

INTERMOUNTAIN COMMUNITY BANCORP
Form DEF 14A
April 19, 2012
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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)

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- 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

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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

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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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.

Table of Contents**INFORMATION WITH RESPECT TO NOMINEES AND OTHER DIRECTORS**

The following tables set forth certain information with respect to the director nominees and the other continuing directors.

Director Nominees

Name	Age as of 2/15/12	Primary Occupation
<u>Term to Expire in 2013</u>		
Russell J. Kubiak	65	Chief Operating Officer of James Fenton Company, Inc.
<u>Terms To Expire 2014</u>		
Maggie Y. Lyons	54	Plan Administrator and Trustee for Metropolitan Creditors Trusts
Ronald Jones	56	Chief Financial Officer of Ecolotree, Inc.; Farm Owner/Operator
John L. Welborn, Jr.	34	Director and Co-Chief Investment Officer of Stadium Capital Management, LLC
<u>Terms to Expire 2015</u>		
Ford Elsaesser	60	Attorney Firm of Elsaesser Jarzabek Anderson Elliott & Macdonald Chtd.
Curt Hecker	51	President & CEO of Intermountain; CEO of Panhandle State Bank
Michael J. Romine	71	Retired; Former Vice President & CFO of Inland Northwest Distributing, Inc.

Continuing Directors**Terms Expiring 2013**

James T. Diehl	57	Attorney Firm of J.T. Diehl
John B. Parker	78	Retired Auto Dealer
Jim Patrick	66	Farm Owner/Operator; Idaho State Legislator

Background of Nominees and Continuing Directors

The business experience and any public company directorships of each of the directors for the past five years are described below. Directors of Intermountain also serve as directors of the Bank. Five of the directors (Messrs. Diehl, Elsaesser, Hecker, Parker and Romine) have been directors of Intermountain since the Company's inception in 1997.

Director Nominees

Ford Elsaesser has been a director of Intermountain since 1997 and of the Bank since 1992. Mr. Elsaesser has a Bachelor of Science degree in forestry from Goodard College, Vermont, and a law degree from the University of Idaho Law School. Mr. Elsaesser is the managing and senior partner of the law firm of Elsaesser Jarzabek Anderson Elliott & Macdonald, Chtd. which he founded in 1980. Mr. Elsaesser has also served as the Idaho Chapter 7 Bankruptcy Trustee in all counties north of Grangeville since 1984, Chapter 12 Bankruptcy Trustee in northern Idaho and eastern Washington since 1986 and as court appointed receiver, examiner and Chapter 11 Trustee in numerous cases. This broad experience in bankruptcy law brings a unique perspective to the Board from a risk management standpoint.

Curt Hecker has been a director and Intermountain's President and Chief Executive Officer since its inception. Mr. Hecker was hired in 1995 as an Executive Vice President of the Bank. He has served as Chief Executive Officer and director of the Bank since 1996. From 1996 until 2001, Mr. Hecker also served as the Bank's President. Mr. Hecker earned a Business Administration degree from Boise State University in 1983, and graduated from Pacific Coast Banking School in 1994. Mr. Hecker joined the Bank with 11 years of banking experience as a vice president and manager with a bank that experienced various expansions through numerous

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mergers and acquisitions. In addition to the experience and knowledge gained through his early career, Mr. Hecker has served on the Board of Directors of Coldwater Creek, Inc., a publicly traded retail company based in northern Idaho, since 1996, and in 2009 joined the Board of Pacific Coast Bankers Bank. The Board believes that the CEO's service as a director is one of primary liaison between the Board and management and as the executive with overall responsibility for executing our strategic plan.

Ronald Jones was appointed to the Intermountain Board in November 2004, following Intermountain's merger with Snake River Bancorp, Inc./Magic Valley Bank. Mr. Jones served as Chairman of Magic Valley Bank from its opening in 1997 until April 2004. Mr. Jones has a Bachelor's degree in Agricultural Economics from South Dakota State University and a Master's degree in Business Administration from Colorado State University. His 15 years of experience as a bank director have included four capital expansions. As an independent consultant and expert witness in the bankruptcy system, he has experience in business modeling and analysis, especially related to agriculture. In the environmental engineering area, Mr. Jones develops life-cycle cost models for comparison of alternative treatment methods. Mr. Jones previously operated a business specializing in computerized accounting systems with an emphasis on clarity of management reports, sensitivity analysis, and risk recognition. Mr. Jones' prior director experience together with his experience and background in business analysis serves as a valuable resource.

Russell J. Kubiak was appointed a director to the Intermountain and Bank Boards in January 2012, following the closing of Intermountain's 2012 Capital Raise, pursuant to the securities purchase agreement with JRF, LLC. In 2007, Mr. Kubiak was appointed the Chief Operating Officer of James Fenton Company, Inc., located in Sandpoint, Idaho, and its affiliates, Barrett, LTD, and JRF, LLC. James Fenton Company is a diversified real estate and investment company holding various real estate assets in Idaho and California. It was founded by James Fenton, a former director of Intermountain and the Bank, who was also a founding shareholder until his death in 2005, and prior to the capital raise, was the Company's largest shareholder. Mr. Kubiak oversees all company assets, personnel supervision and long and short range planning. Prior to his appointment in 2007, Mr. Kubiak served as the President and Chief Executive Officer of Production Finance International, LLC, a company that he founded in 1994. Production Finance International provided transaction based trade financing for small businesses generally importing or exporting consumer and industrial products. Prior to that time, Mr. Kubiak founded Serac, Inc. in 1972, a prominent skiwear products company. Mr. Kubiak holds a degree in communications from the University of Washington.

Maggie Y. Lyons has been a director of Intermountain and the Bank since 2001. Ms. Lyons is currently the sole officer and director of Metropolitan Mortgage and Securities, Inc. and Summit Securities, Inc., and Plan Administrator and Trustee of Metropolitan and Summit Creditors Trusts. From July 2004 until February 2006, Ms. Lyons served as the Chief Financial Officer and acting Chief Executive Officer for Metropolitan Mortgage and Securities, and President and Principal Financial Officer of Summit Securities, both located in Spokane, Washington and both of which are in Chapter 11 proceedings. Ms. Lyons was appointed to these positions in July 2004 by the Eastern District of Washington Bankruptcy Court. Ms. Lyons is a Certified Public Accountant and Microsoft Certified Systems Engineer and provided business consulting services prior to working on the Metropolitan and Summit bankruptcy cases. Ms. Lyons' experience also includes over 20 years dealing with operational and accounting functions in the manufacturing and services industries, and over six years dealing with complex financial instruments in her roles stated above. Ms. Lyons has a Bachelor of Science degree from the University of Idaho where she majored in accounting. In addition, Ms. Lyons has been an active leader and participant in numerous civic and volunteer organizations in Kootenai County since 1989. Ms. Lyons' financial expertise together with her extensive business and personal network serves as a valuable resource.

Michael J. Romine has been a director of Intermountain since 1997 and the Bank since 1980. Mr. Romine served as the Vice President and Chief Financial Officer of Inland Northwest Distributing, Inc. from 1992 until his retirement in 2007. Mr. Romine has a Bachelor of Science degree in accounting from Montana State University. In addition, he is retired as a partner in PricewaterhouseCoopers, and worked as an auditor and consultant to various businesses, including banks, during his career. Mr. Romine's financial, accounting and auditing experience provides the Board with the experience and expertise needed as Audit Committee Chair.

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John L. Welborn, Jr. was appointed a director to the Intermountain and Bank Boards in January 2012, following the closing of Intermountain's 2012 Capital Raise pursuant to the securities purchase agreement with Stadium Capital Partners, L.P. and Stadium Capital Qualified Partners, L.P. (collectively, Stadium), which gives Stadium the right to designate a nominee so long as they own more than 5% of the Company's common stock (including all securities convertible into common stock). Mr. Welborn is a Director and Co-Chief Investment Officer of Stadium Capital Management, LLC, an investment firm with offices in Bend, Oregon and New Canaan, Connecticut. Stadium Capital Management, LLC is the sole general partner of Stadium Capital Partners, L.P. and Stadium Capital Qualified Partners, L.P. Mr. Welborn has been with Stadium Capital Management, LLC since 2000, and is responsible for sourcing, researching and monitoring publicly traded and privately negotiated investments for Stadium's investment partnerships. Mr. Welborn also leads Stadium's investments in the banking industry and acts as a non-voting observer on the Board of Directors of West Coast Bancorp. Prior to joining Stadium Capital, Mr. Welborn was a financial analyst at The Beacon Group, a \$2.0 billion principal investment and advisory firm that is now part of J.P. Morgan Chase & Co. At Beacon, Mr. Welborn was a member of The Mergers & Acquisitions Group, focusing on financial services companies and the Liquid Investments Committee. Mr. Welborn was also part of the deal team advising Chase Manhattan Corp. on its acquisition of J.P. Morgan & Co.

Continuing Directors

James T. Diehl has served as Vice Chairman of the Board of Intermountain since its formation in 1997. Mr. Diehl has been a director of the Bank since 1990 and has served as Vice Chairman of the Board of the Bank since 2001. He is an attorney and has been the sole proprietor of the law firm of J. T. Diehl since 1987. In addition to his law degree which he earned from Gonzaga University, Mr. Diehl also has a degree in Business Administration from the University of Montana. He brings to the Board a familiarity with the north Idaho market based on over 25 years of practicing real estate and business law in the local community, and has an extensive network of business and personal contacts within the Company's primary market.

John B. Parker has served as Chairman of the Board of Intermountain since its formation in 1997, and has been a director of the Bank since 1980 and Chairman of the Board of the Bank since 1995. Mr. Parker began his career as an auto dealer in Sandpoint in 1957, and retired in June 1999 from Taylor-Parker Motor Company as general manager. Mr. Parker has a degree in business with a major in marketing from the University of Idaho. In addition to his 42 year management career in the auto industry, Mr. Parker has also served and chaired local community boards in Bonner County including 38 years as chairman of the Bonner General Hospital Board, and currently as a member of the Bonner General Hospital Foundation Advisory Board. As a longtime resident and businessman in Sandpoint, Mr. Parker provides an extensive network of business and personal contacts and a valuable perspective with regard to the Company's primary market.

Jim Patrick was appointed to the Intermountain Board in November 2004, following Intermountain's merger with Snake River Bancorp, Inc./Magic Valley Bank. Mr. Patrick was a founding director of Magic Valley Bank, and he served on the Snake River Bancorp, Inc. Board from the company's formation in 2002 until its merger with Intermountain. Mr. Patrick has been the owner/operator of a farm in south central Idaho since 1973 and has served on the boards of various state and national farm organizations. In 2006, Mr. Patrick was elected and continues to serve in the Idaho State Legislature as Representative for District 23. Mr. Patrick has a Bachelor of Science degree from the University of Idaho where he studied agricultural economics and business management. In his role as a member of the Budget Committee of the Idaho State legislature, his responsibilities include annual distribution of billions of dollars of state revenue, including a payroll budget for a government workforce of over 20,000 employees. Mr. Patrick's agricultural background includes extensive knowledge of water rights issues and their effects on agriculture in southern Idaho. Mr. Patrick's prior service as a bank director coupled with his extensive budgeting background and long standing in the community provides the Board with valuable resources.

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CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board of Directors is committed to good business practices, transparency in financial reporting and strong corporate governance. Intermountain operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. The Board regularly monitors developments in the area of corporate governance, and our corporate governance policies, practices and committee charters are reviewed periodically and updated as necessary to reflect changes in regulatory requirements and evolving oversight practices.

Board and Company Leadership Structure

The Board of Directors is committed to maintaining an independent Board and for several years, a substantial majority of our Board has been comprised of independent directors. It has further been the practice of Intermountain to separate the duties of Chairman and Chief Executive Officer. In keeping with good corporate governance practices, at this time, the Board believes that the separation of the duties of Chairman and Chief Executive Officer eliminates any inherent conflict of interest that may arise when the roles are combined, and that an independent director who has not served as an executive of the Company can best provide the necessary leadership and objectivity required as Chairman.

Director Qualifications

The Board of Directors believes that each of the Company's directors should bring a rich mix of qualities and skills to the Board. All of our directors bring to our Board a wealth of leadership experience derived from their service in a variety of professional and executive positions and extensive board experience. The addition of directors Messrs. Kubiak and Welborn bring to our Board a breadth of financial and business experience which we believe will benefit the Company.

The Nominating/Corporate Governance Committee is responsible for the oversight and nomination process for director nominees. The Committee has not historically adopted formal director qualification standards for Committee-recommended nominees. However, the Committee annually reviews the experience, qualifications, attributes and skills of each director and nominee as part of its evaluation of whether these are the right individuals to serve on Intermountain's Board to help Intermountain successfully meet its long-term strategic plans. A more detailed discussion regarding the considerations given by the Committee when considering director nominees is set forth below in the section entitled *Meetings and Committees of the Board of Directors - Nominating/Corporate Governance Committee*.

The director biographical information set forth above summarizes the experience, qualifications, attributes and skills that Intermountain believes qualifies each director to serve on the Board. The Nominating/Corporate Governance Committee and the Board believe each respective director's professional and business acumen and board experience and the total mix of all directors' experience and skills are beneficial to the Company and the Board.

Code of Ethics

The Company adopted a Code of Ethics for Senior Financial Officers, which applies to its principal executive officer, principal financial officer, principal accounting officer or controller, as well as to directors and all other employees of the Company and the Bank and its divisions.

You can access the Company's current Code of Ethics, as well as our Audit, Compensation and Nominating/Corporate Governance Committee charters 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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Director Independence

With the assistance of legal counsel to Intermountain, the Nominating/Corporate Governance Committee has reviewed the applicable legal standards for Board and Board committee member independence, and the criteria applied to determine audit committee financial expert status. The Committee has also reviewed a summary of the answers to annual questionnaires completed by each of the directors, which also included any potential director-affiliated transactions.

The Board then analyzed the independence of each director and nominee and determined that the following members of the Board meet the standards regarding independence required by applicable law, regulation and NASDAQ listing standards, and that each such director is free of relationships that would interfere with the individual exercise of independent judgment. In determining the independence of each director, the Board considered many factors, including any loans to the directors, each of which (i) were made in the ordinary course of business; (ii) were substantially made on the same terms, including interest rates and collateral as those prevailing at the time for comparable loans with persons not related to the Company or the Bank; and (iii) did not involve more than the normal risk of collectability or present other unfavorable features. Such arrangements are discussed in detail in the section entitled Certain Relationships and Related Transactions.

Based on these standards, the Board determined that each of the following current non-employee directors is independent:

Charles L. Bauer
James T. Diehl
Ford Elsaesser
Ronald Jones
Russell J. Kubiak

Maggie Y. Lyons
John B. Parker
Jim Patrick
Michael J. Romine
John L. Welborn, Jr.

In addition, the Board determined that Curt Hecker, the President and Chief Executive Officer of Intermountain, and Jerry Smith, the Executive Vice President of Intermountain and President of the Bank, are not independent because they are executive officers of Intermountain.

Compensation Committee Interlocks and Insider Participation

During 2011, the Compensation Committee consisted of Messrs. Diehl (Chair), Bauer, Elsaesser, Parker and Romine (through April 2011, until committee memberships were reassigned and Mr. Jones replaced Mr. Romine). During 2011, none of our executive officers served on the compensation committee (or equivalent body) or Board of Directors of another entity whose executive officer served on Intermountain's Compensation Committee.

Shareholder Communications with the Board of Directors

The Company and the Board of Directors welcome communication from shareholders and other interested parties. Communications may be made by writing to the Chairman of the Board, c/o the Corporate Secretary, Intermountain Community Bancorp, P. O. Box 967, Sandpoint, Idaho 83864. A copy of such written communication will also be sent to our Chief Executive Officer. If the Chairman and the Chief Executive Officer determine that such communications are relevant to our operations and policies, such communications will be forwarded to the entire Board for review and consideration.

Table of Contents**MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS**

The Board of Directors met ten times during the fiscal year ended December 31, 2011. Each director attended at least 75% of the aggregate number of meetings of the Board and of the committees on which he or she served, with the exception of Mr. Elsaesser. We encourage, but do not require, directors to attend annual shareholder meetings. In 2011, our independent directors met ten times without management present.

The Board of Directors has established, among others, an Executive Committee, an Audit Committee, a Compensation Committee, and a Nominating/Corporate Governance Committee. In addition, the Bank has various committees on which directors serve, including the Loan Review and Trust and Wealth Management Committees.

The following table shows the membership of certain committees of the Board during 2011, following the restructure of committee assignments in April 2011. As of the date of this proxy statement, Messrs. Kubiak and Welborn, who were appointed to the Board in 2012, have not been appointed to any committees of the Board.

Committee Membership

Name	Executive	Audit²	Compensation³	Nominating⁴
Charles L. Bauer ¹	þ	þ	þ	þ
James T. Diehl	þ	..	þ*	þ
Ford Elsaesser	þ	..	þ	þ*
Ron Jones	..	þ	þ	..
Russell J. Kubiak	..	..	..	..
Maggie Y. Lyons	þ	..	..	..
John B. Parker	þ*	þ	þ	þ
Jim Patrick	..	þ	..	þ
Michael J. Romine	þ	þ*	..	..
John L. Welborn, Jr.	..	..	..	..
Total Meetings in 2011	1	8	6	4

¹ Mr. Bauer will retire from the Board at the 2012 annual meeting

² In April 2011, Mr. Jones replaced Ms. Lyons on the Audit Committee.

³ In April 2011, Mr. Jones replaced Mr. Romine on the Compensation Committee.

⁴ In April 2011, Mr. Diehl replaced Ms. Lyons, and Mr. Elsaesser assumed the position of Chair of the Nominating/Corporate Governance Committee.

* Committee Chair

Board's Authority for Risk Oversight

The Board has ultimate authority and responsibility for overseeing risk management at Intermountain. Some aspects of risk oversight are fulfilled at the full Board level. For example, the Board regularly receives reports from management on overall risk levels in the organization, and a comprehensive review of the various risks faced by the Company, including a prioritization ranking of the various risks, and management's mitigation strategies. It also receives more specific reports on various risk factors including credit risk, liquidity risk, capital risk, interest rate risk, operational risk, regulatory/compliance risk and technology risk.

The Board delegates other aspects of its risk oversight function to its committees. The Audit Committee oversees financial, accounting and internal control risk management. The Compensation Committee oversees the management of risks that may be posed by the Company's personnel and compensation practices and programs. The Loan Review Committee oversees credit risk management, and the Risk Management Committee oversees technology and information security risk management along with liquidity, capital and interest-rate risk.

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The head of the Company's internal audit function reports directly to the Audit Committee. The executive officers regularly report directly to the entire Board and to appropriate Board committees with respect to the risks they are responsible for managing. The Company also engages various external companies to assist in performing risk evaluations and suggesting mitigation strategies, particularly involving interest rate risk, technology risk and regulatory risk.

The Compensation Committee oversees the management of risks that may be posed by the Company's compensation practices and programs. As part of this process, the Compensation Committee is responsible for analyzing the compensation policies and practices for all employees, not just executive management. In its review of these policies and practices, the Compensation Committee has determined that the current policies and practices do not create or encourage risks that are reasonably likely to have a material adverse effect on the Company.

Audit Committee. During 2011, the Audit Committee was comprised of five directors, each of whom was considered independent as defined by the NASDAQ listing standards and applicable SEC rules. The Board has determined that Michael J. Romine meets the definition of audit committee financial expert as defined by applicable SEC rules.

The Committee operates under a formal written charter, a copy of which is available on our website. As part of its periodic review of audit committee-related matters, the Audit Committee receives updates on relevant legal and regulatory requirements, including all applicable SEC rules as revised from time to time. Even though our stock is not currently listed on NASDAQ, the Audit Committee has also considered the corporate governance listing standards of NASDAQ in reviewing and updating its charter including with respect to committee membership.

The Audit Committee is responsible for the oversight of the quality and integrity of Intermountain's financial statements, compliance with legal and regulatory requirements, the qualifications and independence of its independent auditors, the performance of its internal audit function and independent auditors, and other significant financial matters. It is the responsibility of management to prepare our financial statements and to maintain internal controls over the financial reporting process. In discharging its duties, the Audit Committee, among other things:

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

reviews and approves the engagement of our independent auditors to perform audit and non-audit services, and fees related to these services;

meets independently with our internal auditing department, independent auditors and senior management;

reviews the integrity of our financial reporting process;

reviews our financial reports and disclosures submitted to bank regulatory authorities;

maintains procedures for the receipt, retention and treatment of complaints regarding financial matters; and

reviews and has the authority to approve related person transactions.

Compensation Committee. During 2011, the Compensation Committee was comprised of five directors, each of whom satisfies independence criteria under the NASDAQ listing standards and applicable rules of the SEC and IRS. The Compensation Committee reviews the performance of the Company's Chief Executive Officer and other key employees and determines, approves and reports to the Board on the elements of their compensation and long-term equity based incentives. The Committee may periodically retain an independent outside compensation consulting firm, to assist the Committee in its deliberations regarding executive

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compensation for the Chief Executive Officer and other key executives. The Compensation Committee is directly responsible for the appointment, compensation and oversight of outside compensation consultants, legal counsel and any other advisors retained by the Committee.

In addition to the processes and procedures discussed above, in determining compensation for the other key executives, the Committee also takes into account public information relating to other public financial institutions, and the recommendations of the Chief Executive Officer. The Chair of the Committee reports to the full Board the actions of the Committee.

In addition the Committee:

recommends, if appropriate, new employee benefit plans to the Board of Directors;

reviews general compensation and employee benefit plans for all employees; and

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

The Compensation Committee operates under a formal written charter, a copy of which is available on our Website.

Nominating/Corporate Governance Committee. During 2011 the Nominating/Corporate Governance Committee (Nominating Committee) was comprised of five directors, each of whom is considered independent as defined by the NASDAQ listing standards. The Committee is responsible for recommending a slate of directors for election at Intermountain's annual meeting and appointing directors to fill vacancies as they occur. It is also responsible for (i) considering management succession plans, the appropriate Board size and committee structure and appointments; (ii) determining Board and Committee compensation; and (iii) developing and reviewing corporate governance principles applicable to Intermountain and its subsidiaries in light of emerging standards and best practices and the needs of the Company and its shareholders, and making such recommendations to the full Board as the Committee considers appropriate. The Committee operates under a formal written charter, a copy of which is available on our website.

The Nominating Committee will consider nominees recommended by shareholders, provided that the recommendations are made in accordance with the procedures described in this proxy statement under *Shareholder Proposals and Director Nominations*. The Committee evaluates all candidates, including shareholder-proposed candidates, using generally the same methods and criteria, although those methods and criteria are not standardized and may vary from time to time. In deciding whether to recommend incumbent directors for re-nomination, the Committee evaluates Intermountain's evolving needs, and assesses the effectiveness and contributions of its existing directors through annual director evaluations.

The Nominating Committee is authorized to establish guidelines for the qualification, evaluation and selection of new directors to serve on the Board. The Committee has not, nor does it anticipate adopting specific minimum qualifications for Committee-recommended nominees, nor has the Committee adopted a formal policy relating to Board diversity, although the Committee and the Board value and seek to include members with diverse backgrounds, professional experience and skills, relevant to the Company. The Committee instead evaluates each nominee on a case-by-case basis, including assessment of each nominee's business experience, involvement in the communities served by the Company, and special skills. The Nominating Committee will also evaluate whether the nominee's skills are complementary to existing Board members' skills, and the Board's need for operational, managerial, financial, technological or other expertise, as well as geographical representation of the Company's market areas.

The Corporate Governance Guidelines require that within 12 months of commencing service as a director, and continuing thereafter while serving as a director, each director of Intermountain and each director of the Bank shall own shares of Intermountain common stock having a book value of at least \$500. All directors have met this stock ownership requirement with the exception of John Welborn who joined the Board in January 2012.

Table of Contents**DIRECTOR COMPENSATION**

The Nominating Committee has authority over director compensation subject to the Board's authority to approve changes. All directors, including those who are Company employees, receive fees for their service on the Board of Directors. We review the level of compensation of our directors on an annual basis. To determine the appropriate level of compensation for our directors, we obtain information from a number of different sources, including publicly available data describing director compensation in peer companies and information obtained directly from other companies. Directors receive an annual fee paid in 12 equal payments. The Chairman of the Board and committee chairs receives a higher fee to compensate for the additional work required by those positions.

The following table shows compensation earned during the last fiscal year by our non-employee directors who served on the Board during 2011. Messrs. Kubiak and Welborn are not included in the table as each became a director in January 2012. The footnotes to the table describe the details of each form of compensation paid to directors.

2011 Director Compensation Table

Name	Fees Earned or Paid	All Other	Total
	in Cash (\$)(1)	Compensation (\$)(2)	(\$)(3)(4)
Charles L. Bauer*	\$ 27,000	\$ 0	\$ 27,000
James T. Diehl	27,000	0	27,000
Ford Elsaesser	26,000	0	26,000
Ronald Jones	27,000	351	27,351
Maggie Y. Lyons	27,000	0	27,000
John B. Parker	33,000	0	33,000
Jim Patrick	18,000	1,013	19,013
Michael J. Romine	28,000	0	28,000

* Mr. Bauer will retire at the 2012 annual meeting

- (1) Amounts reflect the annual fees paid to directors.
- (2) Represents the premiums paid by Intermountain on behalf of Messrs. Jones and Patrick in connection with the split dollar life insurance arrangements described below in the amounts of \$351 and \$1,013, respectively.
- (3) At fiscal year-end, each non-employee director held 105 unvested shares of Intermountain common stock granted pursuant to restricted stock awards.
- (4) At fiscal year-end, each non-employee director held in the aggregate outstanding vested stock option awards to purchase shares of Intermountain as follows: Mr. Bauer 364 shares; Mr. Diehl 908 shares; Mr. Elsaesser 908 shares; Mr. Jones 6,353 shares; Ms. Lyons 545 shares; Mr. Parker 545 shares; Mr. Patrick 6,353 shares; and Mr. Romine 908 shares.

Split Dollar Life Insurance. Ronald Jones and Jim Patrick, the two directors of Intermountain who are former directors of Snake River Bancorp, Inc., are parties to split-dollar life insurance agreements with Magic Valley Bank. The Bank has assumed these agreements, which are identical to those with the other former Snake River Bancorp, Inc. directors. Pursuant to the terms of the agreements, (i) the Bank is obligated to pay the premiums on a bank-owned life insurance policy; and (ii) beneficiaries of the directors will receive a certain portion of any death benefits upon the death of the directors.

Amended and Restated Director Stock Plan. Intermountain previously maintained a separate director stock option plan (the Director Plan) for the benefit of non-employee directors, under which we generally made annual stock option grants and restricted stock awards to non-employee directors on an annual basis. Options and

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restricted stock awards granted under the Director Plan typically vested over a five-year period in 20% installments beginning on the first anniversary of the date of grant. Stock options granted under the Director Plan had an exercise price equal to the fair market value of our common stock on the date of grant as determined by the Board, and typically expired ten years from the date of grant. Restricted stock awards did not require payment of a cash purchase price for the shares. The Director Plan had a term of ten years. On January 14, 2009, the term of the Director Plan expired and, upon the recommendation of management and approval of the Board of Directors, it was determined that, due to the economic environment, the Board would not seek to implement a new plan at that time and the stock portion of the compensation paid to Intermountain directors was eliminated for 2009. Although no further awards may be granted under the Director Plan, all outstanding awards are governed by the terms and conditions of the plan. As discussed in this proxy statement, at the 2012 annual meeting, shareholders are being asked to approve a new equity compensation plan whereby eligible employees and directors will have the opportunity to receive stock awards. For a complete description and discussion, please see *Proposal No. 5 Approval of Stock Option and Equity Compensation Plan*.

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EXECUTIVE COMPENSATION

The following section describes the compensation that Intermountain paid to its Chief Executive Officer, Chief Financial Officer and the next four most highly compensated executive officers in 2011, each of whom is listed in the Summary Compensation Table (the "Named Executive Officers"). Under SEC rules both Mr. Nagel and Mr. Dean, who replaced Mr. Nagel in October 2011, are included in the Summary Compensation Table. This section includes:

Compensation Discussion and Analysis ("CD&A");

Report of the Compensation Committee;

Detailed tables showing compensation of the Named Executive Officers; and

Narrative disclosure about various compensation plans and arrangements and post-employment and termination benefits.

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

We believe that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and that aligns the executive's interests with those of the shareholders by rewarding performance against established goals, with the ultimate objective of improving shareholder value. We evaluate both performance and compensation to ensure that we are able to attract, retain and motivate executives of superior ability who are critical to our future success. Under normal circumstances, we believe that the majority of each executive's annual total compensation opportunity should be directly aligned with our performance, and to this end a significant portion of an executive's compensation normally should be based on achievement of financial and operational goals and other factors that impact shareholder value. In addition, compensation opportunities provided to our executive officers must remain competitive relative to the compensation paid to similarly situated executives of peer companies. To accomplish these objectives, under normal circumstances, we believe executive compensation packages should include both cash and stock-based compensation with both short-term and long-term incentives in order to reward performance as measured against established goals. However, as discussed more fully below, in light of (i) the restrictions applicable to us as a participant in the U.S. Treasury's Capital Purchase Program ("CPP") implemented in connection with the Troubled Asset Relief Program ("TARP"), and (ii) the expiration of our former equity incentive plan, we did not offer the two key executive incentive programs we have historically offered: an annual cash incentive bonus opportunity and an annual restricted stock award. We design our executive compensation program to avoid creating incentives that are inconsistent with the Company's risk management policies and practices or that would motivate executives to take unnecessary and excessive risks that may threaten the value of the Company in order to achieve such goals. We believe the compensation programs we have traditionally employed are balanced, avoid undue risks to the Company, and have allowed us to retain top quality employees. Given the restrictions under TARP and the expiration of our equity incentive plan, our 2011 executive compensation program did not reflect our traditional balanced approach and, as a result, created additional retention risk. However, in light of the economic environment and the regulatory restrictions applicable to Intermountain, we believe the 2011 executive compensation program was adequate for the short term. As discussed in Proposal No. 5 below, the Board determined to adopt and seek shareholder approval of a new equity incentive plan at the annual meeting which will, if approved, enable us to re-introduce equity compensation as a key element of our overall compensation program.

Impact of TARP Capital Purchase Program Regulations on Executive Compensation

In December 2008, the Company issued and sold \$27.0 million of Series A Preferred Stock to the U.S. Treasury, together with a warrant to purchase the Company's common stock, as a voluntary participant in the CPP. As long as it is a participant in the CPP, the Company must comply with the compensation and corporate

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governance standards and restrictions under legislation and related Treasury Department rules applicable to CPP participants (the CPP Rules). When deciding to participate in the program, our Board evaluated the compensation and governance provisions under applicable law as the law existed at the time, and the impact those provisions would have on the Company, and considered them in light of the support this capital would provide to our lending programs. The CPP Rules, which were adopted after we entered into our agreement with the Treasury, have impacted Intermountain s executive compensation program, and the 2011 compensation of our Named Executive Officers, in the following key respects:

The CPP Rules prohibit, and we did not pay or accrue, any cash incentive bonuses to Messrs. Hecker, Smith, Wright and Ms. Rasmussen in or for 2011. In order to treat all executive officers alike, the Board also determined not to provide a cash incentive bonus opportunity to Mr. Nagel; however, Mr. Dean was given a retention bonus in January 2011, payable in 2012, prior to his becoming an executive officer in October 2011.

Although there were no triggering events for any of our Named Executive Officers during 2011, the CPP Rules provide that no severance or change-in-control benefits can be paid or accrued to or for them until Intermountain has repaid the Treasury s investment in the Company. In December 2008, Messrs. Hecker, Smith, Wright, Nagel and Ms. Rasmussen signed agreements waiving their rights to these benefits for the duration of the Company s participation in the TARP CPP Program.

In accordance with the CPP Rules, we maintained a policy that incentive compensation paid to our Named Executive Officers that later is determined to have been based on materially inaccurate financial information or other performance criteria is subject to recovery or clawback.

Overview of Executive Compensation Components in 2011

Our executive compensation program in 2011 consisted of several compensation elements, as illustrated in the table below.

Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Base Salary	Core competence in the executive role relative to skills, experience and contributions to the Company.	Provide fixed compensation based on competitive market practices and experience and tenure of each executive.
Long-Term Incentive	<p><u>Stock Purchase Bonus Program</u></p> <p>Continued employment with the Company during a 3-10 year bonus payout period for purchasing shares under the Stock Purchase Bonus Program. The CPP Rules prohibit the grant of new awards under this program to covered executives, which for 2011 included Messrs. Hecker, Smith, Wright and Ms. Rasmussen.</p>	<p>The combination of prior year restricted stock awards, prior awards under the Stock Purchase Bonus Program and pre-existing Retention Bonus Agreements provides a blended focus on:</p> <p>Profitability and the creation of shareholder value</p> <p>Executive ownership of Company stock</p>
	<p><u>Retention Bonus Agreements</u></p> <p>Continued employment with the Company during a multi-year bonus payout period. The CPP Rules prohibit the grant of new awards under this program to covered executives, which for 2011 included Messrs. Hecker,</p>	Retention in a challenging business environment and competitive labor market

Smith, Wright and Ms. Rasmussen.

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Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Retirement Benefits	Executive officers are eligible to participate in employee benefit plans available to our eligible employees.	The SCA is designed to make total retirement benefits for certain Named Executive Officers commensurate with those in comparable companies.
	The Salary Continuation Agreement (SCA) is a nonqualified, noncontributory and unfunded program. The SCA is intended to provide additional retirement benefits to certain Named Executive Officers.	
Welfare Benefits	Executives participate in employee benefit plans generally available to our employees, including medical, health, life insurance and disability plans.	These benefits are part of our broad-based total compensation program.
	Continuation of welfare benefits may occur as part of severance upon certain terminations of employment.	
Additional Benefits and Perquisites	Club memberships	Provide additional benefits and perquisites commensurate with the competitive market.
	Company provided auto or auto allowance	
	Life Insurance	
	Short-Term Disability	
Change in Control and Termination Benefits	We have change in control agreements with certain officers, including our Named Executive Officers. The agreements provide severance benefits if an officer s employment is terminated following a change in control. As noted above, the CPP Rules prohibit the payment or accrual of any severance or change in control benefit to the Named Executive Officers until we have repaid Treasury s investment in Intermountain.	Change in control arrangements are designed to retain executives and provide continuity of management in the event of an actual or threatened change in control. The change in control agreements are described in more detail in the section <i>Post Employment and Termination Benefits</i> .
	As noted above, we have historically offered a short-term cash incentive bonus opportunity and awards of restricted stock as key elements of our executive compensation program. Until we have repaid the Treasury s investment in Intermountain under the CPP, we will not be able to offer our most senior executives a short-term cash incentive bonus opportunity. Moreover, our former equity incentive plan expired in January 2009 and we did not propose a new equity incentive plan for shareholder approval in 2010 in light of the economic environment and the impact on our shareholders of the recession and Intermountain s financial performance. Given the constraints of the CPP Rules and the absence of an equity incentive plan, we believe the executive compensation programs used in 2011 and the continuing effects of prior year compensation programs and awards were adequate for the short-term, but create retention risk over the medium- and long-term. To partially address this retention risk and consistent with our compensation philosophy of providing a portion of total compensation in the form of long-term equity compensation to align the interests of our executives and employees with shareholders, we are proposing a new equity incentive plan for shareholder approval as described in Proposal No. 5 below. If shareholders approve the plan, we expect to issue long-term restricted stock , as defined by the	

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CPP Rules, to our executives subject to CPP restrictions on incentive compensation, and appropriate equity incentive awards to other key employees and directors. Generally, long-term restricted stock may be issued to covered executives with a value of no more than one-third of total compensation, may not vest in whole or in part sooner than two years after the grant date, and may not be sold except to the extent the Treasury's investment in Intermountain has been repaid (other than to pay applicable taxes due on vesting).

Determination of Appropriate Pay Levels

Although we have historically targeted total compensation opportunities and base pay of our executive officers by reference to compensation levels at peer institutions, benchmarking was not a material factor in setting 2011 compensation. This was largely due to a salary freeze in 2010, which remained in place for the Named Executive Officers in 2011, and the absence of a short-term incentive opportunity and annual equity award for 2011. In addition, the Compensation Committee was aware of the results of the 2010 advisory vote on executive compensation, which was not a material factor in 2011 compensation decisions given the very high level of shareholder support and the restrictions on our compensation programs noted above.

2011 Base Salary

Our base salary levels reflect a combination of factors including competitive pay levels relative to comparable institutions, each executive's experience and tenure, our overall annual budget for merit increases, the executive's individual performance and changes in responsibility. We review salary levels annually to recognize these factors. The Named Executive Officers did not receive a base salary increase in 2011, consistent with a salary freeze in light of the financial challenges facing Intermountain, except for Mr. Dean who received a 2% salary increase prior to his appointment as Chief Credit Officer.

Long-Term Incentives in 2011

As noted above, we did not grant any equity awards to the Named Executive Officers in 2011. We also did not grant any new awards under our Stock Purchase Bonus Program, which the CPP Rules prohibit with respect to Messrs. Hecker, Smith, Wright and Ms. Rasmussen. As shown in the Summary Compensation Table under the Bonus column, Ms. Rasmussen received a payment in 2011 under a prior-year award.

Impact of Accounting and Tax Treatment of Compensation

The Committee and management have considered the accounting and tax impacts of various programs designed to balance the potential cost to the Company with the benefit/value to the executive. The Committee generally seeks to maximize deductibility of executive compensation under Internal Revenue Code Section 162(m) while retaining discretion to compensate executives in a manner commensurate with performance and the competitive market for executive talent. Differences in accounting expense for various forms of equity awards under FASB ASC Topic 718 (formerly FAS 123(R)) relative to the value of the awards to recipients have not had, and are not expected to have, a material effect on the selection of forms of equity compensation. As a participant in the CPP, so long as the preferred stock Intermountain sold to the Treasury continues to be held by the Treasury, the Company can deduct only up to \$500,000 in annual compensation paid to covered executives, including performance-based compensation (which is not subject to the standard \$1 million annual limit on tax deductible compensation). This \$500,000 limit has not had any impact on Intermountain, since none of our covered executives is compensated at that level. In addition, the change in control provisions described in the section *Post Employment and Termination Benefits* contemplate that the Company will reimburse the amount of excise tax due under Internal Revenue Code Section 280G. However, as discussed below, such termination benefits and related excise tax reimbursement are currently prohibited by the CPP Rules.

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Report of Compensation Committee

The Compensation Committee of the Board of Directors makes the following report which, notwithstanding anything to the contrary set forth in any of Intermountain's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, will not be incorporated by reference into any such filings and will not otherwise be deemed to be proxy soliciting materials or to be filed under such Acts.

The Compensation Committee of the Board (the Committee) met and discussed with management the Compensation Discussion and Analysis (CD&A) required by Item 402(b) of Regulation S-K, and based on that review and discussion, the Committee recommended to the Board that the CD&A be included as part of this proxy statement and 2011 Annual 10-K Report.

Pursuant to the requirements of Sections 111(b)(3)(A), 111(b)(3)(E), 111(b)(3)(F) and 111(c) of the Emergency Economic Stabilization Act of 2008, and 31 CFR Part 30.4, the Committee hereby certifies that:

1. It has reviewed with the Company's senior risk officers the senior executive officer (SEO) compensation plans and has made all reasonable efforts to ensure that these plans do not encourage SEOs to take unnecessary and excessive risks that threaten the value of Intermountain;
2. It has reviewed with the Company's senior risk officers the Company's employee compensation plans and has made all reasonable efforts to limit any unnecessary risks these plans pose to Intermountain; and
3. It has reviewed the Company's employee compensation plans to eliminate any features of these plans that would encourage the manipulation of reported earnings of Intermountain to enhance the compensation of any employee.

The following SEO compensation plans do not contain any features that could reasonably be interpreted to encourage SEOs to take risks:

SEO Compensation Plan	How the Plan Does Not Encourage Taking Risks
Stock Purchase Bonus Program	Program encourages Company stock ownership of executive officers; no risk-taking incentives inherent in the plan.
Employment/Change in Control, and Severance Agreements	Agreements provide fixed cash compensation amounts under various circumstances; no incentive criteria included in the agreements.
Salary Continuation and Split Dollar Agreements	Agreements provide additional retirement benefits; no incentive criteria included in the agreements.
Retention Bonus Agreements	Agreements provide for fixed payments subject only to continued service; no incentive criteria included in the agreements.

The Company's other SEO compensation plan is listed in the table below, together with an explanation of how it does not encourage SEOs to take unnecessary and excessive risks that threaten the value of Intermountain.

SEO Compensation Plan