

INTERMOUNTAIN COMMUNITY BANCORP
Form PRER14A
April 06, 2012
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 1)

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)

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 - 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

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Intermountain Community Bancorp

414 Church Street

Sandpoint, Idaho 83864

April 17, 2012

To the Shareholders of Intermountain Community Bancorp:

We cordially invite you to attend the 2012 Annual Shareholders Meeting of Intermountain Community Bancorp to be held on Thursday May 17, 2012 at 10:00 a.m. at the Sandpoint Center, located at 414 Church Street, Sandpoint, Idaho.

As you are aware, during 2011 the Company was in the midst of its capital raise, which we successfully closed in January 2012, and made the decision to postpone holding the annual meeting until after the capital raise closed. Accordingly at this 2012 annual meeting, among other things you will be voting to elect two classes of directors, as well as electing the two new directors that were appointed in January 2012. As discussed in detail in this proxy statement, at this annual meeting you will also vote on two amendments to Intermountain's articles of incorporation, one to authorize a class of non-voting common stock and the other to approve a reverse stock split, a non-binding proposal to approve executive compensation, a new equity plan and the ratification of our accountants for the year 2012.

Your vote is important. Whether or not you plan to attend the annual meeting, we hope that you will vote as soon as possible. We encourage you to promptly complete and return the enclosed proxy card or vote by Internet or telephone, as specified in your proxy card; if you attend the meeting in person, you may withdraw your proxy and vote your shares.

Further information regarding voting rights and the business to be transacted at the annual 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 Annual Meeting of Shareholders

TIME	10:00 a.m. Pacific Daylight Time on Thursday May 17, 2012
PLACE	Sandpoint Center, 414 Church Street, Sandpoint, Idaho
ITEMS OF BUSINESS	<ol style="list-style-type: none">(1) To elect seven directors to the following terms: three directors to a two-year term; one director to a one-year term; and three directors to a three-year term.(2) To approve an amendment to our articles of incorporation to authorize a new class of non-voting common stock.(3) To approve an amendment to our articles of incorporation to (i) effect a reverse stock split of our common stock by a ratio of not less than one-for-five and not more than one-for-ten at any time prior to May 31, 2013, with the exact ratio to be set at a whole number within this range as determined by our Board of Directors in its sole discretion, and (ii) reduce the number of authorized shares of our common stock by the reverse stock split ratio determined by the Board of Directors.(4) To consider and approve an advisory (non-binding) vote to approve the compensation of Intermountain's executive officers, as disclosed in the proxy statement.(5) To approve the 2012 Stock Option and Equity Compensation Plan for eligible employees and directors.(6) To ratify the appointment of BDO USA, LLP as the independent registered public accounting firm for the fiscal year 2012.(7) To act upon such other matters as may properly come before the meeting or any adjournments or postponements 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 March 29, 2012.
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 on your enclosed proxy card.

Your vote is important. Whether or not you plan to attend the annual 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.

Registered holders may vote:

By Internet: go to www.proxyvote.com

By Phone: call toll-free 1-800-690-6903

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

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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

April 17, 2012

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PRELIMINARY PROXY STATEMENT

For Annual Meeting of Shareholders

to be held on May 17, 2012

Important Notice Regarding the Availability of Proxy Materials for the 2012 Shareholder Meeting:

A copy of this Proxy Statement and the Annual Report on Form 10-K for the year ended December 31, 2011, which also serves as the Annual Report to Shareholders, are available at www.intermountainbank.com.

INFORMATION ABOUT THE MEETING

Why did I receive these proxy materials?

We are providing this Notice of Annual Meeting, proxy statement and the accompanying proxy card (the proxy materials) for use in connection with the Annual Meeting of Shareholders of Intermountain Community Bancorp (also referred to in this proxy statement as Intermountain, the Company, we and us) to be held on Thursday, May 17, 2012. These proxy materials are first being mailed to shareholders on or about April 17, 2012.

What proposals will be voted on at the annual meeting?

At the annual meeting, holders of our common stock will be asked to consider and act upon the following proposals:

Election of Directors. To elect one nominee as director for a one-year term to expire in 2013; three nominees as a director with a two-year term to expire in 2014; and three nominees as directors with three-year terms to expire in 2015.

Amendment to Articles to Authorize Non-Voting Common Stock. Approval of an amendment to our articles of incorporation to authorize a new series of non-voting common stock (Non-Voting Common Stock) to permit the conversion of the Mandatorily Convertible Participating Preferred Stock, Series B (Series B Preferred Stock) issued in our recent capital raise into, and the exercise of warrants issued to investors for, such Non-Voting Common Stock.

Amendment to Articles to Authorize a Reverse Stock Split. Approval of an amendment to our articles of incorporation to (i) effect a reverse stock split of our common stock by a ratio of not less than one-for-five and not more than one-for-ten at any time prior to May 31, 2013, with the exact ratio to be set at a whole number within this range as determined by our Board of Directors in its sole discretion, and (ii) reduce the number of authorized shares of our common stock by the reverse stock split ratio determined by our Board of Directors (the Reverse Stock Split).

Advisory (non-binding) Vote on Executive Compensation. To consider and approve in an advisory (non-binding) vote on, the compensation of Intermountain executives as disclosed in the proxy statement.

2012 Stock Option and Equity Compensation Plan. To approve the adoption of a new equity compensation plan for employees and directors.

Ratification of the Appointment of Independent Accountants. To ratify the appointment of Intermountain's independent registered public accounting firm for 2012.

Why is the Authorization of Non-Voting Common Stock being proposed?

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As part of the capital raise that closed on January 23, 2012 (2012 Capital Raise), the Company issued to certain investors a newly created series of Series B Preferred Stock which will automatically convert into shares

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of Non-Voting Common Stock at a conversion price of \$1.00 per share subject to shareholder approval. The Company's articles of incorporation do not currently provide for Non-Voting Common Stock. Accordingly, to satisfy the Company's obligations under the agreements with certain investors in the 2012 Capital Raise, the Company is asking shareholders to approve an amendment to its articles to authorize Non-Voting Common Stock. A detailed discussion relating to the Non-Voting Common Stock is set forth in *Proposal No. 2. Approval of an Amendment to our Articles to Authorize Non-Voting Common Stock.*

Why is the Reverse Stock Split being proposed and how will fractional shares be treated?

You may recall that at a special meeting of the shareholders held on February 25, 2010, you were asked to vote on two proposals: an amendment to the Company's articles of incorporation to increase the number of authorized shares of our common stock, and to authorize a reverse stock split. The amendment to the articles of incorporation was accomplished and the authorized shares of common stock were increased to 300,000,000. Shareholder approval of the Reverse Stock Split at the special meeting was only valid until April 30, 2011. The Board determined not to proceed with the Reverse Stock Split until completion of the 2012 Capital Raise. Accordingly, the proposal to authorize the Reverse Stock Split is being presented for a vote of the shareholders at the 2012 annual meeting.

We are proposing the Reverse Stock Split primarily to increase the market price of our common stock to enhance our ability to meet the initial listing requirements of the NASDAQ Capital Market, and also to make our common stock more attractive to a broader range of investors. Although we have not applied to list our common stock on the NASDAQ Capital Market or any other stock exchange, our Board of Directors has considered taking such action and believes it is in the Company's and our shareholders' best interests to position the Company's common stock for possible listing. In addition, under agreements with investors in the 2012 Capital Raise, the Company is obligated to file a listing application with NASDAQ within one year from the closing, to list the common stock on the NASDAQ Capital Market. Among the initial listing requirements for the NASDAQ Capital Market is currently a \$4.00 per share minimum bid price. Reducing the number of outstanding shares of our common stock should, absent other factors, increase the per share market price of our common stock, although we cannot provide any assurance that we will be able to maintain our minimum bid price over \$4.00 per share even if we implement the Reverse Stock Split. Based on the last reported sale price of the Common Stock of \$1.22 on April 4, 2012, any of the potential reverse split ratios should have the effect of increasing the market price of the Common Stock above the current \$4.00 threshold for listing on the NASDAQ Capital Market. The Board of Directors may elect a higher ratio than is minimally necessary in order to provide greater assurance of the market price per share remaining above \$4.00.

To avoid shareholders owning fractional shares, shareholders of record who would otherwise hold fractional shares as a result of the Reverse Stock Split will be entitled to receive an additional fraction of a share of Common Stock to round up to the next whole share. This will result in additional fractions of shares being provided to all shareholders who hold a number of shares not evenly divisible by the reverse split ratio chosen. However, this will have a minimal impact on the pro forma ownership percentages of shareholders after giving effect to the reverse split.

In addition, we believe the Reverse Stock Split will make our common stock more attractive to a broader range of investors, as we have been advised that the current market price of our common stock may affect its acceptability to certain institutional investors, professional investors and other members of the investing public. Many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers.

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How does the Board of Directors recommend I vote?

The Board of Directors unanimously recommends that you vote:

FOR the director nominees;

FOR the articles amendment to authorize Non-Voting Common Stock;

FOR the articles amendment to authorize the Reverse Stock Split;

FOR the approval of the advisory (non-binding) vote to approve executive compensation;

FOR the approval to adopt the 2012 Stock Option and Equity Compensation Plan; and

FOR the ratification of the appointment of the independent registered public accounting firm.

What vote is required to approve each of the proposals?

Election of Directors. The three nominees for election as directors at the annual meeting with terms that expired in 2011, the three nominees for director whose terms expire at the 2012 annual meeting, and the one director nominee appointed to the class of directors whose term expires in 2013, who receive the highest number of affirmative votes **FOR** will be elected. Shareholders are not permitted to cumulate their votes for the election of directors. Votes may be *cast for* or *withheld from* each nominee. Votes that are withheld and broker non-votes will have no effect on the outcome of the election.

Non-Voting Common Stock and Reverse Stock Split. To approve each of the articles amendments that authorize Non-Voting Common Stock and the Reverse Stock Split, we must receive the affirmative vote **FOR** the applicable proposal by holders of at least a majority of the total votes entitled to be cast at the annual meeting. Abstentions and broker non-votes (defined below) will have the same effect as a vote against each of these proposals.

Advisory (non-binding) Vote on Executive Compensation. The advisory (non-binding) vote to approve executive compensation requires the affirmative vote **FOR** the proposal by holders of a majority of the shares present in person or by proxy and voting on the proposal. You may vote *for*, *against* or *abstain* from approving the advisory (non-binding) vote on executive compensation. Abstentions and broker non-votes will have no effect on the outcome of the vote.

2012 Stock Option and Equity Compensation Plan. The affirmative votes **FOR** by a majority of those shares present in person or by proxy and voting on the proposal are required to approve the 2012 Stock Option and Equity Compensation Plan. You may vote *for*, *against* or *abstain* from approving the plan. Abstentions and broker non-votes will have no effect on the outcome of the vote.

Ratification of the Appointment of the Independent Registered Public Accounting Firm. The proposal to ratify the appointment of Intermountain's independent registered public accounting firm for 2012 requires the affirmative vote **FOR** the proposal by holders of a majority of the shares present in person or by proxy and voting on the proposal. You may vote *for*, *against* or *abstain* from the ratification of the independent registered public accounting firm. Abstentions and broker non-votes will have no effect on the outcome of the vote.

How will my proxy be voted?

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 director nominees, **FOR** the authorization of the Non-Voting Common Stock; **FOR** the authorization of the Reverse Stock Split; **FOR** the

approval of the

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advisory (non-binding) vote to approve executive compensation, **FOR** the approval of the 2012 Stock Option and Equity Compensation Plan, and **FOR** the ratification of the independent registered public accounting firm.

Can I revoke my proxy?

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 annual meeting before the shareholder vote is taken.

Who is soliciting proxies?

Our Board of Directors is soliciting proxies from the holders of our common stock, and we will pay the associated costs. Solicitation may be made by Intermountain's and Panhandle State Bank's (Bank) directors, officers and employees. 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.

Who is entitled to vote?

Shareholders who owned our common stock as of the close of business on March 29, 2012 (the Record Date) are entitled to vote at the annual meeting. There were approximately 20,769,762 shares of our common stock issued and outstanding on the Record Date, and each share of common stock is entitled to one vote on each matter properly brought before the annual meeting. Our outstanding Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value (the Series A Preferred Stock) and our Mandatorily Convertible Cumulative Participating Preferred Stock, Series B, are not entitled to vote at the annual meeting.

What is the quorum requirement for the annual meeting?

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

Are these proxy materials available on-line?

This Notice of Annual Meeting and proxy statement are available on our Website at www.intermountainbank.com.

What is the difference between holding shares as a shareholder of record and as a beneficial owner?

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 Broadridge Investor Communications Solutions. As the shareholder of record, you have the right to grant your voting proxy directly to Intermountain or to vote in person at the annual 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 of Annual Meeting delivered with this proxy statement and the instructions set forth below.

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Beneficial Ownership/Broker Non-Votes. 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 how to vote with respect to the shares you beneficially own. 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 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. If you do not instruct your broker on how to vote your shares, your broker may vote your shares at this meeting on the ratification of the appointment of the independent registered accounting firm only. If no instruction is given with respect to the election of directors, respective amendments to the articles of incorporation, approval of the advisory (non-binding) resolution on executive compensation or approval of the 2012 Stock Option and Equity Compensation Plan, ***your broker cannot vote your shares on these proposals.***

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 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 **1-800-690-6903**. 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.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.

A number of brokers and banks are participating in a program provided through Broadridge Investor Communication Solutions 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 May 16, 2012. Submitting your proxy via the Internet or by phone will not affect your right to vote in person should you decide to attend the annual meeting.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. We will publish final results in a Current Report on Form 8-K that will be filed with the Securities and Exchange Commission within four business days after the annual meeting. After the Form 8-K is filed, you may obtain a copy by visiting our Website at ***www.intermountainbank.com*** and clicking on the *Governance Documents* link under *Investor Relations*, or by writing to: Intermountain Community Bancorp, c/o the Corporate Secretary, P. O. Box 967, Sandpoint, Idaho 83864.

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PROPOSAL NO. 1 ELECTION OF DIRECTORS

General

Our amended and restated articles of incorporation (articles) and bylaws allow the Board to set the number of directors on the Board within a range of five to fifteen. The articles also authorize the Board to fill vacancies that occur on the Board, including vacancies that are a result of increasing the number of directors. As a result of our successful 2012 Capital Raise, certain investors had the right to appoint a director to the Company and Bank Boards. In addition, as a result of Mr. Bauer s retirement from the Board and Mr. Smith s decision not to stand for re-election this year, the Board has set the number of directors at ten. Information regarding the directors backgrounds and qualifications is set forth below under each of their biographical summaries.

Directors are generally elected for terms of three years or until their successors are elected and qualified. Our articles provide for staggered terms, with approximately one-third of the directors elected each year, with the classes of directors as near-equal size as possible. In order to maintain an equal number of directors in each class, one of our new directors was appointed to the class of directors whose terms expire in 2013 and the other new director was appointed to the class of directors whose terms expire in 2014. Because the Company did not hold an annual meeting of shareholders in 2011, at the 2012 annual meeting, shareholders will also vote to elect directors whose terms expired in 2011 but who continue to serve, as well as those with terms expiring in 2012. Under applicable corporate law, directors remain directors of a company until their successors are duly elected and qualified, notwithstanding the expiration of their respective term.

Our Nominating/Corporate Governance Committee has recommended, and the Board has nominated Russell J. Kubiak for election as a director for a one-year term to expire at the 2013 annual meeting; Maggie Y. Lyons, Ronald Jones and John L. Welborn, Jr. for election as directors for two-year terms to expire at the 2014 annual meeting of shareholders; and Ford Elsaesser, Curt Hecker and Michael J. Romine for three-year terms to expire at the 2015 annual meeting of shareholders. If any of the nominees should refuse or become unable to serve, your proxy will be voted for the person the Board designates to replace that nominee. We are not aware of any nominee who will be unable to or refuses to serve as a director. As disclosed in prior SEC reports, as a participant in U.S. Treasury s Capital Purchase Program (CPP) implemented in connection with the Troubled Asset Relief Program (TARP), in the event we do not pay dividends on the preferred stock issued to Treasury under the CPP for six quarters, whether consecutive or not, Treasury has the right to appoint two directors to the Company s Board until all accrued but unpaid dividends have been paid. As of the date of this proxy statement, Intermountain has not paid dividends on the preferred stock for nine quarters. Accordingly, although Treasury has not taken such action, it could act to appoint two directors to the Board until such dividend payments are made.

Vote Required

The three nominees for election as directors at the annual meeting with terms to expire in 2014, the three nominees for director with terms to expire in 2015, and the one director nominee appointed to the class of directors whose terms expire in 2013 who receive the highest number of affirmative votes **FOR** will be elected. ***Brokers do not have discretion to cast a vote FOR the election of directors.*** Therefore, if your shares are in street name and you do not instruct your broker how to vote, your shares will not be voted on this proposal.

The Board of Directors unanimously recommends a vote FOR each of the nominees to the Board.

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INFORMATION WITH RESPECT TO NOMINEES AND OTHER DIRECTORS

Series A 5.00% 11/15/18 (NATL-RE)1,380,0001,543,972 Series A-1 5.25% 11/15/291,395,0001,594,094 (Health Partners Obligation Group Project) 5.25% 5/15/362,000,0002,091,120St. Paul Housing & Redevelopment Authority Hospital Revenue (Health East Project) 6.00% 11/15/302,775,0002,877,925 6.00% 11/15/352,500,0002,589,400St. Paul Housing & Redevelopment Authority Housing & Health Care Facilities Revenue (Senior Carondelet Village Project) Series A 6.00% 8/1/42770,000815,076 (Senior Episcopal Homes Project) 5.125% 5/1/481,200,0001,236,564 Series A 4.75% 11/1/31740,000754,682Washington County Housing & Redevelopment Authority Revenue (Birchwood & Woodbury Projects) Series A 5.625% 6/1/371,500,0001,546,050Wayzata Senior Housing Revenue (Folkestone Senior Living Community) Series A 5.50% 11/1/32420,000459,816 Series A 5.75% 11/1/39945,0001,035,380 Series A 6.00% 5/1/471,475,0001,627,043

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Schedule of investments

Delaware Investments[®] Minnesota Municipal Income Fund II, Inc. (Unaudited)

	Principal Amount ^o	Value (U.S. \$)
Municipal Bonds (continued)		
Healthcare Revenue Bonds (continued)		
Winona Health Care Facilities Revenue (Winona Health Obligation)		
4.65% 7/1/26	465,000	\$ 496,969
4.75% 7/1/27	785,000	839,722
5.00% 7/1/23	1,010,000	1,065,297
5.00% 7/1/34	750,000	810,825
Woodbury Housing & Redevelopment Authority Revenue (St. Therese of Woodbury)		
5.125% 12/1/44	1,250,000	1,265,700
		71,174,089
Housing Revenue Bonds	3.61%	
Minneapolis Multifamily Housing Revenue (Olson Townhomes Project)		
6.00% 12/1/19 (AMT) (Seward Towers Project)	475,000	475,337
5.00% 5/20/36 (GNMA)	1,935,000	1,960,697
Minnesota State Housing Finance Agency (Residential Housing)		
Series D 4.75% 7/1/32 (AMT)	760,000	770,541
Series I 5.15% 7/1/38 (AMT)	550,000	555,923
Series L 5.10% 7/1/38 (AMT)	1,085,000	1,122,096
Minnesota State Housing Finance Agency Homeownership (Mortgage-Backed Securities Program) 4.40% 7/1/32 (GNMA) (FNMA) (FHLMC)	1,250,000	1,308,537
		6,193,131
Lease Revenue Bonds	15.08%	
Minnesota State General Fund Revenue Appropriations Series A 5.00% 6/1/32	780,000	914,566

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	Series A 5.00% 6/1/38	5,500,000	6,363,610
	Series A 5.00% 6/1/43	1,750,000	1,995,315
	Series B 4.00% 3/1/26	3,000,000	3,289,080
	Series B 5.00% 3/1/21	1,500,000	1,787,070
	Series B 5.00% 3/1/29	3,525,000	4,140,677
	University of Minnesota		
	Special Purpose Revenue		
	(State Supported Biomed		
	Science Research)		
	5.00% 8/1/35	1,040,000	1,186,026
	5.00% 8/1/36	4,000,000	4,521,800
	Virginia Housing &		
	Redevelopment Authority		
	Health Care Facility Lease		
	Revenue		
	5.25% 10/1/25	680,000	691,268
	5.375% 10/1/30	965,000	980,237
			25,869,649
Local General Obligation	Bonds 7.33%		
	City of Willmar		
	(Rice Memorial Hospital		
	Project) Series A 4.00%		
	2/1/32	2,440,000	2,587,962
	Dakota County Community		
	Development Agency		
	(Senior Housing Facilities)		
	Series A 5.00% 1/1/23	1,100,000	1,104,334
	Hopkins Independent School		
	District No. 270		
	Series A 5.00% 2/1/28	1,000,000	1,154,540
	Rocori Independent School		
	District No. 750		
	(School Building)		
	Series B 5.00% 2/1/22	1,010,000	1,149,774
	Series B 5.00% 2/1/24	1,075,000	1,222,899
	Series B 5.00% 2/1/25	1,115,000	1,264,611
	Series B 5.00% 2/1/26	1,155,000	1,309,978
	St. Paul Independent School		
	District No. 625		
	(School Building)		
	Series B 5.00% 2/1/22	1,300,000	1,574,976
	Series B 5.00% 2/1/26	1,000,000	1,199,050
	Thief River Falls Independent		
	School District No. 564		
	(School Building) Series A		
	4.00% 2/1/32	10,000	10,769
			12,578,893

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(Unaudited)

	Principal Amount ^o	Value (U.S. \$)
Municipal Bonds (continued)		
Pre-Refunded/Escrowed to Maturity Bonds 16.35%		
Dakota-Washington Counties Housing & Redevelopment Authority Revenue (Bloomington Single Family Residential Mortgage) Series B 8.375% 9/1/21 (GNMA) (FHA) (VA)	7,055,000	\$ 9,608,346
Southern Minnesota Municipal Power Agency Power Supply System Revenue Series A 5.75% 1/1/18	2,120,000	2,193,288
St. Paul Housing & Redevelopment Authority Sales Tax (Civic Center Project) 5.55% 11/1/23 5.55% 11/1/23 (NATL-RE) (IBC)	2,125,000 3,875,000	2,232,185 4,070,455
University of Minnesota Series A 5.50% 7/1/21 Series A 5.75% 7/1/18	4,000,000 2,000,000	4,820,160 2,324,820
University of Minnesota Hospital & Clinics 6.75% 12/1/16	2,580,000	2,800,306
		28,049,560
Special Tax Revenue Bonds 5.94%		
Guam Government Business Privilege Tax Revenue Series A 5.25% 1/1/36	150,000	168,399
Hennepin County Sales Tax Revenue (Second Lien-Ballpark Project) Series B 4.75% 12/15/27	1,905,000	2,086,966
Minneapolis Community Planning & Economic Development Department (Limited Tax Supported Common Bond Fund) 6.25% 12/1/30 Series 1 5.50% 12/1/24 (AMT) Series 5 5.70% 12/1/27	1,000,000 1,000,000 375,000	1,208,740 1,019,380 381,930
Minnesota Public Safety Radio		

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	5.00% 6/1/23	2,845,000	3,271,949
	St. Paul Port Authority (Brownsfields Redevelopment Tax) Series 2 5.00% 3/1/37	895,000	959,476
	St. Paul Sales Tax Revenue Series G 5.00% 11/1/30	935,000	1,097,971
			10,194,811
State General Obligation Bonds	11.58%		
	Minnesota State (State Trunk Highway) Series B 5.00% 10/1/22	5,500,000	6,637,125
	Series B 5.00% 10/1/29 (State Various Purpose) Series D 5.00% 8/1/24	3,315,000	3,934,176
	(Various Purposes) Series F 5.00% 10/1/22	2,700,000	3,155,004
		5,000,000	6,144,300
			19,870,605
Transportation Revenue Bonds	4.50%		
	Minneapolis - St. Paul Metropolitan Airports Commission Revenue 5.00% 1/1/21	2,600,000	3,080,116
	5.00% 1/1/22 Subordinate Series B 5.00% 1/1/26	670,000	785,387
	Series B 5.00% 1/1/26 (AMT)	540,000	627,518
	Series B 5.00% 1/1/27	500,000	580,715
	Series B 5.00% 1/1/30	1,190,000	1,377,889
	Series B 5.00% 1/1/31	500,000	572,045
	St. Paul Port Authority Revenue (Amherst H Wilder Foundation) Series 3 5.00% 12/1/36	250,000	285,167
		380,000	418,855
			7,727,692
Water & Sewer Revenue Bonds	1.62%		
	Metropolitan Council Waste Water Revenue Series B 4.00% 9/1/27	1,145,000	1,274,396
	St. Paul Sewer Revenue Series D 5.00% 12/1/21	1,325,000	1,495,157
			2,769,553
Total Municipal Bonds			
	(cost \$228,370,733)		242,733,910

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Schedule of investments

Delaware Investments[®] Minnesota Municipal Income Fund II, Inc. (Unaudited)

Total Value of		
Securities	141.47%	
(cost \$228,370,733)		\$242,733,910
Liquidation Value of		
Preferred		
Stock	(43.71%)	(75,000,000)
Receivables and Other		
Assets Net of		
Liabilities	2.24%	3,847,613
Net Assets	100.00%	\$171,581,523

° Principal amount shown is stated in U.S. dollars unless noted that the security is denominated in another currency. Variable rate security. The rate shown is the rate as of Dec. 31, 2014. Interest rates reset periodically.

Summary of abbreviations:

AGM Insured by Assured Guaranty Municipal Corporation
 AMBAC Insured by AMBAC Assurance Corporation
 AMT Subject to Alternative Minimum Tax
 ASSURED GTY Insured by Assured Guaranty Corporation
 FHA Federal Housing Administration
 FHLMC Federal Home Loan Mortgage Corporation Collateral
 FNMA Federal National Mortgage Association Collateral
 GNMA Government National Mortgage Association Collateral
 IBC Insured Bond Certificate
 NATL-RE Insured by National Public Finance Guarantee Corporation
 VA Veterans Administration Collateral

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Notes

Delaware Investments[®] Minnesota Municipal Income Fund II, Inc.
December 31, 2014 (Unaudited)

1. Significant Accounting Policies

The following accounting policies are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are consistently followed by Delaware Investments Minnesota Municipal Income Fund II, Inc. (Fund). This report covers the period of time since the Fund's last fiscal year end.

Security Valuation Debt securities are valued based upon valuations provided by an independent pricing service or broker and reviewed by management. To the extent current market prices are not available, the pricing service may take into account developments related to the specific security, as well as transactions in comparable securities. Valuations for fixed income securities utilize matrix systems, which reflect such factors as security prices, yields, maturities, and ratings, and are supplemented by dealer and exchange quotations. Generally, other securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Fund's Board of Directors (Board). In determining whether market quotations are readily available or fair valuation will be used, various factors will be taken into consideration, such as market closures or suspension of trading in a security.

2. Investments

U.S. GAAP defines fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. A three-level hierarchy for fair value measurements has been established based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The Fund's investment in its entirety is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-level hierarchy of inputs is summarized below.

Level 1	Inputs are quoted prices in active markets for identical investments. (Examples: equity securities, open-end investment companies, futures contracts, exchange-traded options contracts)
Level 2	Other observable inputs, including, but not limited to: quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or other market-corroborated inputs. (Examples: debt securities, government securities, swap contracts, foreign currency exchange contracts, foreign securities utilizing international fair value pricing, broker-quoted securities, fair valued securities)
Level 3	Significant unobservable inputs, including the Fund's own assumptions used to determine the fair value of investments. (Examples: broker-quoted securities, fair valued securities)

Level 3 investments are valued using significant unobservable inputs. The Fund may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Valuations may also be based upon current market prices of securities that are comparable in coupon, rating, maturity, and industry. The derived value of a Level 3 investment may not represent the value which is received upon disposition and this could impact the results of operations.

The following table summarizes the valuation of the Fund's investments by fair value hierarchy levels as of Dec. 31, 2014:

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	Level 2
Municipal Bonds	\$242,733,910

During the year ended Dec. 31, 2014, there were no transfers between Level 1 investments, Level 2 investments, or Level 3 investments that had a material impact to the Fund. The Fund's policy is to recognize transfers between levels at the beginning of the reporting period.

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Notes

December 31, 2014 (Unaudited)

3. Subsequent Events

Management has determined that no material events or transactions occurred subsequent to Dec. 31, 2014 that would require recognition or disclosure in the Fund's Schedule of investments.

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Item 2. Controls and Procedures.

The registrant's principal executive officer and principal financial officer have evaluated the registrant's disclosure controls and procedures within 90 days of the filing of this report and have concluded that they are effective in providing reasonable assurance that the information required to be disclosed by the registrant in its reports or statements filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no significant changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2(a)), exactly as set forth below:
