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GLACIER BANCORP INC
Form 10-Q
May 08, 2006

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

FORM 10-Q

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2006

[] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

COMMISSION FILE 0-18911

GLACIER BANCORP, INC.
(Exact name of registrant as specified in its charter)

MONTANA
(State or other jurisdiction of
incorporation or organization)

81-0519541
(IRS Employer
Identification No.)

49 Commons Loop, Kalispell, Montana
(Address of principal executive offices)

59901
(Zip Code)

Registrant's telephone number, including area code (406) 756-4200

Not Applicable

(Former name, former address, and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
--- ---

Indicate by checkmark whether the registrant is a large accelerated filer, or an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer X Accelerated Filer --- Non-Accelerated Filer ---

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

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The number of shares of Registrant's common stock outstanding on April 27, 2006 was 32,336,503. No preferred shares are issued or outstanding.

GLACIER BANCORP, INC. QUARTERLY REPORT ON FORM 10-Q

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GLACIER BANCORP, INC. CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | MARCH 31, 2006 | Dec |
|---|-------------------|-------|
| | ----- | ----- |
| | (UNAUDITED) | |
| (Dollars in thousands, except per share data) | | |
| ASSETS: | | |
| Cash on hand and in banks | \$ 105,474 | |
| Federal funds sold | 9,155 | |
| Interest bearing cash deposits | 21,343 | |
| | ----- | |
| Cash and cash equivalents | 135,972 | |
| Investment securities, available-for-sale | 923,382 | |
| Loans receivable, net | 2,502,279 | 2 |
| Loans held for sale | 25,153 | |
| Premises and equipment, net | 86,179 | |
| Real estate and other assets owned, net | 778 | |
| Accrued interest receivable | 19,317 | |
| Core deposit intangible, net | 7,594 | |
| Goodwill | 79,099 | |
| Other assets | 20,405 | |
| | ----- | |
| | \$ 3,800,158 | 3 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Non-interest bearing deposits | \$ 683,201 | |
| Interest bearing deposits | 2,010,198 | 1 |
| Advances from Federal Home Loan Bank of Seattle | 505,209 | |
| Securities sold under agreements to repurchase | 132,207 | |
| Other borrowed funds | 2,774 | |
| Accrued interest payable | 8,537 | |
| Deferred tax liability | 2,098 | |
| Subordinated debentures | 85,000 | |
| Other liabilities | 26,543 | |
| | ----- | |
| Total liabilities | 3,455,767 | 3 |
| | ===== | ===== |
| Preferred shares, \$.01 par value per share. 1,000,000 shares authorized | | |
| None issued or outstanding | -- | |
| Common stock, \$.01 par value per share. 78,125,000 shares authorized | 323 | |
| Paid-in capital | 265,765 | |
| Retained earnings - substantially restricted | 78,171 | |
| Accumulated other comprehensive income | 132 | |
| | ----- | |
| Total stockholders' equity | 344,391 | |
| | ----- | |
| | \$ 3,800,158 | 3 |
| | ===== | ===== |
| Number of shares outstanding | 32,314,112 | 32 |
| Book value per share | \$ 10.66 | |

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED MARCH 31, | |
|---|------------------------------|--------|
| | 2006 | 2005 |
| (UNAUDITED - dollars in thousands, except per share data) | | |
| INTEREST INCOME: | | |
| Real estate loans | \$ 10,989 | 6,615 |
| Commercial loans | 25,525 | 16,524 |
| Consumer and other loans | 8,865 | 5,730 |
| Investment securities and other | 10,573 | 11,638 |
| | 55,952 | 40,507 |
| INTEREST EXPENSE: | | |
| Deposits | 11,291 | 4,069 |
| Federal Home Loan Bank of Seattle advances | 4,796 | 5,243 |
| Securities sold under agreements to repurchase | 1,290 | 398 |
| Subordinated debentures | 1,429 | 1,555 |
| Other borrowed funds | 838 | 786 |
| | 19,644 | 12,051 |
| NET INTEREST INCOME | 36,308 | 28,456 |
| Provision for loan losses | 1,165 | 1,490 |
| | 35,143 | 26,966 |
| NON-INTEREST INCOME: | | |
| Service charges and other fees | 6,406 | 5,204 |
| Miscellaneous loan fees and charges | 1,811 | 1,278 |
| Gains on sale of loans | 2,190 | 2,092 |
| Loss on sale of investments | -- | (30) |
| Other income | 749 | 564 |
| | 11,156 | 9,108 |
| NON-INTEREST EXPENSE: | | |
| Compensation, employee benefits and related expenses | 15,311 | 10,944 |
| Occupancy and equipment expense | 3,491 | 2,855 |
| Outsourced data processing expense | 724 | 232 |
| Core deposit intangibles amortization | 420 | 283 |
| Other expenses | 5,881 | 4,760 |
| | 25,827 | 19,074 |
| EARNINGS BEFORE INCOME TAXES | 20,472 | 17,000 |
| Federal and state income tax expense | 6,843 | 5,480 |
| NET EARNINGS | \$ 13,629 | 11,520 |
| Basic earnings per share | \$ 0.42 | 0.37 |

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| | | | |
|---|----|------------|------------|
| Diluted earnings per share | \$ | 0.42 | 0.37 |
| Dividends declared per share | \$ | 0.16 | 0.14 |
| Return on average assets (annualized) | | 1.48% | 1.50% |
| Return on average equity (annualized) | | 16.21% | 17.06% |
| Average outstanding shares - basic | | 32,252,158 | 30,764,368 |
| Average outstanding shares - diluted | | 32,826,467 | 31,305,788 |

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND OTHER COMPREHENSIVE INCOME
AUDITED YEAR ENDED DECEMBER 31, 2005 AND
UNAUDITED THREE MONTHS ENDED MARCH 31, 2006

| | Common Stock | | Paid-in capital | Retained earnings substantially restricted |
|---|--------------|--------|-----------------|--|
| | Shares | Amount | | |
| (Dollars in thousands, except per share data) | | | | |
| Balance at December 31, 2004 | 30,686,763 | \$307 | 227,552 | 36,391 |
| Comprehensive income: | | | | |
| Net earnings | -- | -- | -- | 52,373 |
| Unrealized loss on securities, net of reclassification adjustment and taxes | -- | -- | -- | -- |
| Total comprehensive income | | | | |
| Cash dividends declared (\$.60 per share) | -- | -- | -- | (19,051) |
| Stock options exercised | 397,770 | 4 | 5,154 | -- |
| Stock issued in connection with acquisitions | 1,088,014 | 11 | 28,427 | -- |
| Acquisition of fractional shares | -- | -- | (8) | -- |
| Tax benefit from stock related compensation | -- | -- | 1,258 | -- |
| Balance at December 31, 2005 | 32,172,547 | \$322 | 262,383 | 69,713 |
| Other comprehensive income: | | | | |
| Net earnings | -- | -- | -- | 13,629 |
| Unrealized loss on securities, net of reclassification adjustment and taxes | -- | -- | -- | -- |
| Total other comprehensive income | | | | |
| Cash dividends declared (\$.16 per share) | -- | -- | -- | (5,171) |
| Stock options exercised | 141,565 | 1 | 2,185 | -- |
| Stock based compensation and tax benefit | -- | -- | 1,197 | -- |
| Balance at March 31, 2006 (unaudited) | 32,314,112 | \$323 | 265,765 | 78,171 |
| | ===== | ==== | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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GLACIER BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | THREE MONTHS ENDED MARCH 31 | |
|--|-----------------------------|-----------|
| | 2006 | 2005 |
| | ----- | ----- |
| (UNAUDITED - dollars in thousands) | | |
| OPERATING ACTIVITIES: | | |
| NET CASH PROVIDED BY OPERATION ACTIVITIES | \$ 18,854 | 9,030 |
| | ----- | ----- |
| INVESTING ACTIVITIES: | | |
| Proceeds from sales, maturities and prepayments of investments available-for-sale | 43,209 | 153,700 |
| Purchases of investments available-for-sale | (792) | (103,170) |
| Principal collected on installment and commercial loans | 249,640 | 142,780 |
| Installment and commercial loans originated or acquired | (350,179) | (212,070) |
| Principal collections on mortgage loans | 89,622 | 80,370 |
| Mortgage loans originated or acquired | (117,881) | (97,860) |
| Net purchase of FHLB and FRB stock | (434) | (1,000) |
| Acquisition of First National Bank - West | -- | (18,130) |
| Net addition of premises and equipment | (7,715) | (4,890) |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (94,530) | (59,300) |
| | ----- | ----- |
| FINANCING ACTIVITIES: | | |
| Net increase in deposits | 158,688 | 22,220 |
| Net (decrease) increase in FHLB advances and other borrowed funds .. | (81,900) | 40,800 |
| Net increase in securities sold under repurchase agreements | 2,677 | 2,990 |
| Cash dividends paid | (5,171) | (4,440) |
| Excess tax benefits from stock options | 474 | -- |
| Proceeds from exercise of stock options and other stock issued | 2,186 | 1,940 |
| | ----- | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 76,954 | 63,520 |
| | ----- | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,278 | 13,250 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 134,694 | 92,300 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 135,972 | 105,550 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: Interest..... | \$ 18,544 | 11,090 |
| Income taxes..... | \$ 380 | -- |

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Glacier Bancorp Inc.'s (the "Company") financial condition as of March 31, 2006, and March 31, 2005, stockholders' equity for the three months ended March 31, 2006, the results of operations for the three months ended March 31, 2006 and 2005, and cash flows for the three months ended March 31, 2006 and 2005. The condensed consolidated statement of financial condition and statement of stockholders' equity and other comprehensive income of the Company as of December 31, 2005 have been derived from the audited consolidated statements of the Company as of that date.

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by the accounting principals generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results anticipated for the year ending December 31, 2006. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

2) Organizational Structure

The Company, headquartered in Kalispell, Montana, is a Montana corporation incorporated in 2004 as a successor corporation to the Delaware corporation incorporated in 1990. The Company is the parent company for nine wholly owned banking subsidiaries: Glacier Bank ("Glacier"), First Security Bank of Missoula ("First Security"), Western Security Bank ("Western"), Big Sky Western Bank ("Big Sky"), Valley Bank of Helena ("Valley"), and Glacier Bank of Whitefish ("Whitefish"), all located in Montana, Mountain West Bank ("Mountain West") which is located in Idaho, Utah, and Washington, Citizens Community Bank ("Citizens") located in Idaho, and First National Bank - West ("First National") located in Wyoming. In addition, the Company owns three subsidiaries, Glacier Capital Trust II ("Glacier Trust II"), Glacier Capital Trust III ("Glacier Trust III"), and Citizens (ID) Statutory Trust I ("Citizens Trust I") for the purpose of issuing trust preferred securities and in accordance with Financial Accounting Standards Board Interpretation 46(R) the subsidiaries are not consolidated into the Company's financial statements. The Company does not have any off-balance sheet entities.

On February 1, 2006, Glacier Capital Trust I, whose common equity was wholly owned by the Company, had 1,400,000 shares of trust preferred securities redeemed and the Subordinated Debentures of \$35,000,000 paid. The Subordinated Debentures were replaced by Glacier Trust III.

On January 31, 2006, 35,000 shares of trust preferred shares were issued by Glacier Trust III whose common equity is wholly owned by the Company. The Trust Preferred Securities bear a cumulative fixed interest rate of 6.078% for the first five years and then converts to a three month LIBOR plus 1.29% rate adjustable quarterly for the remaining term until maturity on April 7, 2036. Interest distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures of \$35,000,000 at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption.

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| | | |
|--|--------------|------------|
| | ----- | ----- |
| Net earnings available to common stockholders | \$13,629,000 | 11,520,000 |
| Average outstanding shares - basic | 32,252,158 | 30,764,368 |
| Add: Dilutive stock options | 574,309 | 541,420 |
| | ----- | ----- |
| Average outstanding shares - diluted ... | 32,826,467 | 31,305,788 |
| | ===== | ===== |
| Basic earnings per share | \$ 0.42 | 0.37 |
| | ===== | ===== |
| Diluted earnings per share | \$ 0.42 | 0.37 |
| | ===== | ===== |

There were approximately 323,195 and 591,250 average shares excluded from the three months ended diluted share calculation as of March 31, 2006, and 2005, respectively, due to the option exercise price exceeding the market price.

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6) Stock Based Compensation

The Company has three stock based compensation plans outstanding. The Directors 1994 Stock Option Plan was approved to provide for the grant of options to outside Directors of the Company. The Employees 1995 Stock Option Plan was approved to provide the grant of options to certain full-time employees of the Company. The Employees 1995 Stock Option Plan expired in April 2005 and has granted but unexpired options outstanding. The 2005 Stock Incentive Plan was approved by shareholders on April 27, 2005 which provides awards to certain full-time employees of the Company. The 2005 Stock Incentive Plan permits the granting of options, share appreciation rights, restricted share, restricted share units, and unrestricted shares, deferred share units, and performance awards. Upon exercise of the stock options the shares are obtained from the authorized and unissued stock.

The Company adopted SFAS No. 123 (Revised) Share-Based Payment, as of January 1, 2006 and, accordingly, has determined compensation cost based on the fair value of the option at the grant date. The Company adopted the modified prospective transition method in reporting financial statement results in the current and for future reporting periods. Under the modified prospective method, SFAS No. 123 (Revised) applies to new awards and to awards modified, repurchased, or cancelled after the effective date; accordingly the prior interim and annual periods do not reflect restated amounts. Additionally, the compensation cost for the portion of awards outstanding for which the requisite service has not been rendered that are outstanding as of the required effective date are recognized as the requisite service is rendered on or after the required effective date. For the three months ended March 31, 2006, the compensation cost for the stock option plans was \$723,000, with a corresponding income tax benefit of \$200,000, resulting in a net earnings and cash flow from operations reduction of \$523,000, or a decrease of \$.016 per share for both basic and diluted earnings per share. Additionally, in the cash flow statement, the excess tax benefit from stock options decreased the net cash provided from operating activities and increased the net cash provided by financing activities by \$474,000 for the three months ended March 31, 2006. Total unrecognized compensation cost, net of income tax benefit, related to

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non-vested awards which are expected to be recognized over the next 1.4 years was \$2,750,000 as of March 31, 2006. The total fair value of shares vested during the three months ended March 31, 2006 and 2005 was \$535,000 and \$537,000, respectively.

Prior to the adoption of SFAS No. 123 (Revised), the Company utilized the intrinsic value method and compensation cost was the excess of the market price of the stock at the grant date over the amount an employee must pay to acquire the stock. The exercise price of all stock options granted has been equal to the fair market value of the underlying stock at the date of grant and, accordingly, the intrinsic value has been \$0 and no compensation cost was recognized prior to the adoption of SFAS No. 123 (Revised). The Company did not modify any outstanding options prior to the adoption of the standard. If the Company had determined compensation cost based on fair value of the options at the grant date under SFAS 123 (Revised) prior to the date of adoption, the Company's net income would have been reduced to the pro forma amounts indicated below:

| | Three months Ended March 31, 2005 ----- |
|------------------------------|--|
| Net earnings (in thousands): | |
| As reported | \$11,520 |
| Compensation cost | (207) |
| | ----- |
| Pro forma | 11,313 |
| | ===== |
| Basic earnings per share: | |
| As reported | 0.37 |
| Compensation cost | -- |
| | ----- |
| Pro forma | 0.37 |
| | ===== |
| Diluted earnings per share: | |
| As reported | 0.37 |
| Compensation cost | (0.01) |
| | ----- |
| Pro forma | 0.36 |
| | ===== |

The per share weighted-average fair value of stock options granted during 2006 and 2005 was \$6.47 and \$3.46, respectively, on the date of grant using the Black Scholes option-pricing model with the following assumptions: 2006 - expected dividend yield 2.23%, risk-free interest rate of 4.35%, volatility ratio of 27%, and expected life of 3.3 years: 2005 - expected dividend yield 2.23%, risk-free interest rate of 3.44%, volatility ratio of 18%, and expected life of 3.4 years. Expected volatilities are based on historical volatility and other factors. The Company uses historical data to estimate option exercise and termination with the valuation model. Employee and director awards, which have dissimilar historical exercise behavior, are considered separately for valuation purposes. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of the grant. The option awards generally vest upon six month or two years of service for directors and

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employees, respectively, and generally expire in five years.

Change in shares granted for stock options for the three months ended March 31, 2006 and the year ended December 31, 2005, are summarized as follows:

| | Options outstanding | | Options exercisable | |
|--------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Balance, December 31, 2004 ... | 1,510,631 | 14.65 | 703,015 | 11.61 |
| Canceled | (29,882) | 21.05 | (4,974) | 9.77 |
| Granted | 587,761 | 25.03 | | |
| Became exercisable | | | 525,759 | 16.31 |
| Exercised | (398,110) | 12.95 | (398,110) | 12.95 |
| | | | | |
| Balance, December 31, 2005 ... | 1,670,400 | 18.58 | 825,690 | 14.25 |
| Canceled | (14,964) | 23.20 | (4,510) | 12.93 |
| Granted | 650,650 | 31.44 | | |
| Became exercisable | | | 375,346 | 20.06 |
| Exercised | (141,565) | 15.44 | (141,565) | 15.44 |
| | | | | |
| Balance, March 31, 2006 | 2,164,521 | 22.62 | 1,054,961 | 16.16 |

The range of exercise prices on options outstanding and exercisable at March 31, 2006 is as follows:

| Price range | Options Outstanding | Weighted average exercise price | Weighted average remaining contractual life of options | Options exercisable | |
|-------------------|---------------------|---------------------------------|--|---------------------|---------------------------------|
| | | | | Options Exercisable | Weighted average exercise price |
| \$5.19 - \$6.99 | 103,430 | \$ 6.32 | 1.6 years | 103,430 | \$ 6.32 |
| \$8.96 - \$11.40 | 70,849 | 9.99 | 2.0 years | 70,849 | 9.99 |
| \$12.17 - \$13.20 | 123,589 | 12.68 | .9 years | 123,589 | 12.68 |
| \$14.09 - \$17.45 | 268,445 | 14.28 | 1.9 years | 268,445 | 14.28 |
| \$19.50 - \$21.24 | 394,483 | 20.07 | 2.8 years | 390,108 | 20.06 |
| \$24.99 - \$28.34 | 557,335 | 25.05 | 3.9 years | 98,540 | 25.01 |
| \$31.44 | 646,390 | 31.44 | 4.8 years | -- | -- |
| | | | | | |
| | 2,164,521 | 22.62 | 3.6 years | 1,054,961 | 16.16 |

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7) Investments

A comparison of the amortized cost and estimated fair value of the Company's investment securities, available-for-sale, is as follows:

INVESTMENTS AS OF MARCH 31, 2006

| | Weighted Yield | Amortized Cost | Gross Unrealized | | Est V |
|--|-------------------|-------------------|------------------|----------|----------|
| | | | Gains | Losses | |
| (Dollars in thousands) | | | | | |
| U.S. GOVERNMENT AND FEDERAL AGENCIES: | | | | | |
| maturing within one year | 4.28% | \$ 2,234 | -- | (13) | |
| maturing within five years | 4.53% | 2,977 | -- | (26) | |
| maturing five years through ten years | 6.83% | 364 | 4 | (1) | |
| maturing after ten years | 5.51% | 204 | 1 | -- | |
| | | ----- | ----- | ----- | ----- |
| | 4.61% | 5,779 | 5 | (40) | |
| | | ----- | ----- | ----- | ----- |
| STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES: | | | | | |
| maturing within one year | 3.90% | 2,391 | 3 | (6) | |
| maturing one year through five years | 4.54% | 4,091 | 40 | (92) | |
| maturing five years through ten years | 4.94% | 11,881 | 658 | (17) | 1 |
| maturing after ten years | 5.10% | 283,126 | 11,904 | (204) | 29 |
| | | ----- | ----- | ----- | ----- |
| | 5.07% | 301,489 | 12,605 | (319) | 31 |
| | | ----- | ----- | ----- | ----- |
| MORTGAGE-BACKED SECURITIES | 4.72% | 61,915 | 225 | (1,857) | 6 |
| REAL ESTATE MORTGAGE INVESTMENT CONDUITS | 4.21% | 492,427 | 52 | (10,512) | 48 |
| FHLMC AND FNMA STOCK | 5.74% | 7,593 | 58 | -- | |
| FHLB AND FRB STOCK, AT COST | 0.93% | 53,962 | -- | -- | 5 |
| | | ----- | ----- | ----- | ----- |
| TOTAL INVESTMENTS | 4.35% | \$923,165 | 12,945 | (12,728) | 92 |
| | | ===== | ===== | ===== | ===== |

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INVESTMENTS AS OF DECEMBER 31, 2005

| | Weighted Yield | Amortized Cost | Gross Unrealized | | Est V |
|---|-------------------|-------------------|------------------|--------|----------|
| | | | Gains | Losses | |
| (Dollars in thousands) | | | | | |
| U.S. GOVERNMENT AND FEDERAL AGENCIES: | | | | | |
| maturing within one year | 4.54% | \$ 1,236 | -- | (2) | |
| maturing one year through five years | 4.32% | 3,962 | -- | (39) | |
| maturing five years through ten years | 6.55% | 324 | 6 | -- | |

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| | | | | | |
|--|-------|-----------|--------|----------|-------|
| maturing after ten years | 5.04% | 337 | 2 | -- | -- |
| | | ----- | ----- | ----- | ----- |
| | 4.53% | 5,859 | 8 | (41) | -- |
| | | ----- | ----- | ----- | ----- |
| STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES: | | | | | |
| maturing within one year | 4.16% | 365 | 3 | -- | -- |
| maturing one year through five years | 4.75% | 6,858 | 48 | (143) | -- |
| maturing five years through ten years | 5.08% | 8,728 | 365 | (16) | -- |
| maturing after ten years | 5.10% | 287,175 | 12,476 | (225) | 29 |
| | | ----- | ----- | ----- | ----- |
| | 5.09% | 303,126 | 12,892 | (384) | 31 |
| | | ----- | ----- | ----- | ----- |
| MORTGAGE-BACKED SECURITIES | 4.67% | 65,926 | 308 | (1,599) | 6 |
| REAL ESTATE MORTGAGE INVESTMENT CONDUITS | 4.22% | 530,582 | 154 | (9,653) | 52 |
| FHLMC AND FNMA STOCK | 5.74% | 7,593 | -- | (330) | -- |
| FHLB AND FRB STOCK, AT COST | 0.66% | 53,529 | -- | -- | 5 |
| | | ----- | ----- | ----- | ----- |
| TOTAL INVESTMENTS | 4.34% | \$966,615 | 13,362 | (12,007) | 96 |
| | | ===== | ===== | ===== | ===== |

Interest income includes tax-exempt interest for the three months ended March 31, 2006 and 2005 of \$3,489,000 and \$3,467,000, respectively.

Gross proceeds from sales of investment securities for the three months ended March 31, 2006 and 2005 were \$0 and \$98,929,000 respectively, resulting in gross gains of approximately \$0 and \$421,000 and gross losses of approximately \$0 and \$451,000, respectively. The cost of any investment sold is determined by specific identification.

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8) Loans

The following table summarizes the Company's loan portfolio:

| TYPE OF LOAN | At 3/31/2006 | | At 12/31/2005 | | 3/31/2005 |
|---------------------------|-----------------|---------|------------------|---------|------------|
| | Amount | Percent | Amount | Percent | Amount |
| (Dollars in Thousands) | | | | | |
| Real Estate Loans: | | | | | |
| Real estate | \$ 617,486 | 24.4% | \$ 589,260 | 24.6% | \$ 417,900 |
| Loans held for sale | 25,153 | 1.0% | 22,540 | 0.9% | 19,630 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 642,639 | 25.4% | 611,800 | 25.5% | 437,530 |
| Commercial Loans: | | | | | |
| Real estate | 812,727 | 32.2% | 781,181 | 32.6% | 560,640 |
| Other commercial | 626,615 | 24.8% | 579,515 | 24.2% | 530,580 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 1,439,342 | 57.0% | 1,360,696 | 56.8% | 1,091,220 |
| Consumer and other Loans: | | | | | |
| Consumer | 194,806 | 7.7% | 175,503 | 7.3% | 129,200 |
| Home equity | 298,564 | 11.8% | 295,992 | 12.3% | 258,790 |
| | ----- | ----- | ----- | ----- | ----- |

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| | | | | | |
|---|-------------|--------|-------------|--------|------------|
| Total | 493,370 | 19.5% | 471,495 | 19.6% | 387,99 |
| Net deferred loan fees, premiums and discounts | (8,068) | -0.3% | (8,149) | -0.3% | (7,04 |
| Allowance for loan losses | (39,851) | -1.6% | (38,655) | -1.6% | (29,80 |
| Loan receivable, net | \$2,527,432 | 100.0% | \$2,397,187 | 100.0% | \$1,879,93 |

The following table sets forth information regarding the Company's non-performing assets at the dates indicated:

| NONPERFORMING ASSETS | At 3/31/2006 | At 12/31/2005 | At 3/31/2005 |
|---|-----------------|------------------|-----------------|
| (Dollars in Thousands) | | | |
| Non-accrual loans: | | | |
| Real estate loans | \$ 595 | 726 | 25 |
| Commercial loans | 3,474 | 4,045 | 5,679 |
| Consumer and other loans | 247 | 481 | 342 |
| Total | \$ 4,316 | 5,252 | 6,046 |
| Accruing Loans 90 days or more overdue: | | | |
| Real estate loans | 1,516 | 1,659 | 110 |
| Commercial loans | 3,195 | 2,199 | 792 |
| Consumer and other loans | 520 | 647 | 215 |
| Total | \$ 5,231 | 4,505 | 1,117 |
| Real estate and other assets owned, net | 778 | 332 | 2,003 |
| Total non-performing loans and real estate and other assets owned, net | \$10,325 | 10,089 | 9,166 |
| As a percentage of total assets | 0.27% | 0.26% | 0.27% |
| Interest Income (1) | \$ 78 | 359 | 97 |

(1) This is the amount of interest that would have been recorded on loans accounted for on a non-accrual basis for the three months ended March 31, 2006 and 2005 and the year ended December 31, 2005, if such loans had been current for the entire period.

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The following table illustrates the loan loss experience:

ALLOWANCE FOR LOAN LOSS

| | Three months ended March 31, 2006 | Year ended December 31, 2005 | Three months March 3 2005 |
|--------------------------------|---|------------------------------------|---------------------------------|
| (Dollars in Thousands) | | | |
| Balance at beginning of period | \$38,655 | 26,492 | 26,492 |

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| | | | |
|---|----------|---------|---------|
| Charge offs: | | | |
| Real estate loans | (6) | (115) | (31) |
| Commercial loans | (45) | (744) | (255) |
| Consumer and other loans | (102) | (539) | (115) |
| | ----- | ----- | ----- |
| Total charge-offs | \$ (153) | (1,398) | (401) |
| | ----- | ----- | ----- |
| Recoveries: | | | |
| Real estate loans | 55 | 82 | 56 |
| Commercial loans | 20 | 414 | 60 |
| Consumer and other loans | 109 | 415 | 72 |
| | ----- | ----- | ----- |
| Total recoveries | \$ 184 | 911 | 188 |
| | ----- | ----- | ----- |
| Net recoveries (charge-offs) | 31 | (487) | (213) |
| Acquisition (1) | -- | 6,627 | 2,032 |
| Provision | 1,165 | 6,023 | 1,490 |
| | ----- | ----- | ----- |
| Balance at end of period | \$39,851 | 38,655 | 29,801 |
| | ===== | ===== | ===== |
| Ratio of net recoveries (charge-offs) to average loans outstanding during the period | 0.001% | -0.020% | -0.011% |

(1) Acquisition of First State Bank, First National Bank-West, Citizens Community Bank, and Bonner's Ferry branch

The following table summarizes the allocation of the allowance for loan losses:

| | March 31, 2006 | | December 31, 2005 | | March 31, 2005 | |
|------------------------------|----------------|---------------------------------------|-------------------|---------------------------------------|----------------|---------------------------------------|
| | Allowance | Percent of loans in category | Allowance | Percent of loans in category | Allowance | Percent of loans in category |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| (Dollars in thousands) | | | | | | |
| Real estate loans | \$ 4,518 | 24.9% | 4,318 | 25.0% | 2,987 | 22.8% |
| Commercial real estate loans | 14,374 | 31.6% | 14,370 | 32.0% | 9,699 | 29.3% |
| Other commercial loans | 13,254 | 24.3% | 12,566 | 23.7% | 11,513 | 27.7% |
| Consumer and other loans | 7,705 | 19.2% | 7,401 | 19.3% | 5,602 | 20.2% |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Totals | \$39,851 | 100.0% | 38,655 | 100.0% | 29,801 | 100.0% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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9) Intangible Assets

The following table sets forth information regarding the Company's core deposit intangibles and mortgage servicing rights as of March 31, 2006:

| | |
|--------------|----------|
| Core Deposit | Mortgage |
|--------------|----------|

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| | Intangible ----- | Servicing Rights (1) ----- | Total ----- |
|---|---------------------|-------------------------------|----------------|
| (Dollars in thousands) | | | |
| Gross carrying value | \$14,816 | | |
| Accumulated Amortization | (7,222) | | |
| | ----- | | |
| Net carrying value | \$ 7,594 | 1,125 | 8,719 |
| | ===== | | |
| WEIGHTED-AVERAGE AMORTIZATION PERIOD | | | |
| (Period in years) | 10.0 | 9.5 | 9.9 |
| AGGREGATE AMORTIZATION EXPENSE | | | |
| For the three months ended March 31, 2006 | \$ 420 | 46 | 466 |
| ESTIMATED AMORTIZATION EXPENSE | | | |
| For the year ended December 31, 2006 | \$ 1,612 | 105 | 1,717 |
| For the year ended December 31, 2007 | 1,508 | 77 | 1,585 |
| For the year ended December 31, 2008 | 1,413 | 74 | 1,487 |
| For the year ended December 31, 2009 | 1,279 | 72 | 1,351 |
| For the year ended December 31, 2010 | 1,069 | 70 | 1,139 |

(1) The mortgage servicing rights are included in other assets and the gross carrying value and accumulated amortization are not readily available.

10) Deposits

The following table illustrates the amounts outstanding for deposits greater than \$100,000 at March 31, 2006, according to the time remaining to maturity. Included in the three month CD maturities are brokered CD's in the amount of \$235,825,000.

| | Certificates of Deposit ----- | Non-Maturity Deposits ----- | Totals ----- |
|---------------------------|-------------------------------------|-----------------------------------|-----------------|
| (Dollars in thousands) | | | |
| Within three months | \$331,637 | 908,349 | 1,239,986 |
| Three to six months | 63,217 | -- | 63,217 |
| Seven to twelve months .. | 53,403 | -- | 53,403 |
| Over twelve months | 36,034 | -- | 36,034 |
| | ----- | ----- | ----- |
| Totals | \$484,291 | 908,349 | 1,392,640 |
| | ===== | ===== | ===== |

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11) Advances and Other Borrowings

The following chart illustrates the average balances and the maximum outstanding month-end balances for Federal Home Loan Bank of Seattle (FHLB) advances and repurchase agreements:

| As of and for the three months ended | As of and for the year ended | As of and for the three months ended |
|--|------------------------------------|--|
|--|------------------------------------|--|

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| | March 31, 2006 ----- | December 31, 2005 ----- | March 31, 2005 ----- |
|---|-------------------------|----------------------------|-------------------------|
| (Dollars in thousands) | | | |
| FHLB Advances: | | | |
| Amount outstanding at end of period ... | \$505,209 | 402,191 | 858,961 |
| Average balance | \$522,376 | 673,904 | 739,928 |
| Maximum outstanding at any month-end .. | \$572,954 | 804,047 | 858,961 |
| Weighted average interest rate | 3.72% | 3.19% | 2.87% |
| Repurchase Agreements: | | | |
| Amount outstanding at end of period ... | \$132,207 | 129,530 | 79,148 |
| Average balance | \$133,020 | 103,522 | 80,970 |
| Maximum outstanding at any month-end .. | \$135,661 | 132,534 | 79,148 |
| Weighted average interest rate | 3.93% | 2.85% | 2.06% |

12) Stockholders' Equity

The Federal Reserve Board has adopted capital adequacy guidelines that are used to assess the adequacy of capital in supervising a bank holding company. The following table illustrates the Federal Reserve Board's capital adequacy guidelines and the Company's compliance with those guidelines as of March 31, 2006.

| CONSOLIDATED ----- | Tier 1 (Core) Capital ----- | Tier 2 (Total) Capital ----- | Leverage Capital ----- |
|---|-----------------------------------|------------------------------------|------------------------------|
| (Dollars in thousands) | | | |
| GAAP Capital | \$ 344,391 | 344,391 | 344,391 |
| Less: Goodwill and intangibles | (86,693) | (86,693) | (86,693) |
| Accumulated other comprehensive | | | |
| Unrealized gain on AFS securities | (132) | (132) | (132) |
| Other adjustments | -- | (18) | -- |
| Plus: Allowance for loan losses | -- | 35,413 | -- |
| Subordinated debentures | 85,000 | 85,000 | 85,000 |
| Regulatory capital computed | \$ 342,566 | 377,961 | 342,566 |
| Risk weighted assets | \$2,833,006 | 2,833,006 | |
| Total average assets | | | \$3,683,638 |
| Capital as % of defined assets | 12.09% | 13.34% | 9.30% |
| Regulatory "well capitalized" requirement ... | 6.00% | 10.00% | 5.00% |
| Excess over "well capitalized" requirement .. | 6.09% | 3.34% | 4.30% |

13) Other Comprehensive Income

The Company's only component of other comprehensive income is the unrealized gains and losses on available-for-sale securities.

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| | For the three months ended March 31, | |
|--|---|------------------------|
| | ----- 2006 ----- | ----- 2005 ----- |
| Dollars in thousands | | |
| Net earnings | \$13,629 | 11,520 |
| Unrealized holding loss arising during the period .. | (1,137) | (9,530) |
| Tax benefit | 448 | 3,755 |
| | ----- | ----- |
| Net after tax | (689) | (5,775) |
| Reclassification adjustment for losses included in net earnings | -- | 30 |
| Tax benefit | -- | (12) |
| | ----- | ----- |
| Net after tax | -- | 18 |
| Net unrealized loss on securities | (689) | (5,757) |
| | ----- | ----- |
| Total other comprehensive income | \$12,940 | 5,763 |
| | ===== | ===== |

14) Segment Information

The Company evaluates segment performance internally based on individual bank charters, and thus the operating segments are so defined. The following schedule provides selected financial data for the Company's operating segments. Centrally provided services to the Banks are allocated based on estimated usage of those services. The operating segment identified as "Other" includes the Parent, non-bank units, and eliminations of transactions between segments.

| | Three months ended and as of March 31, 2006 | | | | | |
|----------------------------------|---|------------------------------------|-------------------------------------|---------------------------|---|---------------------------|
| | ----- Glacier ----- | ----- Mountain West ----- | ----- First Security ----- | ----- Western ----- | ----- First National ----- | ----- Big Sky ----- |
| (Dollars in thousands) | | | | | | |
| Revenues from external customers | \$ 12,452 | 15,924 | 12,258 | 6,880 | 4,102 | 4,918 |
| Intersegment revenues | 52 | 6 | 78 | 17 | 236 | -- |
| Expenses | (9,284) | (13,063) | (9,167) | (5,404) | (3,526) | (3,719) |
| Intercompany eliminations | -- | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 3,220 | 2,867 | 3,169 | 1,493 | 812 | 1,199 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Total Assets | \$697,266 | 809,759 | 734,092 | 428,263 | 284,398 | 275,158 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| | ----- Valley ----- | ----- Whitefish ----- | ----- Citizens ----- | ----- Other ----- | ----- Total Consolidated ----- | |
| Revenues from external customers | 4,344 | 2,996 | 3,159 | 75 | 67,108 | |

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| | | | | | |
|---------------------------|---------|---------|---------|----------|-----------|
| Intersegment revenues | 33 | -- | -- | 17,374 | 17,796 |
| Expenses | (3,371) | (2,306) | (2,611) | (1,028) | (53,479) |
| Intercompany eliminations | -- | -- | -- | (17,796) | (17,796) |
| | ----- | ----- | ----- | ----- | ----- |
| Net Earnings | 1,006 | 690 | 548 | (1,375) | 13,629 |
| | ===== | ===== | ===== | ===== | ===== |
| Total Assets | 258,165 | 175,912 | 153,204 | (16,059) | 3,800,158 |
| | ===== | ===== | ===== | ===== | ===== |

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Three months ended and as of March 31, 2005

| | Glacier | Mountain West | First Security | Western | First National |
|----------------------------------|-----------|---------------|----------------|---------|----------------|
| | ----- | ----- | ----- | ----- | ----- |
| (Dollars in thousands) | | | | | |
| Revenues from external customers | \$ 10,335 | 12,168 | 9,075 | 6,371 | 1,144 |
| Intersegment revenues | 145 | -- | 5 | -- | -- |
| Expenses | (7,741) | (9,572) | (6,413) | (4,871) | (883) |
| Intercompany eliminations | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Net Earnings | \$ 2,739 | 2,596 | 2,667 | 1,500 | 261 |
| | ===== | ===== | ===== | ===== | ===== |
| Total Assets | \$685,498 | 659,006 | 617,048 | 443,633 | 272,335 |
| | ===== | ===== | ===== | ===== | ===== |

| | Big Sky | Valley | Whitefish | Other | Total Consolidated |
|----------------------------------|---------|---------|-----------|----------|--------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Revenues from external customers | 4,089 | 3,779 | 2,953 | (299) | 49,615 |
| Intersegment revenues | -- | 34 | -- | 14,842 | 15,026 |
| Expenses | (3,004) | (2,844) | (1,999) | (768) | (38,095) |
| Intercompany eliminations | -- | -- | -- | (15,026) | (15,026) |
| | ----- | ----- | ----- | ----- | ----- |
| Net Earnings | 1,085 | 969 | 954 | (1,251) | 11,520 |
| | ===== | ===== | ===== | ===== | ===== |
| Total Assets | 257,217 | 241,496 | 162,727 | (32,520) | 3,306,440 |
| | ===== | ===== | ===== | ===== | ===== |

15) Rate/Volume Analysis

Net interest income can be evaluated from the perspective of relative dollars of change in each period. Interest income and interest expense, which are the components of net interest income, are shown in the following table on the basis of the amount of any increases (or decreases) attributable to changes in the dollar levels of the Company's interest-earning assets and interest-bearing liabilities ("Volume") and the yields earned and rates paid on such assets and liabilities ("Rate"). The change in interest income and interest expense attributable to changes in both volume and rates has been allocated proportionately to the change due

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to volume and the change due to rate.

| | Three Months Ended March 31, 2006 vs. 2005 | | |
|---|---|-------|---------|
| | Increase (Decrease) due to: | | |
| | Volume | Rate | Net |
| | ----- | ----- | ----- |
| (Dollars in Thousands) | | | |
| INTEREST INCOME | | | |
| Real estate loans | \$ 3,358 | 1,016 | 4,374 |
| Commercial loans | 5,842 | 3,159 | 9,001 |
| Consumer and other loans | 1,942 | 1,193 | 3,135 |
| Investment securities and other | (1,457) | 392 | (1,065) |
| | ----- | ----- | ----- |
| Total Interest Income | 9,685 | 5,760 | 15,445 |
| INTEREST EXPENSE | | | |
| NOW accounts | 34 | 287 | 321 |
| Savings accounts | 58 | 365 | 423 |
| Money market accounts | 191 | 1,341 | 1,532 |
| Certificates of deposit | 2,224 | 2,722 | 4,946 |
| FHLB advances | (1,541) | 1,094 | (447) |
| Other borrowings and repurchase agreements | 111 | 707 | 818 |
| | ----- | ----- | ----- |
| Total Interest Expense | 1,077 | 6,516 | 7,593 |
| | ----- | ----- | ----- |
| NET INTEREST INCOME | \$ 8,608 | (756) | 7,852 |
| | ===== | ===== | ===== |

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16) Average Balance Sheet

The following schedule provides (i) the total dollar amount of interest and dividend income of the Company for earning assets and the resultant average yield; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest and dividend income; (iv) interest rate spread; and (v) net interest margin. Non-accrual loans are included in the average balance of the loans.

| | For the Three months ended 3-31-06 | | |
|-------------------------------|------------------------------------|------------------------------|---------------------------|
| | Average Balance | Interest and Dividends | Average Yield/ Rate |
| | ----- | ----- | ----- |
| AVERAGE BALANCE SHEET | | | |
| (Dollars in Thousands) | | | |
| ASSETS | | | |
| Residential Real Estate Loans | \$ 618,852 | 10,989 | 7.10% |
| Commercial Loans | 1,397,090 | 25,525 | 7.41% |

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| | | | |
|---------------------------------------|-------------|----------|--------|
| Consumer and Other Loans | 481,298 | 8,865 | 7.47% |
| | ----- | ----- | |
| Total Loans | 2,497,240 | 45,379 | 7.37% |
| Tax -Exempt Investment Securities (1) | 283,715 | 3,489 | 4.92% |
| Other Investment Securities | 686,956 | 7,084 | 4.12% |
| | ----- | ----- | |
| Total Earning Assets | 3,467,911 | 55,952 | 6.45% |
| | ----- | ----- | |
| Goodwill and Core Deposit Intangible | 87,616 | | |
| Other Non-Earning Assets | 185,313 | | |
| | ----- | | |
| TOTAL ASSETS | \$3,740,840 | | |
| | ===== | | |
| LIABILITIES | | | |
| AND STOCKHOLDERS' EQUITY | | | |
| NOW Accounts | \$ 346,930 | 470 | 0.55% |
| Savings Accounts | 245,928 | 578 | 0.95% |
| Money Market Accounts | 495,032 | 2,843 | 2.33% |
| Certificates of Deposit | 829,390 | 7,400 | 3.62% |
| FHLB Advances | 522,376 | 4,796 | 3.72% |
| Repurchase Agreements | | | |
| and Other Borrowed Funds | 294,376 | 3,557 | 4.90% |
| | ----- | ----- | |
| Total Interest Bearing Liabilities | 2,734,032 | 19,644 | 2.91% |
| | ----- | ----- | |
| Non-interest Bearing Deposits | 630,490 | | |
| Other Liabilities | 35,235 | | |
| | ----- | | |
| Total Liabilities | 3,399,757 | | |
| | ----- | | |
| Common Stock | 323 | | |
| Paid-In Capital | 263,541 | | |
| Retained Earnings | 75,539 | | |
| Accumulated Other | | | |
| Comprehensive Income | 1,680 | | |
| | ----- | | |
| Total Stockholders' Equity | 341,083 | | |
| | ----- | | |
| TOTAL LIABILITIES AND | | | |
| STOCKHOLDERS' EQUITY | \$3,740,840 | | |
| | ===== | | |
| Net Interest Income | | \$36,308 | |
| | | ===== | |
| Net Interest Spread | | | 3.54% |
| Net Interest Margin | | | |
| on Average Earning assets | | | 4.25% |
| Return on Average Assets (annualized) | | | 1.48% |
| Return on Average Equity (annualized) | | | 16.21% |

(1) Excludes tax effect on non-taxable investment security income

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Impact of Recently Issued Accounting Standards

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The Company adopted SFAS No. 123 (Revised) Share-Based Payment, as of January 1, 2006 and, accordingly, has determined compensation cost based on the fair value of the option at the grant date. As a result of the adoption of the standard, net earnings were reduced by \$523,488, or \$.016 per share, for the quarter ended March 31, 2006. For additional information regarding the standard see Note 6 to the Consolidated Financial Statements.

Acquisition announced

On April 20, 2006, the signing of a definitive agreement whereby Citizens Development Company a Billings, Montana based five bank holding company with total assets of \$430 million will merge into Glacier Bancorp, Inc. was announced. The closing of the transaction is expected to occur in July or August of 2006. The five banks being acquired will remain as independently chartered banks pending their anticipated consolidation with existing Glacier Bancorp, Inc. Montana subsidiaries.

Financial Condition

This section discusses the changes in the Statement of Financial Condition items from March 31, 2005 and December 31, 2005, to March 31, 2006.

| | March 31, 2006 (unaudited) | December 31, 2005 (audited) | March 31, 2005 (unaudited) |
|---|----------------------------------|-----------------------------------|----------------------------------|
| | ----- | ----- | ----- |
| ASSETS (\$ IN THOUSANDS) | | | |
| Cash on hand and in banks | \$ 105,474 | 111,418 | 82,600 |
| Investment securities, interest bearing deposits, FHLB stock, FRB stock, and fed funds | 953,880 | 991,246 | 1,171,112 |
| Loans: | | | |
| Real estate | 638,529 | 607,627 | 433,901 |
| Commercial | 1,435,731 | 1,357,051 | 1,087,989 |
| Consumer and other | 493,023 | 471,164 | 387,843 |
| | ----- | ----- | ----- |
| Total loans | 2,567,283 | 2,435,842 | 1,909,733 |
| Allowance for loan losses | (39,851) | (38,655) | (29,801) |
| | ----- | ----- | ----- |
| Total loans net of allowance for loan losses | 2,527,432 | 2,397,187 | 1,879,932 |
| | ----- | ----- | ----- |
| Other assets | 213,372 | 206,493 | 172,796 |
| | ----- | ----- | ----- |
| Total Assets | \$3,800,158 | 3,706,344 | 3,306,440 |
| | ===== | ===== | ===== |

At March 31, 2006 total assets were \$3.800 billion, which is \$94 million, or 3 percent, greater than the December 31, 2005 assets of \$3.706 billion, and \$494 million, or 15 percent, greater than the March 31, 2005 assets of \$3.306 billion.

Total loans have increased \$131 million from December 31, 2005, or 5 percent, with the growth occurring in all loan categories. Commercial loans have increased \$79 million, or 6 percent, real estate loans gained \$31 million, or 5 percent, and consumer loans grew by \$22 million, or 5 percent. Total loans have increased \$658 million, or 34 percent, from March 31, 2005, with all loan categories showing increases. Commercial loans grew the most with an increase of \$348 million, or 32 percent, followed by real estate loans which increased \$205 million, or 47 percent, which was the largest percentage gain, and consumer

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loans, which are primarily comprised of home equity loans, increasing by \$105 million, or 27 percent.

Investment securities, including interest bearing deposits in other financial institutions, and federal funds sold have decreased \$37 million from December 31, 2005, or 4 percent, and have declined \$217 million, or 19 percent, from March 31, 2005. Investment securities at March 31, 2006 represented 25% of total assets versus 35% the prior year.

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The Company typically sells a majority of long-term mortgage loans originated, retaining servicing only on loans sold to certain lenders. The sale of loans in the secondary mortgage market reduces the Company's risk of holding long-term, fixed rate loans in the loan portfolio. Mortgage loans sold for the three months ended March 31, 2006 and 2005 were \$90 million and \$59 million, respectively. The Company has also been active in generating commercial SBA loans. A portion of some of those loans is sold to other investors. The amount of loans sold and serviced for others at March 31, 2006 was approximately \$166 million.

| | March 31, 2006 (unaudited) | December 31, 2005 (audited) | March 31, 2005 (unaudited) | \$ change December 2005 |
|--|----------------------------------|-----------------------------------|----------------------------------|-------------------------------|
| | ----- | ----- | ----- | ----- |
| LIABILITIES (\$ IN THOUSANDS) | | | | |
| Non-interest bearing deposits | \$ 683,201 | 667,008 | 528,038 | 16,1 |
| Interest bearing deposits | 2,010,198 | 1,867,704 | 1,448,643 | 142,4 |
| Advances from Federal Home Loan Bank | 505,209 | 402,191 | 858,961 | 103,0 |
| Securities sold under agreements to repurchase and other borrowed funds | 134,981 | 317,222 | 84,982 | (182,2 |
| Other liabilities | 37,178 | 33,980 | 32,367 | 3,1 |
| Subordinated debentures | 85,000 | 85,000 | 80,000 | |
| | ----- | ----- | ----- | ----- |
| Total liabilities | \$3,455,767 | 3,373,105 | 3,032,991 | 82,6 |
| | ===== | ===== | ===== | ===== |

Non-interest bearing deposits have increased \$16 million, or 10 percent annualized, since December 31, 2005, and by \$155 million, or 29 percent, since March 31, 2005. This continues to be a primary focus of each of our banks. Interest bearing deposits have increased \$142 million from December 31, 2005, of which \$71 million was in broker originated certificates of deposit, and \$53 million in Internet generated National Market CD's. Since March 31, 2005 interest bearing deposits increased \$562 million, or 39 percent, with \$289 million of that amount from broker and Internet sources. Federal Home Loan Bank (FHLB) advances increased \$103 million, and repurchase agreements and other borrowed funds decreased \$182 million from December 31, 2005, primarily from the redemption of \$179 million in U. S. Treasury Tax and Loan Term Auction funds. FHLB advances are \$354 million less than the March 31, 2005 balances due primarily to the above described increases in deposits.

Liquidity and Capital Resources

The objective of liquidity management is to maintain cash flows adequate to meet current and future needs for credit demand, deposit withdrawals, maturing liabilities and corporate operating expenses. The principal source of the

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Company's cash revenues is the dividends received from the Company's banking subsidiaries. The payment of dividends is subject to government regulation, in that regulatory authorities may prohibit banks and bank holding companies from paying dividends which would constitute an unsafe or unsound banking practice. The subsidiaries source of funds is generated by deposits, principal and interest payments on loans, sale of loans and securities, short and long-term borrowings, and net earnings. In addition, eight of the nine banking subsidiaries are members of the FHLB. As of March 31, 2006, the Company had \$883 million of available FHLB line of which \$505 million was utilized. Accordingly, management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each individual institution as well as the Company as a whole.

Lending Commitments

In the normal course of business, there are various outstanding commitments to extend credit, such as letters of credit and un-advanced loan commitments, which are not reflected in the accompanying condensed consolidated financial statements. Management does not anticipate any material losses as a result of these transactions.

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| | March 31, 2006 (unaudited) | December 31, 2005 (audited) | March 31, 2005 (unaudited) |
|--|----------------------------------|-----------------------------------|----------------------------------|
| | ----- | ----- | ----- |
| STOCKHOLDERS' EQUITY (UNAUDITED) | | | |
| (\$ IN THOUSANDS EXCEPT PER SHARE DATA) | | | |
| Common equity | \$344,259 | 332,418 | 273,272 |
| Accumulated other comprehensive income | 132 | 821 | 177 |
| | ----- | ----- | ----- |
| Total stockholders' equity | 344,391 | 333,239 | 273,449 |
| Core deposit intangible, net, and goodwill | (86,693) | (87,114) | (67,291) |
| | ----- | ----- | ----- |
| | \$257,698 | 246,125 | 206,158 |
| | ===== | ===== | ===== |
| Stockholders' equity to total assets | 9.06% | 8.99% | 8.27% |
| Tangible stockholders' equity to total tangible assets | 6.94% | 6.80% | 6.36% |
| Book value per common share | \$ 10.66 | 10.36 | 8.86 |
| Market price per share at end of quarter | \$ 31.05 | 30.05 | 24.40 |

Total equity and book value per share amounts have increased \$11.152 million and \$.30 per share, respectively, from December 31, 2005, the result of earnings retention, and stock options exercised. Accumulated other comprehensive income, representing net unrealized gains on securities available for sale, decreased \$689 thousand during the quarter, primarily a function of interest rate changes and the decreased balance of securities.

| | March 31, 2006 (unaudited) | December 31, 2005 (audited) | March 31, 2005 (unaudited) |
|--|----------------------------------|-----------------------------------|----------------------------------|
| | ----- | ----- | ----- |
| CREDIT QUALITY INFORMATION (\$ IN THOUSANDS) | | | |

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| | | | |
|---|----------|----------|----------|
| Allowance for loan losses | \$39,851 | \$38,655 | \$29,801 |
| Non-performing assets | \$10,325 | 10,089 | 9,166 |
| Allowance as a percentage of non performing assets | 386% | 383% | 325% |
| Non-performing assets as a percentage of total assets | 0.27% | 0.26% | 0.27% |
| Allowance as a percentage of total loans | 1.55% | 1.59% | 1.56% |
| Net recoveries (charge-offs) as a percentage of loans | 0.001% | (0.020%) | (0.011%) |

Allowance for Loan Loss and Non-Performing Assets

Non-performing assets as a percentage of total assets at March 31, 2006 were at .27 percent, the same percentage as at March 31, 2005, but increasing slightly from .26 percent at December 31, 2005. The Company ratios compare favorably to the Federal Reserve Bank Peer Group average of .43 percent at December 31, 2005, the most recent information available. The allowance for loan losses was 386 percent of non-performing assets at March 31, 2006, up from 325 percent a year ago. The allowance, including \$4.579 million from acquisitions, has increased \$10.050 million, or 34 percent, from a year ago. The allowance of \$39.851 million, is 1.55 percent of March 31, 2006 total loans outstanding, down slightly from the 1.56 percent a year ago. The first quarter provision for loan losses expense was \$1.165 million, a decrease of \$325 thousand from the same quarter in 2005, and was also a decrease of \$209 thousand from the fourth quarter of 2005. Recovery of previously charged-off loans exceeded amounts charged-off during the quarter by \$31,000. Loan growth, average loan size, and credit quality considerations will determine the level of additional provision expense.

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RESULTS OF OPERATIONS - THE THREE MONTHS ENDED MARCH 31, 2006 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2005.

The Company reported net quarterly earnings of \$13.629 million, an increase of \$2.1 million, or 18 percent, over the \$11.520 million for the first quarter of 2005. Diluted earnings per share for the quarter of \$.42 is an increase of 14 percent over the per share earnings of \$.37 for the same quarter of 2005. Net earnings were reduced by \$523,488, or \$.016 per share, due to the January 1, 2006 adoption of SFAS 123(R) Share-based Payment which requires recording the estimated fair value of stock options as compensation expense. Annualized return on average assets and return on average equity for the quarter were 1.48 percent and 16.21 percent, respectively, which compares with prior year returns for the first quarter of 1.50 percent and 17.06 percent. Annualized return on average tangible equity, a non-GAAP performance measure, for the first quarter of 2006 was 22.48 percent compared to 20.99 percent in the first quarter of last year.

| REVENUE SUMMARY | Three months ended March 31, | | | |
|--|------------------------------|----------|-----------|----------|
| | 2006 | 2005 | \$ change | % change |
| (UNAUDITED - \$ IN THOUSANDS) | | | | |
| Net interest income | \$36,308 | \$28,456 | \$7,852 | 28% |
| Non-interest income | | | | |
| Service charges, loan fees, and other fees | 8,217 | 6,482 | 1,735 | 27% |
| Gain on sale of loans | 2,190 | 2,092 | 98 | 5% |
| Other income | 749 | 534 | 215 | 40% |

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| | | | | |
|------------------------------------|----------|----------|---------|-----|
| Total non-interest income | 11,156 | 9,108 | 2,048 | 22% |
| | ----- | ----- | ----- | --- |
| | \$47,464 | \$37,564 | \$9,900 | 26% |
| | ===== | ===== | ===== | === |
| Tax equivalent net interest margin | 4.32% | 4.08% | | |
| | ===== | ===== | | |

Net Interest Income

Net interest income for the quarter increased \$7.852 million, or 28 percent, over the same period in 2005, and \$604 thousand from the fourth quarter of 2005. Total interest income increased \$15.445 million from the prior year's quarter, or 38 percent, while total interest expense was \$7.593 million, or 63 percent higher. The increase in interest expense is primarily attributable to the volume increase in interest bearing liabilities, and increases in short term interest rates during 2005 continuing into 2006. The Federal Reserve Bank has increased the targeted fed funds rate 10 times, 250 basis points, since January 1, 2005. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.32 percent which was higher than the 4.08 percent result for the first quarter of 2005. The margin for the first quarter of 2006 continued the trend of increases experienced in each quarter of 2005.

Non-interest Income

Fee income increased \$1.735 million, or 27 percent, over the same period last year, driven primarily by an increased number of loan and deposit accounts from internal growth and acquisitions. Gain on sale of loans increased \$98 thousand, or 5 percent, from the first quarter of last year. Loan origination activity for housing construction and purchases remains strong in our markets.

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| | Three months ended March 31, | | | |
|---------------------------------------|------------------------------|----------|-----------|----------|
| NON-INTEREST EXPENSE SUMMARY | 2006 | 2005 | \$ change | % change |
| | ----- | ----- | ----- | ----- |
| (UNAUDITED - \$ IN THOUSANDS) | | | | |
| Compensation and employee benefits | \$15,311 | \$10,944 | \$4,367 | 40% |
| Occupancy and equipment expense | 3,491 | 2,855 | 636 | 22% |
| Outsourced data processing | 724 | 232 | 492 | 212% |
| Core deposit intangibles amortization | 420 | 283 | 137 | 48% |
| Other expenses | 5,881 | 4,760 | 1,121 | 24% |
| | ----- | ----- | ----- | --- |
| Total non-interest expense | \$25,827 | \$19,074 | \$6,753 | 35% |
| | ===== | ===== | ===== | === |

Non-interest Expense

Non-interest expense increased by \$6.753 million, or 35 percent, from the same quarter of 2005. Compensation and benefit expense increased \$4.367 million, or 40 percent, of which \$723 thousand was from expensing stock options with the adoption of SFAS 123(R) in 2006, four acquisitions during 2005, the addition of four new bank branches occurring within the last four months, normal compensation increases for job performance and increased cost for benefits are

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the reasons for the majority of the increase. The number of full-time-equivalent employees has increased from 952 to 1,147, a 20 percent increase, since March 31, 2005. Occupancy and equipment expense increased \$636 thousand, or 22 percent, reflecting the bank acquisitions, cost of additional branch locations and facility upgrades. Other expenses increased \$1.121 million, or 24 percent, primarily from acquisitions, additional marketing expenses, and costs associated with new branch offices. The number of new branches coming on-line within a short period of time has resulted in significantly higher expenses in the current quarter. The number of new locations is greater than normal for our company, rapid expansion in the high growth markets of Boise and Coeur d'Alene are expected to have long-term benefits. The efficiency ratio (non-interest expense/net interest income + non-interest income) was 54 percent for the 2006 quarter, up from 51 percent for the 2005 quarter.

Critical Accounting Policies

Companies apply certain critical accounting policies requiring management to make subjective or complex judgments, often as a result of the need to estimate the effect of matters that are inherently uncertain. The Company considers its only critical accounting policy to be the allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged against earnings. The balance of allowance for loan loss is maintained at the amount management believes will be adequate to absorb known and inherent losses in the loan portfolio. The appropriate balance of allowance for loan losses is determined by applying estimated loss factors to the credit exposure from outstanding loans. Estimated loss factors are based on subjective measurements including management's assessment of the internal risk classifications, changes in the nature of the loan portfolio, industry concentrations and the impact of current local, regional and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are reasonably possible and may have a material impact on the Company's consolidated financial statements, results of operations and liquidity.

Effect of inflation and changing prices

Generally accepted accounting principles require the measurement of financial position and operating results in terms of historical dollars, without consideration for change in relative purchasing power over time due to inflation. Virtually all assets of a financial institution are monetary in nature; therefore, interest rates generally have a more significant impact on a company's performance than does the effect of inflation.

Forward Looking Statements

This Form 10-Q includes forward looking statements, which describe management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, continued success of the Company's style of banking and the strength of the local economies in which it operates. Future

events are difficult to predict, and the expectations described above are necessarily subject to risk and uncertainty that may cause actual results to differ materially and adversely. In addition to discussions about risks and uncertainties set forth from time to time in the Company's public filings, factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following possibilities: (1) local, national and international economic conditions are less favorable than expected or have a more direct and pronounced

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effect on the Company than expected and adversely affect the company's ability to continue its internal growth at historical rates and maintain the quality of its earning assets; (2) changes in interest rates reduce interest margins more than expected and negatively affect funding sources; (3) projected business increases following strategic expansion or opening or acquiring new banks and/or branches are lower than expected; (4) costs or difficulties related to the integration of acquisitions are greater than expected; (5) competitive pressure among financial institutions increases significantly; (6) legislation or regulatory requirements or changes adversely affect the businesses in which the Company is engaged.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company believes that there have not been any material changes in information about the Company's market risk than was provided in the Form 10-K report for the year ended December 31, 2005.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as required by Exchange Act Rules 240.13a-15(b) and 15d-14(c)) as of the date of this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information relating to the Company required to be disclosed in the reports we file or submit under the Exchange Act.

Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter 2006, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no pending material legal proceedings to which the registrant or its subsidiaries are a party.

ITEM 1A. RISK FACTORS

There have not been any material changes to the Company's risk factors during the first quarter 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) Not Applicable
- (b) Not Applicable
- (c) Not Applicable

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- (a) Not Applicable
- (b) Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

- (a) None
- (b) Not Applicable
- (c) None
- (d) None

ITEM 5. OTHER INFORMATION

- (a) Not Applicable
- (b) Not Applicable

ITEM 6. EXHIBITS

- Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
- Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
- Exhibit 32 - Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLACIER BANCORP, INC.

May 8, 2006

/s/ Michael J. Blodnick

Michael J. Blodnick
President/CEO

May 8, 2006

/s/ James H. Strosahl

James H. Strosahl
Executive Vice President/CFO

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