

INTERMOUNTAIN COMMUNITY BANCORP

Form 10-Q

November 09, 2007

Table of Contents

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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED September 30, 2007**  
**OR**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**82-0499463**  
(I.R.S. Employer  
Identification No.)

**231 N. Third Avenue, Sandpoint, Idaho 83864**  
(Address of principal executive offices) (Zip Code)  
**(208) 263-0505**

(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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer  Accelerated filer  Non Accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Class	Outstanding as of November 2, 2007
Common Stock (no par value)	8,244,075

**Intermountain Community Bancorp**  
**FORM 10-Q**  
**For the Quarter Ended September 30, 2007**  
**TABLE OF CONTENTS**

PART I Financial Information

Item 1 Financial Statements (Unaudited)

Consolidated Balance Sheets for September 30, 2007 and December 31, 2006

Consolidated Statements of Income for the three and nine months ended September 30, 2007 and 2006

Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006

Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2007 and 2006

Notes to Consolidated Financial Statements

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Item 4 Controls and Procedures

PART II Other Information

Item 1 Legal Proceedings

Item 1A Risk Factors

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Item 3 Defaults Upon Senior Securities

Item 4 Submission of Matters to a Vote of Security Holders

Item 5 Other Information

Item 6 Exhibits

Signatures

EXHIBIT 3.1

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32



**Table of Contents**

**PART I Financial Information**  
**Item 1 Financial Statements**  
**Intermountain Community Bancorp**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS:</b>		
Cash and cash equivalents:		
Interest bearing	\$ 338	\$ 72
Non-interest bearing and vault	21,407	24,305
Restricted cash	1,029	888
Federal funds sold	15,830	35,385
Available-for-sale securities, at fair value	148,245	118,490
Held-to-maturity securities, at amortized cost	11,553	6,719
Federal Home Loan Bank of Seattle (FHLB) stock, at cost	1,779	1,779
Loans held for sale	5,381	8,945
Loans receivable, net	760,225	664,403
Accrued interest receivable	8,337	7,329
Office properties and equipment, net	39,941	25,444
Bank-owned life insurance	7,638	7,400
Goodwill	11,662	11,662
Other intangible assets	761	881
Prepaid expenses and other assets, net	7,685	6,164
<b>Total assets</b>	<b>\$ 1,041,811</b>	<b>\$ 919,866</b>
<b>LIABILITIES:</b>		
Deposits	\$ 778,296	\$ 693,686
Securities sold subject to repurchase agreements	104,551	106,250
Advances from Federal Home Loan Bank of Seattle	29,000	5,000
Cashiers checks issued and payable	1,869	6,501
Accrued interest payable	2,842	1,909
Other borrowings	33,824	22,602
Accrued expenses and other liabilities	5,379	5,838
<b>Total liabilities</b>	<b>955,761</b>	<b>841,786</b>
Commitments and contingent liabilities		
Common stock, no par value; 29,040,000 shares authorized; 8,307,836 and 7,423,904 shares issued and 8,243,447 and 7,382,912 shares outstanding	76,754	60,395
Accumulated other comprehensive loss		(111)
Retained earnings	9,296	17,796

Total stockholders' equity	86,050	78,080
Total liabilities and stockholders' equity	\$ 1,041,811	\$ 919,866

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

**Table of Contents**

**Intermountain Community Bancorp  
Consolidated Statements of Income  
(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
Interest income:				
Loans	\$ 17,383	\$ 14,539	\$ 48,754	\$ 39,116
Investments	1,701	1,491	5,339	3,455
Total interest income	19,084	16,030	54,093	42,571
Interest expense:				
Deposits	4,909	3,949	13,974	9,557
Other borrowings	1,812	975	5,437	2,374
Total interest expense	6,721	4,924	19,411	11,931
Net interest income	12,363	11,106	34,682	30,640
Provision for losses on loans	(1,221)	(910)	(3,228)	(1,576)
Net interest income after provision for losses on loans	11,142	10,196	31,454	29,064
Other income:				
Fees and service charges	3,199	2,540	8,471	7,406
Bank-owned life insurance	80	76	239	228
Loss on sale of securities	(38)		(38)	(983)
Other	343	357	1,150	1,126
Total other income	3,584	2,973	9,822	7,777
Operating expenses	10,718	9,221	30,352	25,814
Income before income taxes	4,008	3,948	10,924	11,027

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Income tax provision		(1,590)	(1,423)	(4,229)	(4,101)
Net income	\$	2,418	\$ 2,525	\$ 6,695	\$ 6,926
Earnings per share basic	\$	0.29	\$ 0.31	\$ 0.82	\$ 0.86
Earnings per share diluted	\$	0.28	\$ 0.30	\$ 0.78	\$ 0.81
Weighted average shares outstanding basic		8,223,257	8,054,527	8,193,268	8,016,949
Weighted average shares outstanding diluted		8,592,975	8,558,530	8,608,796	8,516,484

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

4



**Table of Contents**

**Intermountain Community Bancorp  
Consolidated Statements of Cash Flows  
(Unaudited)**

	<b>Nine Months Ended September 30, 2007                      2006 (Dollars in thousands)</b>	
Cash flows from operating activities:		
Net income	\$ 6,695	\$ 6,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,863	1,542
Stock-based compensation expense	305	234
Net amortization of premiums on securities	(425)	147
Excess tax benefit related to stock-based compensation	(361)	(196)
Provisions for losses on loans	3,228	1,576
Amortization of core deposit intangibles	120	130
(Gain) loss on sale of loans, investments, property and equipment	(304)	245
Accretion of deferred gain on sale of branch property	(12)	
Net accretion of loan and deposit discounts and premiums	(58)	(69)
Deferred income tax benefit	329	260
Increase in cash surrender value of bank-owned life insurance	(239)	(228)
Change in:		
Loans held for sale	3,564	(967)
Accrued interest receivable	(1,007)	(1,444)
Prepaid expenses and other assets	(1,864)	(3,067)
Accrued interest payable	932	858
Accrued expenses and other liabilities	(5,209)	219
 Net cash provided by operating activities	 7,557	 6,166
 Cash flows from investing activities:		
Purchases of available-for-sale securities	(156,935)	(58,500)
Proceeds from calls or maturities of available-for-sale securities	121,627	31,667
Principal payments on mortgage-backed securities	6,166	5,675
Purchases of held-to-maturity securities	(5,070)	(649)
Proceeds from calls or maturities of held-to-maturity securities	194	
Origination of loans, net of principal payments	(103,430)	(107,420)
Proceeds from sale of loans	4,763	14,895
Purchase of office properties and equipment	(18,281)	(6,306)
Proceeds from sale of office properties and equipment	2,243	13
Net change in federal funds sold	19,555	(27,030)
Purchase of FHLB stock		(5)
Business acquisition		(41)
Improvements and other changes in other real estate owned	271	805
Proceeds from sales of other real estate owned		19

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Net change in restricted cash	(141)	52
Net cash used in investing activities	(129,038)	(146,825)

**Table of Contents**

**Intermountain Community Bancorp**  
**Consolidated Statements of Cash Flows (continued)**  
**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
Cash flows from financing activities:		
Net change in demand, money market and savings deposits	\$ 59,340	\$ 74,158
Net change in certificates of deposit	25,277	16,947
Net change in repurchase agreements	(1,699)	44,410
Principal reduction of note payable	(27)	(106)
Excess tax benefit related to stock-based compensation	361	196
Proceeds from exercise of stock options	348	313
Repayments of FHLB borrowings	(10,000)	
Proceeds from FHLB borrowings	34,000	
Proceeds from other borrowings	11,249	1,650
 Net cash provided by financing activities	 118,849	 137,568
 Net change in cash and cash equivalents	 (2,632)	 (3,091)
Cash and cash equivalents, beginning of period	24,377	23,875
 Cash and cash equivalents, end of period	 \$ 21,745	 \$ 20,784
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 20,111	\$ 12,055
Income taxes	4,100	4,850
Noncash investing and financing activities:		
Restricted stock issued	703	483
Deferred gain on sale/leaseback	312	
Purchase of land		1,130
10% stock dividend	15,186	13,637
Loans converted to Other Real Estate Owned		398

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

Table of Contents

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

	<b>Three Months</b>		<b>Nine Months Ended</b>	
	<b>Ended</b>		<b>September 30,</b>	
	<b>September 30,</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>			
Net income	\$ 2,418	\$ 2,525	\$ 6,695	\$ 6,926
Other comprehensive income:				
Change in unrealized gains on investments, net of reclassification adjustments	595	1,952	184	2,078
Less deferred income tax expense	(235)	(773)	(73)	(816)
Net other comprehensive income	360	1,179	111	1,262
Comprehensive income	\$ 2,778	\$ 3,704	\$ 6,806	\$ 8,188

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

**Table of Contents**

**Intermountain Community Bancorp**  
**Notes to Consolidated Financial Statements**

**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, 2006. 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. Advances from the Federal Home Loan Bank of Seattle:**

The Company had advances from the Federal Home Loan Bank of Seattle totaling \$29.0 million at September 30, 2007. A \$5.0 million advance bears a fixed interest rate of 2.71% and matures on June 18, 2008. A \$14.0 million advance bears a fixed interest rate of 4.90% and matures on September 14, 2009. A \$10.0 million advance bears a fixed interest rate of 4.96% and matures on September 17, 2010.

**3. Other Borrowings:**

The components of other borrowings are as follows (in thousands):

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Term note payable (1)	\$ 8,279	\$ 8,279
Term note payable (2)	8,248	8,248
Term note payable (3)	988	1,015
Term note payable (4)	16,309	
Term note payable (5)		5,060
Total other borrowings	\$ 33,824	\$ 22,602

- (1) In January 2003, the Company issued \$8.0 million of Trust Preferred securities through its subsidiary, Intermountain Statutory Trust I. The debt associated with these securities bears interest at 6.75%, with interest only paid quarterly starting in June 2003. The debt is callable by the Company in March 2008 and matures in March 2033.
  
- (2) In March 2004, the Company issued \$8.0 million of Trust Preferred securities through its subsidiary, Intermountain Statutory Trust II. The debt associated with these securities bears interest on a variable basis tied to the 90-day LIBOR (London Inter-Bank Offering Rate) index plus 2.8%, with interest only paid quarterly. The rate on this borrowing was

8.16% at September 30, 2007. The debt is callable by the Company in April 2009 and matures in April 2034.

- (3) In January 2006, the Company purchased land to build the Financial and Technical Center in Sandpoint, Idaho. It entered into a Note Payable with the sellers of the property in the amount of \$1.13 million, with a fixed rate of 6.65%. The note matures in February 2026.
- (4) In March 2007, the Company entered into a borrowing agreement with Pacific Coast Bankers Bank in the amount of \$18.0 million. The borrowing agreement is a revolving line of credit with a variable rate of interest of Prime less 1.00%. At September 30, 2007, the balance outstanding was \$16.3 million at 6.75%.





**Table of Contents**

(5) In January 2006, the Company entered into a borrowing agreement with US Bank in the amount of \$5.0 million which was raised to \$10.0 million in September 2006. The borrowing agreement was a revolving line of credit with a variable rate of interest tied to LIBOR. This line of credit was paid off and closed in March 2007.

Intermountain's obligations under the above debentures issued by its subsidiaries constitute a full and unconditional guarantee by Intermountain of the Statutory Trusts' obligations under the Trust Preferred Securities. In accordance with Financial Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities (FIN No. 46R), the trusts are not consolidated and the debentures and related amounts are treated as debt of Intermountain.

**4. Earnings Per Share:**

The following table presents the basic and diluted earnings per share computations:

	<b>Three Months Ended September 30,</b>					
	<b>(Dollars in thousands, except per share amounts)</b>					
	<b>2007</b>			<b>2006</b>		
		<b>Weighted</b>			<b>Weighted</b>	
	<b>Net</b>	<b>Avg.</b>	<b>Per</b>	<b>Net</b>	<b>Avg.</b>	<b>Per</b>
	<b>Income</b>	<b>Shares(1)</b>	<b>Share</b>	<b>Income</b>	<b>Shares(1)</b>	<b>Share</b>
			<b>Amount</b>			<b>Amount</b>
Basic computations	\$ 2,418	8,223,257	\$ 0.29	\$ 2,525	8,054,527	\$ 0.31
Effect of dilutive securities: Common stock options and stock grants		369,718	(0.01)		504,003	(0.01)
Diluted computations	\$ 2,418	8,592,975	\$ 0.28	\$ 2,525	8,558,530	\$ 0.30

**Nine Months Ended September 30,  
(Dollars in thousands, except per share amounts)  
2007 2006**