

INTERMOUNTAIN COMMUNITY BANCORP

Form PRE 14A

November 12, 2008

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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:

- Preliminary Proxy Statement
- Confidential, for Use of the Common Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

INTERMOUNTAIN COMMUNITY BANCORP.

(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.
- Fee computed on table below per Exchange Act Rules 12a-6(i)(1) and 0-11
 - (1) Title of each class of securities to which transaction applies
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**Intermountain Community Bancorp
414 Church Street
Sandpoint, Idaho 83864**

November 21, 2008

To the Shareholders of Intermountain Community Bancorp:

You are cordially invited to a Special Meeting of Shareholders of Intermountain Community Bancorp to be held on Wednesday, December 17, 2008 at 10 a.m. at the Sandpoint Center, located at 414 Church Street, Sandpoint, Idaho. The purpose of the meeting is to consider a proposed amendment to our Articles of Incorporation to authorize preferred stock. In that regard, we applied for and have received preliminary approval to participate in the recently announced U.S. Department of Treasury TARP Capital Purchase Program (CPP). As a condition to our participation in the CPP, we must amend our Articles of Incorporation to provide for the issuance of preferred stock.

Your vote is important. Whether or not you plan to attend the special meeting, we hope that you will vote as soon as possible. If passed, the proposal would allow Intermountain to take advantage of the relatively low-cost capital-raising opportunity provided through the CPP, which is discussed in more detail in the Proxy Statement. We encourage you to promptly complete and return the enclosed proxy card; if you attend the meeting in person, you may withdraw your proxy and vote your shares. Failure to return your proxy or failure to vote will have the same effect as a vote against the proposal.

Further information regarding voting rights and the business to be transacted at the special meeting is included in the accompanying Proxy Statement. Your continued interest in and support of Intermountain Community Bancorp is truly appreciated.

Sincerely,

Curt Hecker

President and Chief Executive Officer

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INTERMOUNTAIN COMMUNITY BANCORP

414 Church Street

Sandpoint, Idaho 83864

(208) 263-0505

Notice of Special Meeting of Shareholders

| | |
|-------------------|--|
| TIME | 10:00 a.m. on Wednesday, December 17, 2008 |
| PLACE | Sandpoint Center, 414 Church Street, Sandpoint, Idaho |
| ITEMS OF BUSINESS | (i) To approve an amendment to our Articles of Incorporation to permit our Board of Directors to issue preferred stock. (ii) To transact such other business as may properly be presented at the meeting or any adjournment or postponement of the meeting. |
| RECORD DATE | You are entitled to vote at the special meeting and at any adjournments or postponements thereof if you were a shareholder at the close of business on November 18, 2008. |
| VOTING BY PROXY | Please submit your proxy card as soon as possible so that your shares can be voted at the special meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on your enclosed proxy card. |

The Company's Board of Directors is not aware of any other business to come before the Special Meeting.

Your vote is important. Whether or not you plan to attend the special meeting, we urge you to vote and submit your proxy by the Internet, telephone or mail in order to ensure the presence of a quorum. The amendment to the Articles of Incorporation requires the affirmative vote of at least ***a majority of the total votes entitled to be cast*** at the special meeting.

Registered holders may vote:

Ø ***By Internet:*** go to www.voteproxy.com

Ø ***By phone: call toll-free:*** 1-800-776-9437

Ø ***By Mail:*** mark, sign, date and mail your proxy card

Beneficial Holders: If your shares are held in the name of a broker, bank or other holder of record, you must follow the instructions you receive from the holder of record to vote your shares.

By Order of the Board

Dale Schuman
Corporate Secretary

Curt Hecker
President and Chief Executive Officer

*This proxy statement and the accompanying proxy card are being distributed on or about
November 21, 2008*

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**PRELIMINARY PROXY STATEMENT
For Special Meeting of Shareholders
to be held on December 17, 2008
INFORMATION ABOUT THE MEETING**

General

Meeting Information. This Proxy Statement and the accompanying Proxy are being sent to shareholders on or about November 21, 2008, for use in connection with a Special Meeting of Shareholders of Intermountain Community Bancorp (Intermountain or the Company) to be held on Wednesday, December 17, 2008.

Solicitation of Proxies. The Board of Directors is soliciting shareholder proxies, and we will pay the associated costs. Solicitation may be made by our directors, officers and by employees of our subsidiary bank, Panhandle State Bank. In addition, we may engage an outside proxy solicitation firm to render proxy solicitation services. If we do, we will pay a fee for such services. Solicitation may be made through the mail, or by telephone, facsimile, or personal interview. We also may reimburse brokerage firms, custodians and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners.

Record Date. If you were a shareholder on November 18, 2008, you are entitled to vote at the special meeting. There were approximately _____ shares of common stock issued and outstanding on the Record Date.

Quorum. The quorum requirement for holding the special meeting and transacting business is a majority of the shares entitled to be voted. The shares may be present in person or represented by proxy at the special meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Business of the Meeting

There is only one matter that is being presented for consideration by our shareholders at the special meeting: the approval of an amendment to our Articles of Incorporation authorizing the issuance of preferred stock.

Reasons for the Amendment

The Company applied, and recently received preliminary approval to participate in the Capital Purchase Program (CPP), a program created under the Emergency Economic Stabilization Act of 2008 (EESA). As you may have read, the CPP enables the federal government to purchase equity in participating banks and other financial institutions to help restore credit markets. Participation in the CPP requires the issuance of preferred stock and warrants to purchase common stock to the United States Department of Treasury (US Treasury). We presently lack the authority to issue preferred stock and, accordingly, may not be eligible to participate in the CPP. As a result, we would continue to be limited to issuing common stock or debt securities to raise capital. By authorizing a class of blank check preferred stock, we would increase our flexibility in structuring transactions, as well as have the opportunity to participate in the CPP.

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Management's Recommendation on the Proposal

Like other financial institutions, we continue to experience extremely challenging economic and financial market conditions. While we remain well capitalized for regulatory purposes, the market outlook for continuing weak economic conditions requires that we take all necessary steps to achieve even higher capital levels that will position Intermountain to remain strong throughout the remainder of this economic uncertainty and to pursue potential opportunities that may arise during this period. The Board of Directors believes that the creation of preferred shares will expand Intermountain's options to seek additional capital in the current environment, including an investment by the US Treasury under the CPP. If the amendment to our Articles is approved, we would be eligible for a capital investment by the US Treasury in shares of our preferred stock up to \$27 million and warrants to purchase common stock in an amount up to \$4 million.

For these reasons, the Board of Directors strongly recommends a vote *for* the proposal to amend the Articles of Incorporation.

Voting Requirement to Approve Matters Presented

Proposal to Amend Articles of Incorporation. To approve an amendment to the Articles of Incorporation, we must receive the affirmative vote FOR the proposal by holders of at least a majority of the total votes entitled to be cast at the special meeting, represented in person or by proxy. You may vote *for*, *against* or *abstain* from the proposal. Abstentions and broker nonvotes will have the same effect as a vote against the proposal.

The Board of Directors unanimously voted in favor of the amendment to the Articles of Incorporation and recommends your approval.

Voting and Revocation of Proxies. Shares represented by properly executed proxies that are received in time and not revoked will be voted in accordance with the instructions indicated on the proxies. If no instructions are indicated, the persons named in the proxy will vote the shares represented by the proxy **FOR** the amendment to the Articles of Incorporation. Any proxy given by a shareholder may be revoked before its exercise by (1) giving notice to us in writing, (2) delivering to us a subsequently dated proxy, or (3) notifying us at the special meeting before the shareholder vote is taken. Shareholders of record are entitled to one vote per share on the proposal.

Voting of Proxies by Shareholders of Record and by Beneficial Owners. Approximately [53%] of Intermountain shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some differences between shares held of record and those owned beneficially.

Shareholders of Record. If your shares are registered directly in your name with Intermountain's transfer agent, American Stock Transfer and Trust, you are considered, with respect to those shares, the shareholder of record, and these proxy materials are being sent to you by Intermountain through American Stock Transfer and Trust. As the shareholder of record, you have the right to grant your voting proxy directly to Intermountain or to vote in person at the special meeting. Intermountain has enclosed a proxy card for you to use. For instructions on voting by telephone or the Internet, please refer to your proxy card, the notice, and the instructions set forth below.

Beneficial Owner. 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

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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. If you do not return your voting instruction, your shares will not be voted.

Brokers cannot vote on behalf of beneficial owners on non-routine proposals, such as this proposal. A broker non-vote occurs when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the proposal is not routine and the broker therefore lacks discretionary authority to vote the shares, and (2) the beneficial owner does not submit voting instructions to the broker.

Voting at the Special Meeting

You may vote your shares either in person at the special meeting or by proxy. To vote by proxy, you should mark, date, sign and mail the enclosed proxy card in the 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.

Telephone Voting. You may grant a proxy to vote your shares by telephone by calling 1-800-776-9437. Please see the instructions on the enclosed proxy card.

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 www.voteproxy.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.

A number of brokers and banks are participating in a program provided through Broadridge Financial Solutions Inc. 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 Broadridge program, you may grant a proxy to vote those shares by calling the telephone number or accessing the website as shown on the instruction form received from your broker or bank.

General information for all shares voted via the Internet or by phone. We must receive Internet or telephone votes by 11:59 p.m. on December 16, 2008. Submitting your proxy via the Internet or by phone will not affect your right to vote in person should you decide to attend the special meeting.

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PROPOSAL

Amendment to Our Articles of Incorporation to Authorize the Board to Issue Preferred Stock

The Board of Directors has determined that it is advisable and in the best interests of the Company to amend Article II of the Company's Articles of Incorporation to authorize the issuance of blank check preferred stock with such terms as the Board warrants appropriate. A copy of the proposed amendment to the Articles is attached to this Proxy Statement as **Appendix A** (referred to as the Proposed Amendment herein).

Purpose of the Amendment

On October 3, 2008, the Emergency Economic Stabilization of 2008 was enacted. The Troubled Assets Relief Program (TARP) is the heart of the EESA and provides the Secretary of the US Treasury the authority to purchase troubled assets from eligible financial institutions in an aggregate amount of up to \$700 billion. Under the EESA, the Treasury created the CPP that enables the federal government to purchase equity in participating banks and other financial institutions to help restore credit markets. Application to participate in the CPP must be submitted by November 14, 2008. The Company filed an application for participation in the CPP and on November 6, 2008, was notified by the US Treasury that our application has received preliminary approval, subject to certain conditions and the execution of definitive agreements.

The specific purpose of the Proposed Amendment is to provide the Company the opportunity to participate in the CPP, which requires the issuance of preferred stock and warrants to purchase common stock.

Proposed Amendment

We are presently authorized to issue only shares of our no par value common stock and are not authorized to issue any preferred stock. The Proposed Amendment provides for authorized capital stock of 30,040,000 shares, of which 1,000,000 shares are shares of preferred stock, no par value, and 29,040,000 shares are shares of common stock, no par value.

The Board of Directors has approved, subject to shareholder approval at the special meeting, the Proposed Amendment, which will authorize our Board of Directors to issue what is commonly referred to as blank check preferred stock because the Board of Directors has discretion to designate one or more series of the preferred stock as it warrants appropriate. The Board of Directors has broad rights to set the rights, preferences, privileges, limitations and restrictions for one or more series of preferred stock, including the following:

- (i) the number of shares and designation of such series;
- (ii) the dividend rate and conditions and dates upon which dividends will be paid;
- (iii) redemption rights and price or prices;
- (iv) whether the shares of the series shall be convertible into, or exchangeable, or redeemable for, shares of any other class or series, or any other security, of the Company;
- (v) voting rights;

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(vi) rights in the event of involuntary liquidation or dissolution; and

(vii) any other rights, powers and preferences of such shares as are permitted by law.

As mentioned above, the Board of Directors intends to proceed, subject to shareholder approval of the Proposed Amendment and the review of all required documents, with the issuance of preferred stock and warrants to purchase shares of our common stock to the US Treasury pursuant to the terms of the CPP, as established under the EESA. Participation in the CPP will require that the Company follow the guidelines established by the US Treasury, and any rights and preferences governing the preferred stock established by the US Treasury.

The Company has no present agreement to issue any blank check preferred stock and, other than the preferred stock contemplated under the CPP, our Board of Directors currently has no intention to do so. The Proposed Amendment would provide maximum flexibility with respect to future financing transactions, and would enable the Board of Directors, without further shareholder approval, to issue a series of preferred shares in connection with any future financings, future acquisitions, or other corporate purposes as approved by the Board.

In the event the Proposed Amendment is not approved, the Company will not have the ability to participate in the CPP. In addition, the Company may have a distinct disadvantage against competitors in the current environment and may be limited in its ability to raise and attract capital to sustain growth of the Company in the future.

Possible Anti-Takeover Effect of the Proposed Amendment

The Proposed Amendment may be deemed to have an anti-takeover effect because it may create, under certain circumstances, an impediment for persons seeking to effect a takeover or otherwise gain control of the Company. However, it is not the intent of the Board of Directors to use the preferred stock for that purpose.

Current Anti-Takeover Provisions. Our Articles of Incorporation, as currently in effect, require the vote or action of shareholders possessing two-thirds (2/3) of the shares entitled to vote to approve a change in control of the Company (as defined in the Articles of Incorporation). In addition, any amendment or repeal of that section of the Articles requires the affirmative vote of two-thirds (2/3) of all of the votes entitled to be cast on the matter.

Effect of Preferred Stock Upon Holders of Common Stock

The actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock cannot be stated until the Board of Directors determines the specific rights of the holders of such preferred stock. As stated above, the Board of Directors will have authority to determine, without further shareholder approval, the rights and preferences governing the preferred stock.

The effects of the issuance of preferred stock upon holders of our common stock might include, among other things:

(i) restricting our ability to declare dividends or the amount of such dividends on the common stock;

(ii) restricting our ability to repurchase outstanding common stock;

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- (iii) diluting the voting power of the common stock; and
- (iv) a change in the market price of the common stock, or impairing the liquidation rights of the common stock, without further action by the shareholders.

Participation in the CPP

Intermountain's participation in the CPP will require that shareholders approve the Proposed Amendment to provide for the issuance of preferred stock. Intermountain applied for and the US Treasury has preliminarily approved, the issuance of up to \$27 million in preferred stock, with a liquidation value of \$1,000 per share. In addition to preferred stock, the US Treasury would also receive warrants to purchase a number of shares of common stock having an aggregate market value equal to 15% of the amount of the investment in the preferred stock, or approximately \$4 million. The proceeds that Intermountain may receive from the US Treasury's investment in its preferred stock and warrants to purchase shares of common stock will not be guaranteed by the Federal Deposit Insurance Corporation or any other federal regulatory agency.

Effect on Liquidity and Capital. The capital investment by the US Treasury under the CPP would strengthen the Company's capital position and enhance our ability to lend additional funds, as well as to withstand unforeseen losses arising from the challenging market and economic conditions that currently exist. A \$27 million investment under the CPP would represent approximately 30% of the Company's current average equity and would increase its average equity to asset ratio from 8.70% to 11.0%. This addition of capital would have a positive effect on liquidity by providing new cash funding in itself. The higher capital would also help to solidify current liquidity sources, and potentially increase access to other resources for additional capital and liquidity.

Based on certain assumptions, including (i) projected flat growth through 2011; (ii) outstanding share basis remains the same; (iii) funding from CPP is successfully utilized to grow Company assets by 8 times the investment; (iv) assets generate a 2.00% net after-tax return of the average outstanding assets annually; and (v) warrants are exercised by the US Treasury by the end of 2009, an injection of \$27 million in capital would result, on a pro forma basis, in the following:

- o increase in net income
- o initial decrease of earnings per share, but increased earnings per share by 2010
- o increase of our risk based regulatory capital ratio
- o increase of our tier 1 leverage regulatory capital ratio

Dilutive Effect of Warrants on Shareholders. Assuming that the Company participates in the CPP for the maximum \$27 million, the US Treasury will have the right to purchase up to approximately \$4 million in shares of our common stock. The exercise price of the warrants is based on the average trading price of Intermountain's common stock over the 20 days prior to receiving preliminary approval, estimated to be \$6.15 per share. Based on the per share price of \$6.15, an aggregate of up to 658,537 shares of Intermountain common stock could be issued in the event all warrants were exercised, representing approximately 7.9% of the issued and outstanding shares of Intermountain common stock at September 30, 2008. The additional shares may also be dilutive to our future earnings per share following the issuance of the shares of common stock.

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Dividend Payments on Preferred Stock. For the first five years, a cumulative compounding dividend at a 5% per annum rate is paid on the preferred stock, payable in quarterly payments, and thereafter, if the preferred stock has not been redeemed, at a rate of 9% per annum. Such dividend payments are not a tax deductible expense.

Restrictions on Common Stock. If Intermountain participates in the CPP, during the first three years following the issuance of preferred stock and warrants, prior consent of the US Treasury will be required for any increase in dividends on outstanding common stock or the repurchase by the Company of any outstanding shares of common stock.

Restrictions on Executive Compensation. As a condition to closing an investment under the CPP, executive compensation arrangements that may be considered a risk to the financial institution are restricted from payment under the EESA. In that regard, participation in the CPP requires that executive compensation arrangements be amended to comply with the terms of the EESA. The executives of Intermountain will comply with this requirement, and if the Company participates in the CPP, each executive will execute a waiver and acknowledgement agreeing that, during the term of such participation, each executive releases the Company from its obligation to pay any compensation to him or her that is prohibited by the CPP. Furthermore, the Company would be limited to taking a \$500,000 annual tax deduction for each of the top five members of executive management.

Potential Appointment of Directors. Under the terms of the CPP, in the event the Company fails to pay the dividends on the preferred stock for six quarters, the US Treasury will have the right to elect two directors to the Company's Board of Directors.

Approval by Treasury. Intermountain received notification of preliminary approval on its application to participate in the CPP on November 6, 2008. Final approval is subject to certain conditions and the execution of final documents. The US Treasury is under no obligation to issue its final approval and there can be no guarantee that such approval will be received.

Vote Required and Board Recommendation

The adoption of the Proposed Amendment requires the affirmative vote of ***not less than a majority of the votes entitled to be cast at the special meeting.*** If the Proposed Amendment is approved by the stockholders, it will become effective upon filing and recording of the Articles of Amendment as required by Idaho State law.

THE COMPANY'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING FOR THE APPROVAL OF THE PROPOSED AMENDMENT.

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BENEFICIAL OWNERS AND MANAGEMENT**

The following tables set forth information as of October 31, 2008, regarding the shares of Intermountain common stock beneficially owned by (i) each person (other than executive officers or directors whose stock ownership is listed below), known by Intermountain to own beneficially more than 5% of Intermountain's common stock, (ii) each director of Intermountain, (iii) the Named Executive Officers, and (iv) all directors and executive officers of Intermountain as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as noted below, to our knowledge, each holder has sole voting and investment power with respect to shares of Intermountain common stock listed as owned by such person or entity. The number of shares beneficially owned is based on the shares of our common stock outstanding on October 31, 2008. Share figures in the table below have been adjusted for all stock splits and stock dividends to date. Shares of our common stock subject to stock options that are currently exercisable or exercisable within 60 days of October 31, 2008 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Principal Shareholders (5% Owners Exclusive of Directors and Officers)

| Name and Address of Beneficial Owner | Number of Shares of Common Stock Owned⁽¹⁾ | Percentage of Outstanding Common Stock⁽¹⁾ |
|--|---|---|
| Wray D. Farmin 11815 Waikiki Rd Spokane, WA 99218 | 454,321 ⁽²⁾ | 5.4% |
| James Fenton Company, Inc. P. O. Box 505 Dover, ID 83825 | 456,649 ⁽³⁾ | 5.4% |

(1) Reflects stock ownership pursuant to shareholders most current report filed with the SEC.

(2) The shares beneficially held by Mr. Farmin are owned by the Farmin Family LLP, of which Mr. Farmin is the general partner and has sole voting and

dispositive
power.

- (3) The number of shares beneficially held include 15,524 shares held in trust for the minor children of Julie Meyer, President of James Fenton Company Inc.; 1,089 shares held by Ms. Meyer and her spouse; and 12,640 shares held in trust for the minor children of Susan Kubiak, Vice President of James Fenton Company, Inc.

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| Name and Position | Number of Shares of Common Stock Owned⁽¹⁾⁽²⁾ | Percentage of Outstanding Common Stock |
|---|--|---|
| Directors | | |
| John B. Parker, <i>Chairman</i> | 114,875 ⁽³⁾ | 1.4% |
| James T. Diehl, <i>Vice Chairman</i> | 227,801 ⁽⁴⁾ | 2.7% |
| Curt Hecker, <i>Director, President and CEO of the Company and CEO of the Bank</i> | 313,232 ⁽⁵⁾ | 3.7% |
| Charles L. Bauer, <i>Director</i> | 206,133 ⁽⁶⁾ | 2.5% |
| Ford Elsaesser, <i>Director</i> | 110,533 ⁽⁷⁾ | 1.3% |
| Ronald Jones, <i>Director</i> | 23,940 ⁽⁸⁾ | * |
| Maggie Y. Lyons, <i>Director</i> | 32,231 ⁽⁹⁾ | * |
| Jim Patrick, <i>Director</i> | 43,441 ⁽¹⁰⁾ | * |
| Michael J. Romine, <i>Director</i> | 529,816 ⁽¹¹⁾ | 6.3% |
| Jerry Smith, <i>Director, Executive Vice President of the Company and President of the Bank</i> | 149,259 ⁽¹²⁾ | 1.8% |
| Barbara Strickfaden, <i>Director</i> | 7,665 ⁽¹³⁾ | * |

(1) Includes shares subject to options that could be exercised within 60 days or December 30, 2008 as follows: 363 shares each for Mr. Parker and Ms. Lyons; 19,330 shares for each of Messrs. Diehl, Elsaesser, and Romine; 141,750 shares for Mr. Hecker; 16,583 shares for Mr. Smith; 5,082 shares for Ms. Strickfaden and for Messrs. Jones and Patrick; and 182 shares for

Mr. Bauer.

- (2) Includes shares of restricted stock subject to vesting requirements as follows: 523 shares held by Messrs. Parker, Diehl, Bauer, Elsaesser, Romine, and Ms. Lyons and Ms. Strickfaden; 442 shares held by Messrs. Jones and Patrick; 9,074 shares held by Mr. Hecker; and 7,195 shares held by Mr. Smith.
- (3) Includes 54,780 shares held in the Parker Family LLC of which Mr. Parker is co-manager with his spouse; 3,000 shares held in an IRA for Mr. Parker; and 41,123 shares held jointly with spouse.
- (4) Includes 9,695 shares held jointly with spouse; 78 shares held by spouse; 283 shares held in an IRA for spouse; 314 shares held in an IRA for the benefit of Mr. Diehl; 7,168 shares held in a

trust for Erick Joseph Diehl and 7,168 shares held in a trust for Jess Isaac Diehl, both trusts of which Mr. Diehl is a co-conservator; and 170,459 shares held in the Diehl Family LLC of which Mr. Diehl is a managing member.

- (5) Includes 144,514 shares held in the Hecker Family Trust; 17,182 shares held in an IRA account for the benefit of Mr. Hecker; 356 shares held in a custodial account for son; and 356 shares held jointly with son.
- (6) Includes 105,838 shares held in the Bauer Family Trust; 53,169 shares held in IRA accounts for the benefit of Mr. Bauer; and 46,421 shares held in IRA accounts for the benefit of Mr. Bauer s spouse.
- (7) Includes 2,195 shares held jointly with spouse; 2,944 shares held by Mr. Elsaesser s minor children

and daughter;
75,975 shares
held in a pension
fund trust for the
benefit of Mr.
Elsaesser; and
shares held in
pension fund
trusts of which
Mr. Elsaesser is
trustee as
follows: 6,055
shares for Joseph
Jarzabek; 1,291
shares for Donna
La Rue; 356
shares for Lois
LaPointe; 77
shares for
Sherylee Foster;
401 shares for
Deborah Hillen;
and 81 shares for
the benefit of
Darla Kuhman.

(8) Includes 3,375
shares held
jointly with
spouse; 4,542
shares held in an
IRA account for
the benefit of
Mr. Jones
spouse; and
6,160 shares held
in an IRA
account for the
benefit of Mr.
Jones.

(9) Includes 5,720
shares held
jointly with
spouse and 1,280
shares held in a
profit sharing
plan for the
benefit of
Ms. Lyons
spouse.

- (10) Includes 28,214 shares held jointly with spouse; 220 shares held in an IRA account for the benefit of Mr. Patrick's spouse; and 9,363 shares held in IRA accounts for the benefit of Mr. Patrick.

- (11) Includes 1,179 shares held in the Romine Educational Trust; 5,461 shares held by Mr. Romine's spouse; and 503,203 shares held in the Romine Family LLC.

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(12) Includes 108,083 shares held in the Smith Family Trust; and 17,398 shares held in IRA accounts for the benefit of Mr. Smith.

(13) Includes 1,815 shares held in an IRA account for Ms. Strickfaden.

Officers

In addition to their stock ownership, the following table includes information with respect to the five year employment history of the executives listed below.

| Name and Age | Position/Employment History | Number and Percentage of Outstanding Common Stock⁽¹⁾⁽²⁾⁽³⁾ | |
|--|---|--|-------|
| John Nagel, 57 | EVP & Chief Credit Officer of Bank ⁽⁴⁾ | 62,389 | * |
| Douglas Wright, 44 | EVP & Chief Financial Officer ⁽⁵⁾ | 85,901 | 1.0% |
| Pamela Rasmussen, 48 | EVP & Chief Operating Officer ⁽⁶⁾ | 21,004 | * |
| Dale Schuman, 49 | SVP, Trust and Wealth Management ⁽⁷⁾ | 26,848 | * |
| Officers & Directors as a Group (15 Individuals) | | 1,955,068 | 23.2% |

(1) Includes shares subject to options exercisable within 60 days or December 30, 2008 as follows:
Mr. Nagel
41,798 shares;
Ms. Rasmussen
726 shares;
Mr. Wright
50,652 shares;
and 325,653 shares held by officers and directors as a group.

- (2) Includes shares of restricted stock subject to forfeiture as follows:
Mr. Nagel 5,828 shares;
Ms. Rasmussen 6,574 shares;
Mr. Wright 6,905 shares; and
Mr. Schuman 15,368 shares.
- (3) Includes 1,298 shares that Mr. Wright holds jointly with his spouse; 13,704 shares held by Ms. Rasmussen in the Rasmussen Family Trust; and 11,480 shares held jointly by Mr. Schuman and his spouse.
- (4) Mr. Nagel joined the Company in 2001. Prior to that time he served as Credit Approval Officer at Washington Trust Bank from December 1999 to May 2001.
- (5) Mr. Wright joined the Company in 2002. Prior to that time he served as Senior Vice President and Production Manager at Sterling Savings Bank from

June 1996 to
May 2002.

(6) Ms. Rasmussen joined the Company in 2004 as Senior Vice President and Chief Operating Officer. In January 2006, Ms. Rasmussen was promoted to Executive Vice President and Chief Operating Officer. Prior to joining the Company, she was the Vice President of Operations and Cashier at Stockman Financial Corporation from March 2000 to April 2002, and the Operations Officer and Chief Financial Officer of Snake River Bancorp, Inc. (the former holding company of Magic Valley Bank) from April 2002 to November 2004.

(7) Mr. Schuman joined the Company in 2006 as Senior Vice President and General Manager of the Trust and Wealth Management division.

Mr. Schuman is an attorney and prior to joining the Company, he practiced commercial, mergers and acquisitions, trust and probate law from 1986 to 1999, and worked as an executive manager for an investment management institution from 1999 to 2005.

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SHAREHOLDER PROPOSALS

Shareholder Proposals for Inclusion in 2009 Proxy Statement

In order for a shareholder proposal to be considered for inclusion in our Proxy Statement for next year's annual meeting, the written proposal must be received by us no later than November 24, 2008 and should contain such information as required under our Bylaws. Such proposals need to comply with the SEC's regulations regarding the inclusion of shareholder proposals in company-sponsored proxy materials. No shareholder proposal from the floor will be considered at the annual meeting. In addition, if we receive notice of a shareholder proposal after February 7, 2009, the persons named as proxies in such proxy statement and form of proxy will have discretionary authority to vote on such shareholder proposal.

FINANCIAL STATEMENTS

Our reports filed with the Securities and Exchange Commission (SEC), including our Form 10-K for the year ended December 31, 2007 and our quarterly report on Form 10-Q for the quarter ended September 30, 2008, can be accessed by visiting the SEC's website at <http://www.sec.gov>.

In addition, we maintain a corporate website, www.panhandlebank.com. We make available through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. This reference to our website is for the convenience of investors and shall not be deemed to incorporate any information on the website into this Proxy Statement.

Any shareholder may obtain without charge a copy of our Annual Report on Form 10-K filed with the SEC under the Securities Exchange Act of 1934 for the year ended December 31, 2007, including financial statements. Written requests for the Form 10-K should be addressed to Susan Pleasant, Asst. Vice President, Shareholder Relations, P. O. Box 967, Sandpoint, Idaho 83864.

Sandpoint, Idaho
November 21, 2008

By Order of the Board of Directors

Curt Hecker
President and Chief Executive Officer

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Appendix A

**Proposed Amendment to
Articles of Incorporation
of
Intermountain Community Bancorp**

Article II shall be amended in its entirety and replaced with the following:

**ARTICLE II
Authorized Shares**

The total authorized capital stock of the Corporation is 30,040,000 shares, of which Twenty-Nine Million, Forty Thousand (29,040,000) shares shall be common stock, with no par value, and One Million (1,000,000) shares shall be preferred stock, with no par value.

The preferred stock may be divided into and issued in one or more series. The Board of Directors is hereby authorized to cause the preferred stock to be issued from time to time in one or more series, with such designations and such relative voting, dividend, liquidation, conversion and other rights, preferences and limitations as shall be stated and expressed in the resolution or resolutions providing for the issue of such preferred stock adopted by the Board of Directors. The Board of Directors by vote of a majority of the whole Board is expressly authorized to adopt such resolution or resolutions and issue such stock from time to time as it may deem desirable.

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