings. Mr. Weyerhaeuser, Chairman of the Board, received an additional \$12,000 in retainer fees. The Chairman of the Audit Committee and Chairman of the Compensation Committee received additional retainer fees of \$6,000 and \$3,000 respectively for the year. Additionally, members of the Compensation and Nominating Committees received \$500 for attendance of their meetings and Audit Committee members received an additional \$1,000 per meeting attended. In 2005 each outside director also received a restricted stock award for 2,000 shares of Columbia common stock. Under the terms of the respective agreements, 500 shares vested upon grant, and the remaining shares are held in escrow and vest in 500 increments on October 1, 2005, at the 2006 annual meeting and at the 2007 annual meeting.

From time to time, Columbia authorizes the grant of nonqualified stock options or other stock rights to its directors. The options that are granted under the Plan vest (i.e. become exercisable) three years from the date of grant, unless earlier vesting is approved by the Personnel and Compensation Committee. The options may be

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exercised for a period of five years after they vest. If a director dies, becomes disabled, or retires (defined to mean a termination of directorship with at least five years of service or after attaining the age of 75), all options (whether or not vested) become immediately exercisable and may be exercised by the director or the director's estate for a period of five years or until the expiration of the stated term of the option. If a director terminates service on the Board for any reason other than death, disability or retirement, all options, to the extent then exercisable, must be exercised within 90 days unless the term for exercise is extended by the Board. If any director is terminated for cause, all options will immediately terminate. Any additional option grants, which may be approved from time to time in the discretion of the Personnel and Compensation Committee and the Board, are generally subject to the Director's attendance of at least 75% of the meetings of the Board and all committees of which the director is a member, with the exception of certain conflicts, which are excused.

In 2001, Columbia implemented a long-term care program for directors serving at that time, which provides benefits in the event those individuals become chronically ill. The coverage is for a period of 3 years up to a lifetime, depending on the age of the director, and the amount of the benefit is based on the director's years of service with Columbia after the inception of the long-term care program. Columbia paid a one-time premium for the long-term care policies. Expenses are allocated to the directors participating in the program for 2005 as follows: Ms. Dressel (\$9,446), Mr. Folsom (\$7,996), Mr. Hulbert (\$9,854), Mr. Matson (\$12,093), Mr. Rodman (\$11,289), Mr. Weyerhaeuser (\$9,584) and Mr. Will (\$7,390). The benefit vests over a 5 year period provided that the directors are fully vested if (1) they obtain the age of 75, (2) they are not re-elected to the board, (3) they become disabled, or (4) there is a change of control of Columbia. If a director is terminated for cause, the director must reimburse Columbia for the full premium paid. A director must reimburse a percentage of the premium if the director voluntarily resigns or chooses not to run for re-election. The long-term care program was available to all Columbia directors, in