INTERMOUNTAIN COMMUNITY BANCORP
Form 10-Q
May 14, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012
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 000-50667
INTERMOUNTAIN COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

Idaho	82-0499463
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

414 Church Street, Sandpoint, ID 83864
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code:
(208) 263-0505

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The number of shares outstanding of the registrant's Common Stock, no par value per share, as of May 7, 2012 was 20,775,493.

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FORM 10-Q
For the Quarter Ended March 31, 2012
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PART I — Financial Information
Item - 1 Financial Statements
Intermountain Community Bancorp
Consolidated Balance Sheets
(Unaudited)

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
ASSETS		
Cash and cash equivalents:		
Interest-bearing	$76,316	$82,242
Non-interest bearing and vault	13,908	24,958
Restricted cash	12,561	2,668
Available-for-sale securities, at fair value	264,313	219,039
Held-to-maturity securities, at amortized cost	15,024	16,143
Federal Home Loan Bank ("FHLB") of Seattle stock, at cost	2,310	2,310
Loans held for sale	4,172	5,561
Loans receivable, net	492,983	502,252
Accrued interest receivable	4,108	4,100
Office properties and equipment, net	37,155	37,687
Bank-owned life insurance ("BOLI")	9,214	9,127
Other intangibles	159	189
Other real estate owned ("OREO")	6,852	6,650
Prepaid expenses and other assets	19,556	21,292
Total assets	$958,631	$934,218
LIABILITIES		
Deposits	$731,458	$729,373
Securities sold subject to repurchase agreements	63,635	85,104
Advances from Federal Home Loan Bank	29,000	29,000
Cashier checks issued and payable	355	481
Unexercised stock warrant liability	1,007	—
Accrued interest payable	1,821	1,676
Other borrowings	16,527	16,527
Accrued expenses and other liabilities	11,879	10,441
Total liabilities	855,682	872,602
STOCKHOLDERS' EQUITY		
Common stock 300,000,000 shares authorized; 20,776,220 and 8,427,212 shares issued and 20,770,214 and 8,409,840 shares outstanding as of March 31, 2012 and December 31, 2011, respectively	91,511	78,916
Preferred stock, Series A, 27,000 shares issued and outstanding as of March 31, 2012 and December 31, 2011; liquidation preference of $1,000 per share	26,241	26,149
Mandatorily Convertible Cumulative Participating Preferred Stock, Series B, 698,993 and 0 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively; liquidation preference of $0.01 per share	28,735	—
Accumulated other comprehensive income, net of tax	2,064	2,370
Accumulated deficit	(45,602)	(45,819)
Total stockholders' equity	102,949	61,616
Total liabilities and stockholders' equity	$958,631	$934,218

The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands, except per share data)	
Interest income:		
Loans	$7,071	$8,335
Investments	2,049	2,153
Total interest income	9,120	10,488
Interest expense:		
Deposits	822	1,248
Other borrowings	676	529
Total interest expense	1,498	1,777
Net interest income	7,622	8,711
Provision for losses on loans	(959)	(1,633)
Net interest income after provision for losses on loans	6,663	7,078
Other income:		
Fees and service charges	1,625	1,670
Loan related fee income	582	575
Net gain on sale of securities	585	—
Other-than-temporary impairment ("OTTI") losses on investments (1)	(271)	—
Bank-owned life insurance	87	89
Fair value adjustment on cash flow hedge	(384)	—
Other	212	329
Total other income	2,436	2,663
Operating expenses		
Salaries and employee benefits	4,136	4,947
Occupancy expense	1,684	1,787
Advertising	112	130
Fees an service charges	622	651
Printing, postage and supplies	300	337
Legal and accounting	350	235
FDIC assessment	313	445
OREO operations	104	476
Other expenses	677	732
Total operating expenses	8,298	9,740
Net income before income taxes	801	1
Income tax (provision) benefit	—	—
Net income	801	1
Preferred stock dividend	466	443
Net income (loss) applicable to common stockholders	$335	$(442)
Earnings (loss) per share — basic	$0.01	$(0.05)
Earnings (loss) per share — diluted	$0.01	$(0.05)
Weighted average common shares outstanding — basic (2)	44,278,310	8,396,495
Weighted average common shares outstanding — diluted (3)	44,426,732	8,396,495

(1)

Consisting of $7 and 0 of total other-than-temporary impairment net losses, net of $(264) and $0, recognized in other comprehensive income, for the three months ended March 31, 2012, and March 31, 2011, respectively.

(2) Includes the weighted average number of non-voting common shares that would be outstanding if the Series B preferred

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shares issued in the January 2012 private offering are converted to non-voting common shares.
(3) Includes the weighted average number of non-voting common shares that would be outstanding if the warrants issued in the January 2012 private offering are exercised directly for 1,700,000 non-voting common shares or exercised for Series B preferred shares and then converted, utilizing the Treasury stock method.
The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended March 31, 2012	2011
	(Dollars in thousands)	
Net income	$801	$1
Other comprehensive income:		
Change in unrealized gains on investments, and mortgage backed securities (“MBS”) available for sale, excluding non-credit loss on impairment of securities	(731)	394
Realized net gains reclassified from other comprehensive income	(585)	—
Non-credit loss on impairment on available-for-sale debt securities	263	(168)
Less deferred income tax benefit (provision) on securities	417	(89)
Change in fair value of qualifying cash flow hedge, net of tax	330	13
Net other comprehensive income (loss)	(306)	150
Comprehensive income	$495	$151

The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31, 2012	2011
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$801	$1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	676	768
Stock-based compensation expense	30	72
Net amortization of premiums on securities	1,075	604
Provisions for losses on loans	959	1,633
Goodwill impairment		
Amortization of core deposit intangibles	29	31
(Gain) on sale of loans, investments, property and equipment	(973)	(147)
Impact of hedge dedesignation and current fair value adjustment	458	—
OTTI credit loss on available-for-sale investments	271	—
OREO valuation adjustments	(20)	361
Accretion of deferred gain on sale of branch property	(4)	(3)
Net accretion of loan and deposit discounts and premiums	(3)	(3)
Increase in cash surrender value of bank-owned life insurance	(87)	(89)
Change in:		
Accrued interest receivable	(8)	339
Prepaid expenses and other assets	1,869	606
Accrued interest payable	1,301	(66)
Accrued expenses and other liabilities	(125)	(197)
Proceeds from sale of loans originated for sale	18,242	10,466
Loans originated for sale	(16,465)	(8,717)
Net cash provided by operating activities	8,026	5,659
Cash flows from investing activities:		
Purchases of available-for-sale securities	(62,360)	(4,038)
Proceeds from calls or maturities of available-for-sale securities	1,233	132
Principal payments on mortgage-backed securities	12,190	13,132
Proceeds from calls or maturities of held-to-maturity securities	2,967	22
Origination of loans, net principal payments	7,694	20,094
Purchase of office properties and equipment	(144)	(83)
Proceeds from sale of other real estate owned	439	1,270
Net change in restricted cash	(9,893)	67
Net cash used in investing activities	(47,874)	30,596
Cash flows from financing activities:		
Proceeds from issuance of series B preferred stock, gross	32,460	—
Proceeds from issuance of common stock, gross	13,832	—
Proceeds from issuance of warrant, gross	1,007	—
Capital issuance costs	(5,042)	—
Net change in demand, money market and savings deposits	17,931	5,969
Net change in certificates of deposit	(15,846)	(17,161)

Net change in repurchase agreements	(21,469)	(12,877)
Retirement of treasury stock	—	(4)
Net cash provided by financing activities	22,873	(24,073)
Net change in cash and cash equivalents	(16,975)	12,182
Cash and cash equivalents, beginning of period	107,199	144,666
Cash and cash equivalents, end of period	$90,224	$156,848
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,655	$1,843
Income taxes, net of tax refunds received	8	—
Noncash investing and financing activities:		
Loans converted to other real estate owned	620	888
Accrual of preferred stock dividend	374	356

The accompanying notes are an integral part of the consolidated financial statements.

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Intermountain Community Bancorp
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation:
The foregoing unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented.
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of Intermountain Community Bancorp's ("Intermountain's" or "the Company's") consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of Intermountain's consolidated financial position and results of operations.

2. Investments:
The amortized cost and fair values of investments are as follows (in thousands):

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	Available-for-Sale				
	Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value/ Carrying Value
March 31, 2012					
State and municipal securities	$39,661	$—	$1,751	$(3)	$41,409
Mortgage-backed securities - Agency Pass Throughs	75,163	—	2,007	(303)	76,867
Mortgage-backed securities - Agency CMO's	111,895	—	1,908	(333)	113,470
SBA Pools	18,595	—	—	(147)	18,448
Mortgage-backed securities - Non Agency CMO's (investment grade)	5,590	—	368	—	5,958
Mortgage-backed securities - Non Agency CMO's (below investment grade)	10,003	(1,747)	444	(539)	8,161
	$260,907	$(1,747)	$6,478	$(1,325)	$264,313
December 31, 2011					
U.S. treasury securities and obligations of U.S. government agencies	$21	$—	$—	$—	$21
State and municipal securities	35,352	—	1,791	(8)	37,135
Mortgage-backed securities - Agency Pass Throughs	59,436	—	2,252	(126)	61,562
Mortgage-backed securities - Agency CMO's	103,349	—	2,526	(328)	105,547
Mortgage-backed securities - Non Agency CMO's (investment grade)	5,934	—	389	—	6,323
Mortgage-backed securities - Non Agency CMO's (below investment grade)	10,489	(2,011)	435	(462)	8,451
	$214,581	$(2,011)	$7,393	$(924)	$219,039

	Held-to-Maturity				
	Carrying Value / Amortized Cost	Cumulative Non-Credit OTTI (Losses) Recognized in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012					
State and municipal securities	$15,024	$—	$1,374	$—	$16,398
December 31, 2011					
State and municipal securities	$16,143	$—	$1,328	$—	$17,471

The following table summarizes the duration of Intermountain's unrealized losses on available-for-sale and held-to-maturity securities as of the dates indicated (in thousands).

	Less Than 12 Months		12 Months or Longer		Total	
March 31, 2012	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-back securities	$72,633	$(623)	$3,772	$(552)	$76,405	$(1,175)

SBA Pools	18,336	(147)	—	—	18,336	(147)
State and municipal securities	3,496	(3)	—	—	3,496	(3)
Total	$94,465	$(773)	$3,772	$(552)	$98,237	$(1,325)

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	Less Than 12 Months		12 Months or Longer		Total	
December 31, 2011	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal securities	$1,659	$(8)	$—	$—	$1,659	$(8)
Mortgage-backed securities & CMO's	39,905	(433)	3,993	(483)	43,898	(916)
Total	$41,564	$(441)	$3,993	$(483)	$45,557	$(924)

At March 31, 2012, the amortized cost and fair value of available-for-sale and held-to-maturity debt securities, by contractual maturity, are as follows (in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$—	$—	$130	$130
After one year through five years	2,009	2,124	2,367	2,531
After five years through ten years	—	—	7,779	8,457
After ten years	37,652	39,285	4,748	5,280
Subtotal	39,661	41,409	15,024	16,398
Mortgage-backed securities	202,651	204,456	—	—
SBA Pools	18,595	18,448	—	—
Total Securities	$260,907	$264,313	$15,024	$16,398

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Intermountain's investment portfolios are managed to provide and maintain liquidity; to maintain a balance of high quality, diversified investments to minimize risk; to offset other asset portfolio elements in managing interest rate risk; to provide collateral for pledging; and to maximize returns. At March 31, 2012, the Company does not intend to sell any of its available-for-sale securities that have a loss position and it is not likely that it will be required to sell the available-for-sale securities before the anticipated recovery of their remaining amortized cost or maturity date. The unrealized losses on residential mortgage-backed securities without other-than-temporary impairment ("OTTI") were considered by management to be temporary in nature.

The following table presents the OTTI losses for the three months ended March 31, 2012 and March 31, 2011:

	2012		2011	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total other-than-temporary impairment losses	$—	$7	$—	$—
Portion of other-than-temporary impairment losses transferred from (recognized in) other comprehensive income (1)	—	264	—	—
Net impairment losses recognized in earnings (2)	$—	$271	$—	$—

(1) Represents other-than-temporary impairment losses related to all other factors.

(2) Represents other-than-temporary impairment losses related to credit losses.

The OTTI recognized on investment securities available for sale relates to two non-agency collateralized mortgage obligations. Each of these securities holds various levels of credit subordination. These securities were valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimated the cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management's estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as underlying loan interest rates, geographic location, borrower characteristics, vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows were then discounted at the interest rate equal to the yield anticipated at the time the security was purchased. We review the actual collateral performance of these securities on a

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quarterly basis and update the inputs as appropriate to determine the projected cash flows.
See Note 11 “Fair Value of Financial Instruments” for more information on the calculation of fair or carrying value for the investment securities.

3. Loans and Allowance for Loan Losses:
The components of loans receivable are as follows (in thousands):

	March 31, 2012			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$114,460	22.7 %	$9,367	$105,093
Commercial real estate	172,508	34.2	7,861	164,647
Commercial construction	6,405	1.3	747	5,658
Land and land development loans	34,258	6.8	4,549	29,709
Agriculture	75,749	14.9	2,368	73,381
Multifamily	16,949	3.4	—	16,949
Residential real estate	57,879	11.5	3,868	54,011
Residential construction	2,554	0.5	—	2,554
Consumer	9,866	2.0	293	9,573
Municipal	13,369	2.7	—	13,369
Total loans receivable	503,997	100.0 %	$29,053	$474,944
Allowance for loan losses	(11,372)			
Deferred loan fees, net of direct origination costs	358			
Loans receivable, net	$492,983			
Weighted average interest rate	5.59 %			

	December 31, 2011			
	Loans Receivable	%	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial	$110,395	21.4 %	$8,585	$101,810
Commercial real estate	167,586	32.6	10,918	156,668
Commercial construction	6,335	1.2	747	5,588
Land and land development loans	38,499	7.5	5,173	33,326
Agriculture	81,316	15.8	2,423	78,893
Multifamily	26,038	5.1	—	26,038
Residential real estate	58,861	11.4	4,013	54,848
Residential construction	2,742	0.5	—	2,742
Consumer	11,847	2.3	276	11,571
Municipal	11,063	2.2	—	11,063
Total loans receivable	514,682	100.0 %	$32,135	$482,547
Allowance for loan losses	(12,690)			
Deferred loan fees, net of direct origination costs	260			
Loans receivable, net	$502,252			
Weighted average interest rate	5.69 %			

The components of allowance for loan loss by types are as follows (in thousands):

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	March 31, 2012		
	Total Allowance	Individually Evaluated Allowance	Collectively Evaluated Allowance
Commercial	$2,577	$1,009	$1,568
Commercial real estate	3,953	1,675	2,278
Commercial construction	474	262	212
Land and land development loans	2,210	746	1,464
Agriculture	138	—	138
Multifamily	77	—	77
Residential real estate	1,575	976	599
Residential construction	62	—	62
Consumer	258	175	