

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

GLACIER BANCORP INC  
Form 10-Q  
May 08, 2009

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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 81-0519541  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

49 Commons Loop, Kalispell, Montana 59901  
(Address of principal executive offices) (Zip Code)

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

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller reporting Company   
(Do not check if a smaller reporting company)

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

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

The number of shares of Registrant's common stock outstanding on April 23, 2009 was 61,511,389. No preferred shares are issued or outstanding.

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

#### INDEX

	Page ----
PART I. FINANCIAL INFORMATION	
Item 1 - Financial Statements	
Condensed Consolidated Statements of Financial Condition - Unaudited March 31, 2009, March 31, 2008 and audited December 31, 2008 ....	3
Condensed Consolidated Statements of Operations - Unaudited three months ended March 31, 2009 and 2008 .....	4
Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income - audited year ended December 31, 2008 and unaudited three months ended March 31, 2009 .....	5
Condensed Consolidated Statements of Cash Flows - Unaudited three months ended March 31, 2009 and 2008 .....	6
Notes to Condensed Consolidated Financial Statements - Unaudited ...	7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations .....	23
Item 3 - Quantitative and Qualitative Disclosure about Market Risk ....	37
Item 4 - Controls and Procedures .....	37
PART II. OTHER INFORMATION .....	38
Item 1 - Legal Proceedings .....	38
Item 1A - Risk Factors .....	38
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds ..	42
Item 3 - Defaults Upon Senior Securities .....	42
Item 4 - Submission of Matters to a Vote of Security Holders .....	42
Item 5 - Other Information .....	42
Item 6 - Exhibits .....	42
Signatures .....	43

### GLACIER BANCORP, INC. CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 31, 2009	Decemb 20
(Dollars in thousands, except per share data)	-----	-----
	(unaudited)	(aud
Assets:		
Cash on hand and in banks .....	\$ 110,220	12
Federal funds sold .....	27,520	
Interest bearing cash deposits .....	14,122	
	-----	-----

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Cash and cash equivalents .....	151,862	13
Investment securities .....	965,641	99
Loans receivable, net .....	4,002,413	3,99
Loans held for sale .....	74,515	5
Premises and equipment, net .....	135,688	13
Real estate and other assets owned, net .....	18,985	1
Accrued interest receivable .....	28,143	2
Deferred tax asset .....	17,948	1
Core deposit intangible, net .....	12,239	1
Goodwill .....	146,259	14
Other assets .....	27,107	2
	-----	-----
Total assets .....	\$ 5,580,800	5,55
	=====	=====
Liabilities and stockholders' equity:		
Non-interest bearing deposits .....	\$ 743,552	74
Interest bearing deposits .....	2,551,180	2,51
Advances from Federal Home Loan Bank .....	225,695	33
Securities sold under agreements to repurchase .....	199,669	18
Federal Reserve Bank discount window .....	1,005,000	91
U.S. Treasury Tax & Loan .....	3,545	
Other borrowed funds .....	2,564	
Accrued interest payable .....	8,675	
Deferred tax liability .....	--	
Subordinated debentures .....	120,149	12
Other liabilities .....	38,786	3
	-----	-----
Total liabilities .....	4,898,815	4,87
	-----	-----
Preferred shares, \$.01 par value per share. 1,000,000 shares authorized None issued or outstanding .....	--	
Common stock, \$.01 par value per share. 117,187,500 shares authorized .....	615	
Paid-in capital .....	494,874	49
Retained earnings - substantially restricted .....	193,552	18
Accumulated other comprehensive (loss) income .....	(7,056)	(
	-----	-----
Total stockholders' equity .....	681,985	67
	-----	-----
Total liabilities and stockholders' equity .....	\$ 5,580,800	5,55
	=====	=====
Number of shares outstanding .....	61,509,818	61,33
Book value per share .....	\$ 11.09	

See accompanying notes to condensed consolidated financial statements.

3

GLACIER BANCORP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED - dollars in thousands, except per share data)	THREE MONTHS ENDED MARCH 31,	
	2009	2008
-----	-----	-----
INTEREST INCOME:		

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Real estate loans .....	\$ 14,341	12,592
Commercial loans .....	37,966	42,533
Consumer and other loans .....	11,339	12,107
Investment securities and other .....	11,886	8,784
	-----	-----
Total interest income .....	75,532	76,016
	-----	-----
INTEREST EXPENSE:		
Deposits .....	10,134	16,869
Federal Home Loan Bank of Seattle advances .....	1,819	5,718
Securities sold under agreements to repurchase .....	594	1,341
Subordinated debentures .....	1,907	1,873
Other borrowed funds .....	700	1,586
	-----	-----
Total interest expense .....	15,154	27,387
	-----	-----
NET INTEREST INCOME .....	60,378	48,629
Provision for loan losses .....	15,715	2,500
	-----	-----
Net interest income after provision for loan losses...	44,663	46,129
	-----	-----
NON-INTEREST INCOME:		
Service charges and other fees .....	9,019	9,471
Miscellaneous loan fees and charges .....	1,160	1,490
Gains on sale of loans .....	6,150	3,880
Gain on sale of investments .....	--	248
Other income .....	1,048	1,173
	-----	-----
Total non-interest income .....	17,377	16,262
	-----	-----
NON-INTEREST EXPENSE:		
Compensation, employee benefits and related expense .....	21,944	21,097
Occupancy and equipment expense .....	5,895	5,133
Advertising and promotions expense .....	1,724	1,539
Outsourced data processing expense .....	671	667
Core deposit intangibles amortization .....	774	779
Other expense .....	8,618	6,398
	-----	-----
Total non-interest expense .....	39,626	35,613
	-----	-----
EARNINGS BEFORE INCOME TAXES .....	22,414	26,778
Federal and state income tax expense .....	6,635	9,379
	-----	-----
NET EARNINGS .....	\$ 15,779	17,399
	=====	=====
Basic earnings per share .....	\$ 0.26	0.32
Diluted earnings per share .....	\$ 0.26	0.32
Dividends declared per share .....	\$ 0.13	0.13
Return on average assets (annualized) .....	1.15%	1.46%
Return on average equity (annualized) .....	9.27%	12.98%
Average outstanding shares - basic .....	61,460,619	53,849,608
Average outstanding shares - diluted .....	61,468,167	54,034,186

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2008 AND UNAUDITED THREE MONTHS ENDED MARCH 31, 2009

(Dollars in thousands, except per share data)	Common Stock		Paid-in capital	Retained earnings substantial restrictive
	Shares			
Balance at December 31, 2007 .....	53,646,480	\$536	374,728	150,195
Comprehensive income:				
Net earnings .....	--	--	--	65,657
Unrealized loss on securities, net of reclassification adjustment and taxes .....	--	--	--	--
Total comprehensive income .....				
Cash dividends declared (\$.52 per share) .....	--	--	--	(29,079)
Stock options exercised .....	719,858	7	9,789	--
Stock issued in connection with acquisition .....	639,935	7	9,280	--
Public offering of stock issued .....	6,325,000	63	93,890	--
Cumulative effect of change in accounting principle..	--	--	--	(997)
Stock based compensation and tax benefit .....	--	--	4,107	--
Balance at December 31, 2008 .....	61,331,273	\$613	491,794	185,776
Comprehensive income:				
Net earnings .....	--	--	--	15,779
Unrealized loss on securities, net of reclassification adjustment and taxes .....	--	--	--	--
Total comprehensive income .....				
Cash dividends declared (\$.13 per share) .....	--	--	--	(8,003)
Stock options exercised .....	178,545	2	2,409	--
Stock based compensation and tax benefit .....	--	--	671	--
Balance at March 31, 2009 (unaudited) .....	61,509,818	\$615	494,874	193,552

See accompanying notes to condensed consolidated financial statements.

GLACIER BANCORP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED - dollars in thousands)	THREE MONTHS ENDED MAR	
	2009	2008
OPERATING ACTIVITIES :		
NET CASH PROVIDED BY OPERATING ACTIVITIES .....	\$ 19,752	26,5

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

INVESTING ACTIVITIES:

Proceeds from sales, maturities and prepayments of investments available-for-sale .....	44,356	171,5
Purchases of investments available-for-sale .....	(29,490)	(160,7
Principal collected on commercial and consumer loans .....	215,076	240,5
Commercial and consumer loans originated or acquired .....	(249,997)	(316,5
Principal collections on real estate loans .....	40,317	83,5
Real estate loans originated or acquired .....	(32,698)	(78,7
Net purchase of FHLB and FRB stock .....	(276)	(
Proceeds from sale of other real estate owned .....	179	
Net addition of premises and equipment and other real estate owned...	(4,561)	(2,6
NET CASH USED IN INVESTING ACTIVITIES .....	(17,094)	(63,1

FINANCING ACTIVITIES:

Net increase (decrease) in deposits .....	32,171	(25,5
Net decrease in FHLB advances .....	(112,761)	(66,1
Net increase in securities sold under repurchase agreements .....	11,306	13,3
Net increase in Federal Reserve Bank discount window .....	91,000	57,0
Net (decrease) increase in U.S. Treasury Tax and Loan funds .....	(2,522)	20,2
Net increase (decrease) in other borrowed funds .....	275	(
Cash dividends paid .....	(8,003)	(7,0
Excess tax benefits from stock options .....	72	4
Proceeds from exercise of stock options and other stock issued .....	2,411	2,6
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES .....	13,949	(5,1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	16,607	(41,7
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD .....	135,255	227,6
CASH AND CASH EQUIVALENTS AT END OF PERIOD .....	\$ 151,862	185,8

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest .....	\$ 16,231	29,5
Cash paid for Income taxes .....	1,000	1,2
Sale and refinancing of other real estate owned .....	733	
Other real estate acquired in settlement of loans .....	8,385	1

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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, 2009 and 2008, stockholders' equity and comprehensive income for the three months ended March 31, 2009, the results of operations for the three months ended March 31, 2009 and 2008, and cash flows for the three months ended March 31, 2009 and 2008. The condensed consolidated statement of financial condition and statement of stockholders' equity and comprehensive income of the Company as of December 31, 2008 have been derived from the audited consolidated statements of the Company as of that date.

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles 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, 2008. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results anticipated for the year ending December 31, 2009. Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses ("ALLL" or "allowance") and the valuations related to investments, business combinations and real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the ALLL and other valuation estimates management obtains independent appraisals for significant items.

### 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 a regional multi-bank holding company that provides a full range of banking services to individual and corporate customers in Montana, Idaho, Wyoming, Colorado, Utah and Washington through its bank subsidiaries. The bank subsidiaries are subject to competition from other financial service providers. The bank subsidiaries are also subject to the regulations of certain government agencies and undergo periodic examinations by those regulatory authorities.

As of March 31, 2009, the Company is the parent holding company for ten wholly-owned, independent community bank 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"), First Bank of Montana ("First Bank-MT"), all located in Montana, Mountain West Bank ("Mountain West") which is located in Idaho, Utah, and Washington, Citizens Community Bank ("Citizens") located in Idaho, 1st Bank ("1st Bank") located in Wyoming and Utah, and Bank of the San Juans ("San Juans") located in Colorado.

On February 9, 2009, a definitive agreement to acquire First Company and its subsidiary First National Bank & Trust, a community bank based in Powell, Wyoming was announced. First National Bank & Trust has three branch locations in Powell, Cody, and Lovell, Wyoming. As of December 31, 2008, First National Bank & Trust had total assets of \$282 million. Upon completion of the transaction, which

7

is subject to regulatory approval and other customary conditions of closing, First National Bank & Trust will become a wholly-owned subsidiary of the Company.

On February 1, 2009, First National Bank of Morgan ("Morgan") merged into 1st Bank resulting in operations being conducted under the 1st Bank charter. Prior period activity of Morgan has been combined and included in 1st Bank's historical results. The merger has been accounted for as a combination of two wholly-owned subsidiaries without acquisition

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

accounting.

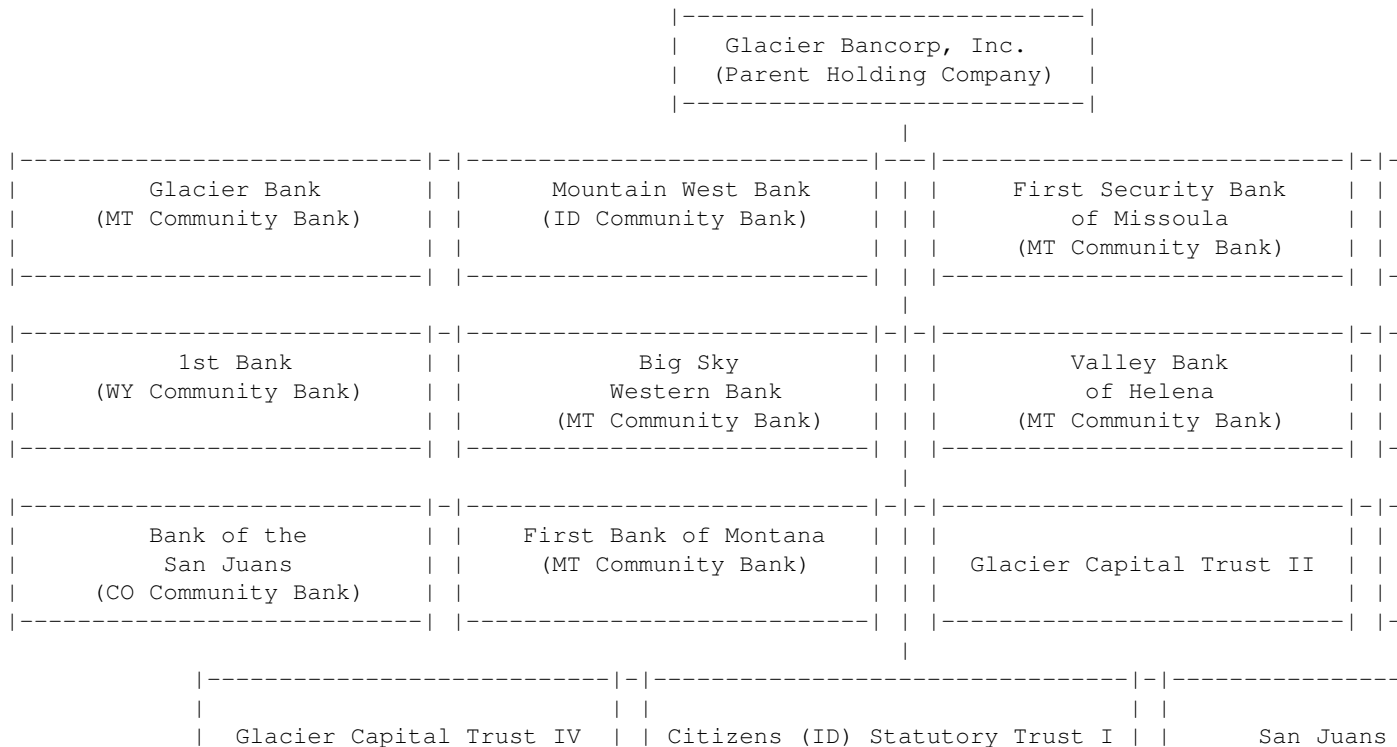
On December 1, 2008, Bank of the San Juans Bancorporation and its subsidiary, San Juans, was acquired by the Company. The results of operations and financial condition are included from the acquisition date.

On April 30, 2008, Glacier Bank of Whitefish ("Whitefish") merged into Glacier resulting in operations conducted under the Glacier charter. Prior period activity of Whitefish was combined and included in Glacier's historical results. The merger was accounted for as a combination of two wholly-owned subsidiaries without acquisition accounting.

In addition, the Company owns five trust subsidiaries, Glacier Capital Trust II ("Glacier Trust II"), Glacier Capital Trust III ("Glacier Trust III"), Glacier Capital Trust IV ("Glacier Trust IV"), Citizens (ID) Statutory Trust I ("Citizens Trust I") and Bank of the San Juans Trust I ("San Juans Trust I") for the purpose of issuing trust preferred securities and, in accordance with Financial Accounting Standards Board ("FASB") Interpretation 46(R), the subsidiaries are not consolidated into the Company's financial statements. The Company does not have any other off-balance sheet entities.

See Note 12 - Segment Information for selected financial data including net earnings and total assets for the parent company and each of the community bank subsidiaries. Although the consolidated total assets of the Company were \$5.6 billion at March 31, 2009, eight of the ten community banks had total assets of less than \$1 billion. First Bank-MT, the smallest community bank subsidiary had \$160 million in total assets, while Glacier Bank, the largest community bank subsidiary, had \$1.3 billion in total assets at March 31, 2009.

The following abbreviated organizational chart illustrates the various relationships as of March 31, 2009:





Edgar Filing: GLACIER BANCORP INC - Form 10-Q

8

3) Investments

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

INVESTMENTS AS OF MARCH 31, 2009

(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized	
			Gains	Losses
AVAILABLE FOR SALE:				
U.S. GOVERNMENT AND FEDERAL AGENCIES:				
maturing one year through five years .....	1.62%	\$ 212	2	--
GOVERNMENT-SPONSORED ENTERPRISES:				
maturing five years through ten years .....	2.80%	235	--	(2)
maturing after ten years .....	2.05%	67	--	--
	2.64%	302	--	(2)
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES:				
maturing within one year .....	3.61%	759	4	--
maturing one year through five years .....	4.61%	4,481	134	(3)
maturing five years through ten years .....	5.08%	21,507	1,157	(74)
maturing after ten years .....	5.08%	429,773	8,597	(14,612)
	5.08%	456,520	9,892	(14,689)
MORTGAGE-BACKED SECURITIES .....	4.73%	458,522	7,781	(14,587)
TOTAL MARKETABLE SECURITIES .....	4.90%	915,556	17,675	(29,278)
OTHER INVESTMENTS:				
FHLB and FRB stock, at cost .....	1.26%	61,223	--	--
Other stock, at cost .....	3.29%	465	--	--
TOTAL INVESTMENTS .....	4.67%	\$977,244	17,675	(29,278)

9

INVESTMENTS AS OF MARCH 31, 2009

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

(Dollars in thousands) AVAILABLE-FOR-SALE: -----	Weighted Yield -----	Amortized Cost -----	Gross Gains -----	Unrealized Losses -----
U.S. GOVERNMENT AND FEDERAL AGENCIES:				
maturing one year through five years .....	1.62%	\$ 213	4	--
GOVERNMENT-SPONSORED ENTERPRISES:				
maturing five years through ten years .....	4.12%	246	--	(2)
maturing after ten years .....	3.75%	68	--	--
	4.04%	314	--	(2)
STATE AND LOCAL GOVERNMENTS AND OTHER ISSUES:				
maturing within one year .....	3.76%	940	6	--
maturing one year through five years .....	4.61%	4,482	104	(9)
maturing five years through ten years .....	5.08%	20,219	1,030	(80)
maturing after ten years .....	5.08%	408,603	8,121	(9,733)
	5.07%	434,244	9,261	(9,822)
MORTGAGE-BACKED SECURITIES .....	4.62%	495,961	4,956	(6,447)
TOTAL MARKETABLE SECURITIES .....	4.83%	930,732	14,221	(16,271)
OTHER INVESTMENTS:				
FHLB and FRB stock, at cost .....	1.72%	60,945	--	--
Other stock, at cost .....	3.10%	465	--	--
TOTAL INVESTMENTS .....	4.64%	\$992,142	14,221	(16,271)

Maturities of securities do not reflect repricing opportunities present in adjustable rate securities, nor do they reflect expected shorter maturities based upon early prepayment of principal. Weighted yields on tax-exempt investment securities exclude the tax effect.

Investments with an unrealized loss position at March 31, 2009:

(dollars in thousands) -----	Less than 12 months -----		12 months or more -----	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government Sponsored Enterprises .....	\$ --	--	236	2
State and Local Governments and other issues ....	154,435	13,495	6,271	1,194
Mortgage-backed Securities .....	45,577	2,957	35,260	11,630
Total temporarily impaired securities .....	\$200,012	16,452	41,767	12,826

Investments with an unrealized loss position at December 31, 2008:

	Less than 12 months -----		12 months or more -----	
	Fair	Unrealized	Fair	Unrealized

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

(dollars in thousands) -----	Value -----	Loss -----	Value -----	Loss -----
Government Sponsored Enterprises .....	\$ 104	1	205	1
State and Local Governments and other issues ....	142,826	9,772	1,621	50
Mortgage-backed Securities .....	116,004	5,758	12,403	689
	-----	-----	-----	---
Total temporarily impaired securities .....	\$258,934	15,531	14,229	740
	=====	=====	=====	===

10

In April 2009, FASB issued Staff Position ("FSP") FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, and FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The Company has decided to adopt the new FSPs effective for the interim period ending June 30, 2009 and is currently evaluating the impact of the adoption of the FSPs, but does not expect it to have a material effect on the Company's financial position or results of operations. For further information regarding the FSPs see discussion in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards".

As of March 31, 2009, there were 252 investments in an unrealized loss position and were considered to be temporarily impaired and therefore an impairment charge has not been recorded. State and Local Government and other issued securities have the largest unrealized loss. The fair value of these securities increased from \$154,322,000 at December 31, 2008 to \$160,706,000 at March 31, 2009, and the unrealized loss increased from 6.0 percent of fair value to 9.1 percent of fair value for those same years. The fair value of mortgage backed securities, which have underlying collateral consisting of U.S. government sponsored enterprise guaranteed mortgages and non-guaranteed private label whole loan mortgages, decreased from \$95,867,000 at December 31, 2008 to \$80,837,000 at March 31, 2009, and the unrealized loss increased from 6.7 percent of fair value to 18.0 percent of fair value for those same years.

Interest income includes tax-exempt interest for the three months ended March 31, 2009 and 2008 of \$5,331,000 and \$3,174,000, respectively.

Gross proceeds from sale of marketable securities for the three months ended March 31, 2009 and 2008 were \$0 and \$97,002,000, respectively, resulting in gross gains of \$0 and \$0, respectively, and gross losses of \$0 and \$0, respectively. The gross proceeds and gross gains for the sale of other stock was \$0 and \$248,000 for the three months ended March 31, 2009 and 2008, respectively. During the first quarter of 2008, the Company realized a gain of \$130,000 from extinguishment of the Company's share ownership in Principal Financial Group and a gain of \$118,000 from the mandatory redemption of a portion of Visa, Inc. shares from its recent initial public offering. The cost of any investment sold is determined by specific identification.

The investments in the Federal Home Loan Bank ("FHLB") stock are required investments related to the Company's borrowings from FHLB. FHLB obtains its funding primarily through issuance of consolidated obligations of the FHLB system. The U.S. Government does not guarantee these obligations, and each of the 12 FHLBs are jointly and severally liable for repayment of each other's debt.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

11

4) Loans and Leases

The following table summarizes the Company's loan and lease portfolio,

TYPE OF LOAN (Dollars in thousands)	At 3/31/09		At 12/31/2008		Amount
	Amount	Percent	Amount	Percent	
Real Estate Loans:					
Residential real estate	\$ 776,005	19.0%	\$ 786,869	19.4%	\$ 684,000
Loans held for sale	74,515	1.8%	54,976	1.4%	39,300
Total	850,520	20.8%	841,845	20.8%	723,300
Commercial Loans:					
Real estate	1,958,466	48.0%	1,935,341	47.8%	1,669,800
Other commercial	652,839	16.0%	645,033	15.9%	648,200
Total	2,611,305	64.0%	2,580,374	63.7%	2,318,000
Consumer and other Loans:					
Consumer	202,138	5.0%	208,166	5.1%	213,300
Home equity	503,762	12.4%	507,831	12.5%	436,500
Total	705,900	17.4%	715,997	17.6%	649,800
Net deferred loan fees, premiums and discounts	(7,020)	-0.2%	(8,023)	-0.2%	(9,400)
Allowance for loan and lease losses	(83,777)	-2.0%	(76,739)	-1.9%	(56,600)
Loan receivable, net	\$4,076,928	100.0%	\$4,053,454	100.0%	\$3,625,100

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

(Dollars in thousands)	March 31, 2009	December 31, 2008	March 2008
Real estate and other assets owned	\$ 18,985	11,539	20,000
Accruing Loans 90 days or more overdue	4,439	8,613	4,000
Non-accrual loans	92,288	64,301	21,000
Total non-performing assets	\$115,712	84,453	28,000
Non-performing assets as a percentage of total bank assets	1.97%	1.46%	1.46%

Impaired loans, net of government guaranteed amounts, were \$100,076,000, \$79,949,000, and \$22,565,000 as of March 31, 2009, December 31, 2008 and March 31, 2007, respectively.

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

31, 2008, respectively. The allowance for loan and lease loss includes valuation allowances of \$10,669,000, \$7,999,000 and \$2,128,000 specific to impaired loans as of March 31, 2009, December 31, 2008 and March 31, 2008, respectively.

12

The following table illustrates the loan and lease loss experience:

(Dollars in thousands)	March 31, 2009	December 31, 2008	March 31, 2008
-----	-----	-----	-----
Balance at the beginning of the period	\$76,739	54,413	54,413
Charge-offs	(8,994)	(9,839)	(408)
Recoveries	317	1,060	175
	-----	-----	-----
Net charge-offs	\$ (8,677)	(8,779)	(233)
Acquisition (1)	--	2,625	--
Provision	15,715	28,480	2,500
	-----	-----	-----
Balance at the end of the period	\$83,777	76,739	56,680
	=====	=====	=====
Net charge-offs as a percentage of total loans	0.209%	0.213%	0.006%

(1) Acquisition of Bank of the San Juans in 2008

5) Intangible Assets

The following table sets forth information regarding the Company's core deposit intangible and mortgage servicing rights as of March 31, 2009:

(Dollars in thousands)	Core Deposit Intangible	Mortgage Servicing Rights (1)	Total
-----	-----	-----	-----
Gross carrying value	\$ 27,807		
Accumulated Amortization	(15,568)		
	-----		
Net carrying value	\$ 12,239	1,214	13,453
	=====		
WEIGHTED-AVERAGE AMORTIZATION PERIOD (Period in years)	10.0	9.6	10.0
AGGREGATE AMORTIZATION EXPENSE			
For the three months ended March 31, 2009	\$ 774	59	833
ESTIMATED AMORTIZATION EXPENSE			
For the year ended December 31, 2009	\$ 2,972	122	3,094
For the year ended December 31, 2010	2,603	82	2,685
For the year ended December 31, 2011	1,895	80	1,975
For the year ended December 31, 2012	1,534	78	1,612
For the year ended December 31, 2013	1,283	75	1,358

(1) The mortgage servicing rights are included in other assets and the gross carrying value and accumulated amortization are immaterial and therefore

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

not presented.

Acquisitions were accounted for using the purchase accounting method as prescribed by Statement of Financial Accounting Standard ("SFAS") No. 141, Business Combinations, for acquisitions prior to January 1, 2009 and acquisitions will subsequently be accounted for as prescribed by SFAS No. 141(R), Business Combinations. Purchase accounting under both standards requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets. Goodwill is recorded for the residual amount in excess of the net fair value.

13

Adjustment of the allocated purchase price may be related to fair value estimates for which all information has not been obtained of the acquired entity known or discovered during the allocation period, the period of time required to identify and measure the fair values of the assets and liabilities acquired in the business combination. The allocation period is generally limited to one year following consummation of a business combination.

6) Deposits

The following table illustrates the amounts outstanding for deposits \$100,000 and greater at March, 2009 according to the time remaining to maturity.

(Dollars in thousands)	Certificates of Deposit	Non-Maturity Deposits	Totals
-----	-----	-----	-----
Within three months .....	\$139,229	1,175,702	1,314,931
Three to six months .....	110,736	--	110,736
Seven to twelve months .....	117,963	--	117,963
Over twelve months .....	56,168	--	56,168
	-----	-----	-----
Totals .....	\$424,096	1,175,702	1,599,798
	=====	=====	=====

7) Advances and Other Borrowings

The following chart illustrates the average balances and the maximum outstanding month-end balances of amounts borrowed through FHLB, repurchase agreements, U.S. Treasury Tax and Loan and Federal Reserve Bank discount window programs:

(Dollars in thousands)	As of and for the three months ended March 31, 2009	As of and for the year ended December 31, 2008	As of and for the three months ended March 31, 2008
-----	-----	-----	-----

FHLB advances:

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Amount outstanding at end of period ....	\$ 225,695	338,456	472,761
Average balance .....	\$ 336,790	566,933	595,268
Maximum outstanding at any month-end ...	\$ 380,535	822,107	815,860
Weighted average interest rate .....	2.19%	2.71%	3.85%
Repurchase agreements:			
Amount outstanding at end of period ....	\$ 199,669	188,363	191,369
Average balance .....	\$ 196,064	188,952	190,064
Maximum outstanding at any month-end ...	\$ 199,669	196,461	191,369
Weighted average interest rate .....	1.23%	2.02%	2.83%
U.S. Treasury Tax and Loan:			
Amount outstanding at end of period ....	\$ 3,545	6,067	241,665
Average balance .....	\$ 3,593	165,690	172,706
Maximum outstanding at any month-end ...	\$ 3,545	385,246	241,665
Weighted average interest rate .....	0.00%	2.28%	3.21%
Federal Reserve Bank discount window:			
Amount outstanding at end of period ....	\$1,005,000	914,000	57,000
Average balance .....	\$ 946,433	277,611	20,802
Maximum outstanding at any month-end ...	\$1,005,000	928,000	57,000
Weighted average interest rate .....	0.29%	1.76%	3.77%

14

8) 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, 2009.

CONSOLIDATED (Dollars in thousands)	Tier 1 (Core) Capital	Tier 2 (Total) Capital	Leverage Capital
-----	-----	-----	-----
Total stockholder's equity .....	\$ 681,985	681,985	681,985
Less: Goodwill and intangibles .....	(157,705)	(157,705)	(157,705)
Plus: Allowance for loan and lease losses ....	--	56,494	--
Accumulated other comprehensive			
Unrealized loss on AFS securities .....	7,056	7,056	7,056
Subordinated debentures .....	117,500	117,500	117,500
	-----	-----	-----
Regulatory capital computed .....	\$ 648,836	705,330	648,836
	=====	=====	=====
Risk weighted assets .....	\$4,492,201	4,492,201	
	=====	=====	
Total adjusted average assets .....			\$5,399,131
			=====
Capital as % of risk weighted assets .....	14.44%	15.70%	12.02%
Regulatory "well capitalized" requirement ....	6.00%	10.00%	5.00%
	-----	-----	-----
Excess over "well capitalized" requirement ...	8.44%	5.70%	7.02%
	=====	=====	=====

9) Computation of Earnings Per Share

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Basic earnings per common share is computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period presented. Diluted earnings per share is computed by including the net increase in shares as if dilutive outstanding stock options were exercised, using the treasury stock method.

The following schedule contains the data used in the calculation of basic and diluted earnings per share:

	Three months ended March 31, 2009	Three months ended March 31, 2008
	-----	-----
Net earnings available to common stockholders .....	\$15,779,000	17,399,000
Average outstanding shares - basic .....	61,460,619	53,849,608
Add: Dilutive stock options .....	7,548	184,578
	-----	-----
Average outstanding shares - diluted .....	61,468,167	54,034,186
	=====	=====
Basic earnings per share .....	\$ 0.26	0.32
	=====	=====
Diluted earnings per share .....	\$ 0.26	0.32
	=====	=====

15

There were approximately 2,386,064 and 2,021,921 average shares excluded from the diluted average outstanding share calculation for the three months ended March 31, 2009 and 2008, respectively, due to the option exercise price exceeding the market price.

### 10) Comprehensive Income

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

	For the three months ended March 31,	
Dollars in thousands	2009	2008
	-----	-----
Net earnings .....	\$15,779	17,399
Unrealized holding (loss) gain arising during the period ...	(9,552)	2,172
Tax benefit (expense) .....	3,739	(855)
	-----	-----
Net after tax .....	(5,813)	1,317
Reclassification adjustment for gains included in net earnings .....	--	(248)
Tax expense .....	--	97
	-----	-----
Net after tax .....	--	(151)



Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Net unrealized (loss) gain on securities .....	(5,813)	1,166
	-----	-----
Total comprehensive income .....	\$ 9,966	18,565
	=====	=====

11) Federal and State Income Taxes

The Company and its financial institution subsidiaries join together in the filing of consolidated income tax returns in the following jurisdictions: federal, Montana, Idaho Colorado and Utah. Although 1st Bank has operations in Wyoming and Mountain West has operations in Washington, neither Wyoming nor Washington impose a corporate level income tax. All required income tax returns have been timely filed. Income tax returns for the years ended December 31, 2005, 2006 and 2007 remain subject to examination by federal, Montana, Colorado, Idaho and Utah tax authorities, income tax returns for the year ended December 31, 2004 remain subject to examination by the state of Colorado, and the income tax returns for the years ended December 31, 2003 and December 31, 2004 remain subject to examination by the states of Montana and Idaho.

In accordance with FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes, the Company determined its unrecognized tax benefit to be \$152,000 as of March 31, 2009. If the unrecognized tax benefit amount was recognized, it would decrease the Company's effective tax rate from 29.6 percent to 28.9 percent. Management believes that it is unlikely that the balance of its unrecognized tax benefits will significantly increase or decrease over the next twelve months.

In accordance with FIN 48, the Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the three months ended March 31, 2009 and 2008, the Company recognized \$0 interest expense and recognized \$0 penalty with respect to income tax liabilities. The Company had approximately \$37,000 and \$37,000 accrued for the payment of interest at March 31, 2009 and 2008, respectively. The Company had accrued liabilities of \$0 for the payment of penalties at March 31, 2009 and 2008.

12) Segment Information

SFAS No. 131, Financial Reporting for Segments of a Business Enterprise, requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company defines operating segments and evaluates segment performance internally based on individual bank charters. 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 limited partnership interests that operate residential rental real estate properties which have been allocated low income housing tax credits. Intersegment revenues primarily represents interest income on intercompany borrowings, management fees, and data processing fees received

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

by individual banks or the parent company. Intersegment revenues, expenses and assets are eliminated in order to report results in accordance with accounting principles generally accepted in the United States of America.

On February 1, 2009, Morgan was merged into 1st Bank resulting in operations being conducted under the 1st Bank charter. On April 30, 2008, Whitefish was merged into Glacier with operations conducted under the Glacier charter. Prior period activity of the merged banks has been combined and included in the acquiring bank subsidiaries' historical results.

On December 1, 2008, Bank of the San Juans Bancorporation and its subsidiary, San Juans, was acquired by the Company. The results of operations and financial condition are included from the acquisition date.

Three months ended and as of March 31, 2009						
(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	Big S
Revenues from external customers	\$ 20,739	21,380	13,317	8,908	8,311	5,6
Intersegment revenues	47	--	307	163	71	--
Expenses	(16,211)	(20,190)	(10,112)	(7,023)	(7,303)	(4,5
Net Earnings	\$ 4,575	1,190	3,512	2,048	1,079	1,1
Total Assets	\$1,275,221	1,219,421	969,912	626,018	580,891	332,6

	Citizens	San Juans	First Bank of MT	Parent	Other	Eliminatio
Revenues from external customers	\$ 3,919	2,528	2,412	58	59	-
Intersegment revenues	--	--	--	20,252	--	(20,85
Expenses	(3,319)	(2,113)	(1,767)	(4,531)	(106)	4,06
Net Earnings	\$ 600	415	645	15,779	(47)	(16,79
Total Assets	\$227,445	171,284	159,939	817,135	3,279	(1,099,41

17

Three months ended and as of March 31, 2008						
(Dollars in thousands)	Glacier	Mountain West	First Security	Western	1st Bank	Big S

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Revenues from external customers	\$ 21,238	21,704	14,222	9,227	8,421	6,2
Intersegment revenues	41	--	472	387	561	
Expenses	(16,213)	(18,838)	(11,193)	(7,656)	(7,443)	(4,7
Net Earnings	\$ 5,066	2,866	3,501	1,958	1,539	1,4
Total Assets	\$1,116,642	1,049,079	805,825	540,927	546,681	311,7

	Citizens	First Bank of MT	Parent	Other	Eliminations	T Conso
Revenues from external customers	\$ 3,427	2,214	138	59	--	9
Intersegment revenues	132	101	21,888	--	(23,673)	
Expenses	(3,142)	(1,751)	(4,627)	(64)	5,019	(7
Net Earnings	\$ 417	564	17,399	(5)	(18,654)	1
Total Assets	\$188,249	147,634	673,388	3,374	(833,741)	4,83

13) Fair Value Measurement

On January 1, 2008, the Company adopted FASB issued SFAS No. 157, Fair Value Measurements. FASB issued FSP SFAS 157-2, Effective Date of SFAS No. 157, which delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On January 1, 2009, the delay from SFAS 157-2 expired for the Company.

In April 2009, FASB issued FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The Company has decided to adopt the FSP effective for the interim period ending June 30, 2009 and is currently evaluating the impact of the adoption of the FSP, but does not expect it to have a material effect on the Company's financial position or results of operations. For further information regarding the FSP see discussion in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards".

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following are the assets measured at fair value on a recurring basis at and for the period ended March 31, 2009.

18

(Dollars in thousands)	Carrying value of Assets/ Liabilities at 03/31/09	Assets/ Liabilities measured at Fair Value 03/31/09	Quoted pri in active ma for identi assets (Level 1
<b>Financial Assets:</b>			
U.S. Government and Federal Agency .....	\$ 214	214	--
Government Sponsored Enterprises .....	300	300	--
State and Local Governments and other issues ..	451,723	451,723	--
Mortgage-backed securities .....	451,716	451,716	--
Other Stock .....	465	465	--
	-----	-----	---
Total financial assets .....	\$904,418	904,418	--
	=====	=====	===

The following is a description of the inputs and valuation methodologies used for financial assets measured at fair value on a recurring basis. There have been no significant changes in the valuation techniques during the period.

Investments and mortgage-backed securities - fair value for available-for-sale securities is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services and models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. For those securities where greater reliance on unobservable inputs occurs, such securities are classified as Level 3 within the hierarchy.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three month period ended March 31, 2009.

(Dollars in thousands)	Significant unobservable inputs (Level 3)
Balance as of December 31, 2008 .....	\$23,421

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Total unrealized loss included in other comprehensive income ....	(7,906)
Amortization, accretion and principal payments .....	(350)
	-----
Balance as of March 31, 2009 .....	\$15,165
	=====

The change in unrealized losses related to available-for-sale securities is reported in Accumulated Other Comprehensive Income (Loss).

Certain financial assets or liabilities are not measured at fair value on a recurring basis, but are subject to fair value measurement in certain circumstances, for example upon acquisition or when there is evidence of impairment. The following are the assets measured at fair value on a nonrecurring basis at March 31, 2009.

19

(Dollars in thousands)	Carrying value of Assets/ Liabilities at 03/31/09	Assets/ Liabilities measured at Fair Value 03/31/09	Quoted prices in active market for identical assets (Level 1)
-----	-----	-----	-----
Financial Assets:			
Real estate and other assets owned, net ....	\$ 18,985	18,985	--
Impaired Loans, net of allowance for loan and lease losses .....	89,407	89,407	--
	-----	-----	---
Total financial assets .....	\$108,392	108,392	--
	=====	=====	===

The following is a description of the inputs and valuation methodologies used for financial assets measured at fair value on a nonrecurring basis. There have been no significant changes in the valuation techniques during the period.

Real estate and other assets owned, net - real estate and other assets owned is carried at the lower of cost or estimated fair value, less estimated cost to sell. Estimated fair value of real estate and other assets owned is based on appraisals. Real estate and other assets owned are classified within Level 3 of the fair value hierarchy.

Impaired Loans, net of ALLL - loans included in the Company's financials for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired in accordance with SFAS 114, Accounting by Creditors for Impairment of a Loan. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the fair value of the collateral. Impaired loans are classified within Level 3 of the fair value hierarchy.

## 14) 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 to volume and the change due to rate.

(Dollars in thousands)	Three Months Ended March 31, 2009 vs. 2008		
	Increase (Decrease) due to:		
	Volume	Rate	Net
INTEREST INCOME			
Residential real estate loans	\$ 2,392	(643)	1,749
Commercial loans	5,953	(10,520)	(4,567)
Consumer and other loans	1,291	(2,059)	(768)
Investment securities and other	2,582	520	3,102
	-----	-----	-----
Total Interest Income	12,218	(12,702)	(484)
INTEREST EXPENSE			
NOW accounts	87	(441)	(354)
Savings accounts	41	(316)	(275)
Money market accounts	(295)	(3,244)	(3,539)
Certificates of deposit	956	(3,523)	(2,567)
FHLB advances	(2,483)	(1,416)	(3,899)
Other borrowings and repurchase agreements	7,281	(8,880)	(1,599)
	-----	-----	-----
Total Interest Expense	5,587	(17,820)	(12,233)
	-----	-----	-----
NET INTEREST INCOME	\$ 6,631	5,118	11,749
	=====	=====	=====

## 15) 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.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

AVERAGE BALANCE SHEET

(Dollars in thousands)	For the Three months ended 3-31-09			For the Three mo	
	Average Balance	Interest and Dividends	Average Yield/Rate	Average Balance	D
<b>ASSETS</b>					
Residential real estate loans	\$ 856,049	14,341	6.70%	\$ 719,371	
Commercial loans	2,593,490	37,966	5.94%	2,275,044	
Consumer and other loans	707,260	11,339	6.50%	639,091	
Total Loans	4,156,799	63,646	6.21%	3,633,506	
Tax - exempt investment securities (1)	425,283	5,331	5.01%	259,894	
Other investment securities	587,091	6,555	4.47%	522,511	
Total Earning Assets	5,169,173	75,532	5.84%	4,415,911	
Goodwill and core deposit intangible	159,341			154,018	
Other non-earning assets	228,322			239,529	
TOTAL ASSETS	\$5,556,836			\$4,809,458	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
NOW accounts	\$ 507,950	557	0.45%	\$ 463,716	
Savings accounts	287,454	272	0.38%	267,285	
Money market accounts	759,856	2,412	1.29%	799,407	
Certificates of deposit	947,504	6,893	2.95%	860,552	
FHLB advances	336,790	1,819	2.19%	595,268	
Repurchase agreements and other borrowed funds	1,269,324	3,201	1.02%	504,296	
Total Interest Bearing Liabilities	4,108,878	15,154	1.50%	3,490,524	
Non-interest bearing deposits	718,290			735,205	
Other liabilities	39,737			44,586	
Total Liabilities	4,866,905			4,270,315	
Common stock	614			538	
Paid-in capital	493,597			376,451	
Retained earnings	191,202			156,779	
Accumulated other comprehensive income	4,518			5,375	
Total Stockholders' Equity	689,931			539,143	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$5,556,836			\$4,809,458	
Net interest income		\$60,378			
Net interest spread			4.34%		
Net Interest Margin			4.74%		
Net Interest Margin (Tax Equivalent)			4.92%		
Return on average assets (annualized)			1.15%		
Return on average equity (annualized)			9.27%		

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

- (1) Excludes tax effect of \$2,360,000 and \$1,405,000 on non-taxable investment security income for the three months ended March 31, 2009 and 2008, respectively.

22

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

#### RESULTS OF OPERATIONS - THE THREE MONTHS ENDED MARCH 31, 2009 COMPARED TO DECEMBER 31, 2008 AND MARCH 31, 2008

##### Performance Summary

The Company reported net earnings of \$15.779 million for the first quarter, a decrease of \$1.620 million, or 9 percent, from the \$17.399 million for the first quarter of 2008. Diluted earnings per share of \$.26 for the quarter decreased 19 percent from the diluted earnings per share of \$.32 for the same quarter of 2008, reflecting the increase of 7.434 million shares, or 14 percent, in average outstanding shares on a diluted basis over last year's first quarter. Annualized return on average assets and return on average equity for the first quarter were 1.15 percent and 9.27 percent, which compares with prior year returns for the first quarter of 1.46 percent and 12.98 percent, respectively.

##### REVENUE SUMMARY

(UNAUDITED - \$ IN THOUSANDS)	Three months ended		
	March 31, 2009 (unaudited)	December 31, 2008 (unaudited)	March 31, 2008 (unaudited)
Net interest income			
Interest income	\$75,532	\$76,707	\$76,016
Interest expense	15,154	18,599	27,387
	60,378	58,108	48,629
Non-interest income			
Service charges, loan fees, and other fees	10,179	11,522	10,961
Gain on sale of loans	6,150	3,195	3,880
Gain on sale of investments	--	--	248
Other income	1,048	920	1,173
	17,377	15,637	16,262
	\$77,755	\$73,745	\$64,891
	=====	=====	=====
Tax equivalent net interest margin	4.92%	4.81%	4.54%
	=====	=====	=====

\$ change from December 31,	\$ change from March 31,	% change from December 31,	%
--------------------------------	-----------------------------	-------------------------------	---



## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

(UNAUDITED - \$ IN THOUSANDS)	2008	2008	2008
Net interest income			
Interest income	\$ (1,175)	\$ (484)	-2%
Interest expense	\$ (3,445)	\$ (12,233)	-19%
	2,270	11,749	4%
Non-interest income			
Service charges, loan fees, and other fees	(1,343)	(782)	-12%
Gain on sale of loans	2,955	2,270	92%
Gain on sale of investments	--	(248)	n/m
Other income	128	(125)	14%
	1,740	1,115	11%
Total non-interest income	\$ 4,010	\$ 12,864	5%
	=====	=====	

n/m - not measurable

23

### Net Interest Income

Net interest income for the quarter increased \$12 million, or 24 percent, over the same period in 2008. Interest income for the current quarter increased \$2 million, or 4 percent, with interest expense decreasing \$3 million, or 19 percent, compared to the prior quarter. While total interest income has decreased by \$484 thousand, or 1 percent, from the same period last year, total interest expense has decreased by \$12 million, or 45 percent, from the same period last year. The decrease in total interest expense is primarily attributable to rate decreases in interest bearing deposits and lower cost borrowings. The net interest margin as a percentage of earning assets, on a tax equivalent basis, was 4.92 percent which is 11 basis points higher than the 4.81 percent achieved for the prior quarter and 38 basis points higher than the 4.54 percent result for the first quarter of 2008.

### Non-interest Income

Non-interest income for the quarter increased \$2 million, or 11 percent, from the prior quarter, and increased \$1 million, or 7 percent, over the same period in 2008. Fee income decreased \$1.3 million, or 12 percent, during the quarter, compared to the decrease of \$782 thousand, or 7 percent, over the same period last year. Gain on sale of loans increased \$3 million, or 92 percent, for the quarter and increased \$2 million, or 59 percent, over the same period last year.

### NON-INTEREST EXPENSE SUMMARY

	Three months ended		
(UNAUDITED - \$ IN THOUSANDS)	March 31, 2009 (unaudited)	December 31, 2008 (unaudited)	March 31, 2008 (unaudited)

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Compensation and employee benefits	\$21,944	\$18,775	\$21,097
Occupancy and equipment expense	5,895	5,923	5,133
Advertising and promotion expense	1,724	1,675	1,539
Outsourced data processing	671	638	667
Core deposit intangibles amortization	774	741	779
Other expenses	8,618	8,340	6,398
	-----	-----	-----
Total non-interest expense	\$39,626	\$36,092	\$35,613
	=====	=====	=====

(UNAUDITED - \$ IN THOUSANDS)	\$ change from December 31, 2008	\$ change from March 31, 2008	% change from December 31, 2008	% change March 31, 2008
-----	-----	-----	-----	-----
Compensation and employee benefits	\$3,169	\$ 847	17%	4%
Occupancy and equipment expense	(28)	762	0%	15%
Advertising and promotion expense	49	185	3%	12%
Outsourced data processing	33	4	5%	1%
Core deposit intangibles amortization	33	(5)	4%	-1%
Other expenses	278	2,220	3%	35%
	-----	-----		
Total non-interest expense	\$3,534	\$4,013	10%	11%
	=====	=====		

Non-interest Expense

Non-interest expense increased by \$3.5 million, or 10 percent from the prior quarter, including a \$3.2 million, or 17 percent increase in compensation and employee benefits expense. The prior quarter compensation and employee benefits included significant reductions in commissions tied to production, as well as significant reductions in bonuses and employee benefits tied to Company performance. The current quarter increase in compensation and employee benefits also reflects increased staffing with the number of full-time equivalent employees increasing from 1,571 to 1,610 during the quarter, and increasing from 1,510 since the end of the 2008 first quarter.

24

Non-interest expense increased by \$4.0 million, or 11 percent from the same quarter of 2008, including a \$2.2 million, or 35 percent increase in other expenses. The increase in other expenses includes \$931 thousand in FDIC insurance premiums, \$395 thousand in outside legal, accounting, and audit firm expense, \$263 thousand loss from sales of other real estate owned, \$190 thousand expense associated with repossessed assets, and a non-recurring payment of \$169 thousand to the pension plan of the former North Side State Bank prior to terminating the plan in March 2009. North Side State Bank was acquired in April 2007 and immediately merged into 1st Bank, the Company's subsidiary in Evanston, Wyoming. Occupancy and equipment expense has increased \$762 thousand, or 15 percent, since March 31, 2008, reflecting the cost of additional branch locations and facility upgrades. Advertising and promotion expense increased \$185 thousand, or 12 percent, from the same quarter of 2008, such increase attributable to branch promotions and the banks continuing focus on attracting and retaining non-interest bearing and other low cost deposits.

The efficiency ratio (non-interest expense / net interest income plus

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

non-interest income) was 51 percent for the quarter, compared to 55 percent for the 2008 first quarter, a four percentage point improvement.

### Provision for Loan Losses

The Company recorded a provision for loan losses of \$15.7 million, an increase of \$13.2 million from the same quarter in 2008. Net charged-off loans during the three months ended March 31, 2009 were \$8.7 million.

The determination of the allowance for loan and lease losses ("ALLL") and the related provision for loan losses is a critical accounting estimate that involves management's judgments about current environmental factors which affect loan losses, such factors including economic conditions, changes in collateral values, net charge-offs, and other factors discussed in "Financial Condition Analysis" - Allowance for Loan and Lease Losses.

### FINANCIAL CONDITION ANALYSIS

As reflected in the following table, total assets at March 31, 2009 were \$5.581 billion, which is \$27 million greater than the total assets of \$ 5.554 billion at December 31, 2008 and an increase of \$746 million, or 15 percent, over the total assets of \$4.835 billion at March 31, 2008.

ASSETS (\$ IN THOUSANDS)	March 31, 2009 (unaudited)	December 31, 2008 (audited)	March 31, 2008 (unaudited)	\$ change f December 2008
Cash on hand and in banks	\$ 110,220	125,123	113,016	(14,903)
Investment securities, interest bearing deposits, FHLB stock, FRB stock, and fed funds	1,007,283	1,000,224	764,067	7,059
Loans:				
Real estate	847,245	838,375	720,108	8,870
Commercial	2,607,655	2,575,828	2,312,359	31,827
Consumer and other	705,805	715,990	649,401	(10,185)
Total loans	4,160,705	4,130,193	3,681,868	30,512
Allowance for loan and lease losses	(83,777)	(76,739)	(56,680)	(7,038)
Total loans, net of allowance for loan and lease losses	4,076,928	4,053,454	3,625,188	23,474
Other assets	386,369	375,169	332,601	11,200
Total Assets	\$5,580,800	5,553,970	4,834,872	26,830

At March 31, 2009, total loans were \$4.161 billion, an increase of \$31 million, or 74 basis points (3 percent annualized) over total loans of \$4.130 billion at December 31, 2008. Commercial loans grew the most with an increase of \$32 million, or 1 percent, followed by real estate loans, increasing by \$9 million, or 1 percent, while consumer loans, which are primarily comprised of home equity loans, decreased \$10 million, or 1 percent from the fourth quarter of 2008.

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Total loans increased \$479 million, or 13 percent from March 31, 2008. Since prior year, commercial loans have increased \$295 million, or 13 percent, real estate loans grew by \$127 million, or 18 percent, and consumer loans increased \$56 million, or 9 percent.

Investment securities, including interest bearing deposits in other financial institutions and federal funds sold, have increased \$243 million, or 32 percent, from March 31, 2008 and have increased \$7 million, or 1 percent, from December 31, 2008. Investment securities represented 18 percent of total assets at March 31, 2009 versus 16 percent of total assets the prior year.

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 with servicing released for the three months ended March 31, 2009 and 2008 were \$313 million and \$176 million, respectively. The Company has also been active in originating commercial SBA loans, some of which are sold to investors. The amount of loans sold and serviced for others at March 31, 2009 was approximately \$174 million.

### Allowance for Loan and Lease Losses

The Company is committed to a conservative management of the credit risk within the loan and lease portfolios, including the early recognition of problem loans. The Company's credit risk management includes stringent credit policies, individual loan approval limits, limits on concentrations of credit, and committee approval of larger loan requests. Management practices also include regular internal and external credit examinations, identification and review of individual loans and leases experiencing deterioration of credit quality, procedures for the collection of non-performing assets, quarterly monitoring of the loan and lease portfolios, semi-annual review of loans by industry, and periodic stress testing of the loans secured by real estate.

Determining the adequacy of the ALLL involves a high degree of judgment and is inevitably imprecise as the risk of loss is difficult to quantify. The ALLL methodology is designed to reasonably estimate the probable loan and lease losses within each bank subsidiary's loan and lease portfolios. Accordingly, the ALLL is maintained within a range of estimated losses. The determination of the ALLL and the related provision for credit losses is a critical accounting estimate that involves management's judgments about all known relevant internal and external environmental factors that affect loan losses, including the credit risk inherent in the loan and lease portfolios, economic conditions nationally and in the local markets in which the Banks operate, changes in collateral values, delinquencies, non-performing assets and net charge-offs. Although the Company and the banks continue to actively monitor economic trends, a softening of economic conditions combined with declines in the values of real estate that collateralize most of the Company's loan and lease portfolios may adversely affect the credit risk and potential for loss to the Company.

The Company considers the ALLL balance of \$83.8 million adequate to cover inherent losses in the loan and lease portfolios as of March 31, 2009. However, no assurance can be given that the Company will not, in any particular period, sustain losses that are significant relative to the amount reserved, or that subsequent evaluations of the loan and lease portfolios applying management's judgment about then current factors, including economic and regulatory developments, will not require significant changes in the ALLL. Under such circumstances, this could result in enhanced provisions for credit losses. See additional risk factors in Part II - Other information, Item 1A - Risk Factors.

The Company's model of ten wholly-owned, independent community banks, each with its own loan committee, chief credit officer and Board of Directors, provides substantial local oversight to the lending and credit

management function. Unlike a traditional, single-bank holding company, the Company's decentralized business model affords multiple reviews of larger loans before credit is extended, a significant benefit in mitigating and managing the Company's credit risk. The geographic dispersion of the market areas in which the Company and the community bank subsidiaries operate further mitigates the risk of credit loss. While this process is intended to limit credit exposure, there can be no assurance that problem credits will not arise and loan losses incurred, particularly in periods of rapid economic downturns.

At the end of each quarter, each of the subsidiary community banks analyzes its loan and lease portfolio and maintain an ALLL at a level that is appropriate and determined in accordance with accounting principles generally accepted in the United States of America. The ALLL balance covers estimated credit losses on individually evaluated loans, including those which are determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolios.

The ALLL evaluation is well documented and approved by each bank subsidiary's Board of Directors and reviewed by the Parent's Board of Directors. In addition, the policy and procedures for determining the balance of the ALLL are reviewed annually by each bank subsidiary's Board of Directors, the Parent's Board of Directors, independent credit reviewer and state and federal bank regulatory agencies. Each of the Bank's ALLL is generally available to absorb losses from any segment of its loan and lease portfolio.

The primary responsibility for credit risk assessment and identification of problem loans rests with the loan officer of the account. This continuous process, utilizing each of the Bank's internal credit risk rating process, is necessary to support management's evaluation of the ALLL adequacy. An independent loan review function verifying credit risk ratings evaluates the loan officer and management's evaluation of the loan portfolio credit quality. The loan review function also assesses the evaluation process and provides an independent analysis of the adequacy of the ALLL.

The following table summarizes the allocation of the ALLL:

(Dollars in thousands)	March 31, 2009		December 31, 2008		Ma
	Allowance for loan and lease Losses	Percent of loans in category	Allowance for loan and lease Losses	Percent of loans in category	Allowa for loan lease Lo
Real estate loans	\$ 7,832	20.4%	7,233	20.3%	4,91
Commercial real estate loans	39,045	47.0%	35,305	46.8%	24,29
Other commercial loans	23,497	15.7%	21,590	15.6%	17,96
Consumer and other loans	13,403	16.9%	12,611	17.3%	9,50
Totals	\$83,777	100.0%	76,739	100.0%	56,68

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

The following table summarizes ALLL experience:

(Dollars in thousands)	Three months ended March 31, 2009	Year ended December 31, 2008	Three months ended March 31, 2008
Balance at beginning of period	\$ 76,739	54,413	54,413
Charge-offs:			
Real estate loans	(1,087)	(3,233)	(50)
Commercial loans	(6,408)	(4,957)	(202)
Consumer and other loans	(1,499)	(1,649)	(156)
Total charge-offs	\$ (8,994)	(9,839)	(408)
Recoveries:			
Real estate loans	40	23	40
Commercial loans	158	716	82
Consumer and other loans	119	321	53
Total recoveries	\$ 317	1,060	175
Net (charge-offs) recoveries	(8,677)	(8,779)	(233)
Acquisition (1)	--	2,625	--
Provision	15,715	28,480	2,500
Balance at end of period	\$ 83,777	76,739	56,680
Allowance for loan and lease losses as a percentage of total loan and leases	2.01%	1.86%	1.54%
Net charge-offs as a percentage of total loans	0.209%	0.213%	0.006%

(1) Acquisition of Bank of the San Juans in 2008

The increase in the ALLL was primarily due to the increase in non-performing assets since December 31, 2008 and a downturn in global, national and local economies.

At March 31, 2009, the ALLL was \$83.777 million, an increase of \$27 million, or 48 percent, from a year ago. The allowance was 2.01 percent of total loans outstanding at March 31, 2009, up from 1.54 percent at the prior year quarter end, and up from 1.86 percent at December 31, 2008. The current quarter provision for loan loss expense was \$15.7 million, an increase of \$13.2 million from the same quarter in 2008. Charged-off loans for the current quarter exceeded recoveries of previously charged-off loans by \$8.7 million. Loan portfolio growth, composition, average loan size, credit quality considerations, and other environmental factors will determine the level of additional provision expense.

The Banks' charge-off policy is consistent with bank regulatory standards. Consumer loans generally are charged off when the loan becomes over 120 days delinquent. Real estate acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until such time as it is sold. When such property is acquired, it is recorded at estimated fair value, less estimated cost to sell. Any write-down at the time of recording real estate

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

owned is charged to the ALLL. Any subsequent write-downs are charged to current expense.

28

### Non-performing Assets

(Dollars in thousands)	At 3/31/2009	At 12/31/2008	At 3/31/2008
-----	-----	-----	-----
Non-accrual loans:			
Real estate loans	\$ 9,641	3,575	3,356
Commercial loans	79,374	58,454	17,368
Consumer and other loans	3,273	2,272	1,023
	-----	-----	-----
Total	\$92,288	64,301	21,747
Accruing Loans 90 days or more overdue:			
Real estate loans	2,056	4,103	341
Commercial loans	1,473	2,897	4,129
Consumer and other loans	910	1,613	247
	-----	-----	-----
Total	\$4,439	8,613	4,717
Real estate and other assets owned, net	18,985	11,539	2,098
	-----	-----	-----
Total non-performing loans and real estate and other assets owned, net	\$115,712	84,453	28,562
	=====	=====	=====
Allowance for loan and lease losses as a percentage of non-performing assets	72%	91%	198%
Non-performing assets as a percentage of total bank assets	1.97%	1.46%	0.57%
Accruing Loans 30-89 days or more overdue	\$66,534	54,787	32,152
Interest Income (1)	\$1,374	4,434	402

(1) Amounts represent estimated interest income that would have been recognized on loans accounted for on a non-accrual basis for the three months ended March 31, 2009, year ended December 31, 2008 and three months ended March 31, 2008 had such loans performed pursuant to contractual terms.

The allowance was 72 percent of non-performing assets at March 31, 2009, down from 91 percent for the prior quarter end and down from 198 percent a year ago. Non-performing assets as a percentage of total bank assets at March 31, 2009 were at 1.97 percent, up from 1.46 percent as of December 31, 2008, and up from .57 percent at March 31, 2008. Each bank subsidiary evaluates the level of its non-performing assets, the values of the underlying real estate and other collateral, and related trends in net charge-offs. Through pro-active credit administration, the Banks work closely with borrowers to seek favorable resolution to the extent possible, thereby attempting to minimize net charge-offs or losses to the Company.

Most of the Company's non-performing assets are secured by real estate. Based on the most current information available to management, including updated appraisals where appropriate, the Company believes the value of the underlying real estate collateral is adequate to minimize significant charge-offs or loss to the Company. For collateral dependent loans, impairment is measured by the fair value of the collateral.

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Loans are reviewed on a regular basis and are placed on a non-accrual status when the collection of the contractual principal or interest is unlikely. The Company typically places loans on non-accrual when principal or interest is due and has remained unpaid for 90 days or more unless the loan is in process of collection and well-secured by collateral the fair value of which is sufficient to discharge the debt in full. When a loan is placed on non-accrual status, interest previously accrued but not collected is generally reversed against current period interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate repayment of the loan. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

29

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The amount of the impairment is measured using cash flows discounted at the loan's effective interest rate, except when it is determined that repayment of the loan is expected to be provided solely by the underlying collateral. For collateral dependent loans, impairment is measured by the fair value of the collateral less the cost to sell. When the ultimate collectability of the total principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal on an impaired loan is not in doubt, contractual interest is generally credited to interest income when received under the cash basis method. Total interest income recognized for impaired loans under the cash basis for the three months ended March 31, 2009 and 2008 was not significant. Impaired loans, net of government guaranteed amounts, were \$100.1 million and \$22.6 million as of March 31, 2009 and 2008, respectively. The ALLL includes valuation allowances of \$10.7 million and \$2.1 million specific to impaired loans as of March 31, 2009 and 2008, respectively.

LIABILITIES (\$ IN THOUSANDS)	March 31, 2009 (unaudited)	December 31, 2008 (audited)	March 31, 2008 (unaudited)	\$ change from December 31, 2008
Non-interest bearing deposits	\$ 743,552	747,439	770,456	(3,887)
Interest bearing deposits	2,551,180	2,515,036	2,388,483	36,144
Advances from Federal Home Loan Bank	225,695	338,456	472,761	(112,761)
Securities sold under agreements to repurchase and other borrowed funds	1,210,778	1,110,731	492,189	100,047
Other liabilities	47,461	44,331	49,476	3,130
Subordinated debentures	120,149	121,037	118,559	(888)
 Total liabilities	 \$4,898,815 =====	 4,877,030 =====	 4,291,924 =====	 21,785 =====

As of March 31, 2009, non-interest bearing deposits decreased \$27 million, or 3 percent, since March 31, 2008, and decreased \$4 million, or 1 percent, since December 31, 2008. Interest bearing deposits increased \$36 million, or 1 percent from December 31, 2008. Since March 31, 2008, interest bearing deposits



## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

increased \$163 million, or 7 percent. FHLB advances at March 31, 2009 decreased \$247 million, or 52 percent, from March 31, 2008 and decreased \$113 million, or 33 percent, from December 31, 2008. Repurchase agreements and other borrowed funds were \$1.2 billion at March 31, 2009, an increase of \$719 million, or 146 percent, from March 31, 2008, and an increase of \$100 million, or 9 percent, from December 31, 2008. Included in this latter category are U.S. Treasury Tax and Loan funds of \$3.5 million at March 31, 2009, a decrease of \$238 million from March 31, 2008, and a decrease of \$2.5 million from December 31, 2008. Also, included in this category are Federal Reserve Bank discount window borrowings of \$1 billion at March 31, 2009, an increase of \$948 million from March 31, 2008, and an increase of \$91 million from December 31, 2008.

30

### STOCKHOLDERS' EQUITY

(\$ IN THOUSANDS EXCEPT PER SHARE DATA)	March 31, 2009 (unaudited)	December 31, 2008 (audited)	March 31, 2008 (unaudited)
Common equity	\$ 689,041	678,183	538,665
Accumulated other comprehensive (loss) income	(7,056)	(1,243)	4,283
Total stockholders' equity	681,985	676,940	542,948
Core deposit intangible, net, and goodwill	(158,498)	(159,765)	(153,485)
	\$ 523,487	517,175	389,463
Stockholders' equity to total assets	12.22%	12.19%	11.23%
Tangible stockholders' equity to total tangible assets	9.65%	9.59%	8.32%
Book value per common share	\$ 11.09	11.04	10.07
Tangible book value per common share	\$ 8.51	8.43	7.22
Market price per share at end of quarter	\$ 15.71	19.02	19.17

Total stockholders' equity and book value per share amounts have increased \$139 million and \$1.02 per share, respectively, from March 31, 2008, the result of earnings retention and exercised stock options, stock issued in connection with the Bank of the San Juans acquisition, and \$94 million in net proceeds from the Company's November equity offering of 6,325,000 shares of common stock at a price of \$15.50 per share. Tangible stockholders' equity has increased \$134 million, or 34 percent since March 31, 2008, with tangible stockholders' equity at 9.65 percent of total tangible assets at March 31, 2009, up from 8.32 percent at March 31, 2008. Accumulated other comprehensive income, representing net unrealized gains or losses (net of tax) on investment securities designated as available for sale, decreased \$11 million from March 31, 2008.

On March 25, 2009, the board of directors declared a cash dividend of \$.13 per share, payable April 16, 2009 to shareholders of record on April 7, 2009.

#### Acquisition Announced

On February 9, 2009, the Company announced a definitive agreement to acquire First Company and its subsidiary First National Bank & Trust, a community bank based in Powell, Wyoming. First National Bank & Trust has three branch locations in Powell, Cody, and Lovell, Wyoming. As of December 31, 2008, First National Bank & Trust had total assets of \$282 million. Upon completion of the

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

transaction, which is subject to regulatory approval and other customary conditions of closing, First National Bank & Trust will become a wholly-owned subsidiary of the Company. The transaction is expected to close in the second quarter.

### Effect of inflation and changing prices

Generally accepted accounting principles often 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 the Company and each subsidiary bank are monetary in nature; therefore, interest rates generally have a more significant impact on a company's performance than does the effect of inflation.

31

### 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.

### Liquidity Risk

Liquidity risk is the possibility that the Company will not be able to fund present and future obligations. 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 Company's cash revenues are dividends received from the Company's bank 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 bank 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, all of the bank subsidiaries are members of the FHLB. As of March 31, 2009, the bank subsidiaries had \$779 million of available FHLB credit of which \$226 million was utilized. The banking subsidiaries may also borrow funds from the FRB discount window or from the U.S. Treasury Tax and Loan program of which the banks have remaining borrowing availability of \$431 million and \$198 million, respectively. Management of the Company has a wide range of versatility in managing the liquidity and asset/liability mix for each bank subsidiary as well as the Company as a whole.

### Capital Resources and Adequacy

Maintaining capital strength has been a long term objective. Ample capital is necessary to sustain growth, provide protection against unanticipated declines in asset values, and to safeguard the funds of depositors. Capital also is a source of funds for loan demand and enables the Company to effectively manage its assets and liabilities. Shareholders' equity increased \$139 million since prior year, or 26 percent, the net result of earnings, a public offering of stock of \$94 million, common stock issued for the acquisition of San Juans, stock options exercised, less cash dividend payments and a decrease of \$11 million resulting from the net unrealized losses on available-for-sale investment securities. The FRB has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in supervising a bank holding

company.

Other-Than-Temporary Loss on Securities Accounting Policy and Analysis

The Company views the determination of whether an investment security is temporarily or other-than-temporarily impaired as a critical accounting policy, as the estimate is susceptible to significant change from period to period because it requires management to make significant judgments, assumptions and estimates in the preparation of its consolidated financial statements. The Company assesses individual securities in its investment securities portfolio for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant. An investment is impaired if the fair value of the security is less than its carrying value at the financial statement date. If impairment is determined to be other-than-temporary, an impairment loss is recognized by reducing the amortized cost basis to fair value and as a charge to earnings.

Management currently considers whether an investment security is other-than-temporarily impaired under the guidance promulgated in SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, FSP SFAS 115-1 and SFAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, and the guidance from the Securities and Exchange Commission found in Staff Accounting Bulletin Topic 5M. In April 2009, FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, and FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The Company has decided to adopt the new FSPs effective for the interim period ending June 30, 2009 and is currently evaluating the impact of the adoption of the FSPs, but does not expect it to have a material effect on the Company's

32

financial position or results of operations. For further information regarding the FSPs see discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards".

In evaluating impaired securities for other-than-temporary impairment losses, management considers, among other things, (i) the severity and duration of the impairment, (ii) the credit ratings of the security, (iii) the overall deal structure, including the Company's position within the structure, the overall and near term financial performance of the issuer and underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, discounted cash flows and fair value estimates. The Company also considers its intent and ability to retain the investment security for a period of time sufficient to allow for anticipated recovery in fair value. In so doing, the Company considers (i) contractual constraints, liquidity and capital needs of the Company, and (ii) management's approach to managing the investment portfolio including intent, if any, to dispose of impaired investment securities in periods subsequent to the impairment analysis date.

The Company believes that macroeconomic conditions occurring in 2008 and the first quarter 2009 have unfavorably impacted the fair value of certain debt securities in its investment portfolio. For securities with limited or inactive markets, the impact of these macroeconomic conditions upon fair value estimates includes higher risk-adjusted discount rates and downgrades in credit ratings provided by nationally recognized credit rating agencies, (e.g., Moody's, S&P, and Fitch).

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Equity securities owned at March 31, 2009 consisted of stock issued by the Federal Home Loan Bank and the Federal Reserve Bank, such shares measured at cost for fair value purposes in recognition of the transferability restrictions imposed by the issuers. In addition, the Company owns 150,000 shares of Series O preferred stock issued by Federal Home Loan Mortgage Corporation (Freddie Mac) and 1,200 shares of common stock issued by the Federal National Mortgage Association (Fannie Mae). The Freddie Mac and Fannie Mae stock had a cost basis of \$0 at year end due to the recognition of an other-than-temporary impairment charge against earnings at September 30, 2008 for the entire amount of the Company's investment therein. Hence, none of the equity securities were impaired as of March 31, 2009.

As of March 31, 2009, the Company's investment portfolio had 252 debt securities, the fair values of which had declined below amortized cost by \$29.278 million, or 12%, of the value of temporarily impaired investment securities. The Company stratified the 252 debt securities for both severity and duration of impairment. With respect to severity, 102 debt securities had impairment that exceeded 5 percent of the respective book values, of which 19 had impairment that exceeded 15 percent of the respective book values at March 31, 2009. 2 of the 252 debt securities had impairment that exceeded 40 percent of the respective book values at March 31, 2009, the aggregate unrealized loss of which was \$3,976,000. The remaining 150 debt securities had impairment that was 5 percent or less of the respective book values as of March 31, 2009.

With respect to duration of the impairment, the Company identified 33 debt securities which have been continuously impaired 12 months as of March 31, 2009. The valuation history of such securities in the prior year(s) was also reviewed to determine the number of months in prior year(s) in which the identified securities were in an unrealized loss position. The most notable of these 33 securities is a non-guaranteed, non-Agency CMO which had an unrealized loss of \$1,962,000. 16 of the 33 securities are mortgage-backed securities issued by U.S. government sponsored agencies, i.e., GNMA, FNMA, FHLMC and SBA, the aggregate unrealized loss of which was \$79,000.

Among the 252 debt securities with impairment at March 31, 2009, 18 are non-guaranteed, non-Agency issued CMO tranches. 11 of the 18 CMOs tranches are collateralized by 30 year fixed residential mortgages considered to be "Prime," and 7 are collateralized by 30 year fixed residential mortgages considered to be "ALT - A." Moreover, none of the underlying mortgage collateral is considered "subprime."

33

In assessing the various factors identified above, the Company evaluated the fair value estimates provided by third party vendors, including models and methodology, for appropriate consideration of both observable and unobservable inputs, including appropriately adjusted discount rates and credit spreads for securities with limited or inactive markets. The Company obtained independent estimates of inputs, including cash flows, in supplement to third party vendor provided information. The Company also reviewed financial statements of issuers, with follow up discussions with issuers' management for clarification and verification of information relevant to the Company's impairment analysis.

With respect to the Company's intent and ability to hold the securities impaired at March 31, 2009, the Company had no present intent to sell any of such securities. During 2009, the Company also continued its historical approach to managing the investment portfolio, i.e., to "buy and hold" securities to maturity, although such securities may be sold given that all of the securities held in the investment portfolio are designated as "available for sale." In the

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

first quarter of 2009 there were no securities sold by the Company. In 2008, the Company sold only 1 security at neither gain nor loss for proceeds of \$97,002,000. Such security was acquired and held for 7 days as collateral to support a borrowing at the U.S Treasury Tax and Loan program. Sales of securities in 2007 occurred with respect to entire investment portfolios of acquired banks following mergers into the Company's existing bank subsidiaries. Such sales occurred in recognition that the acquired portfolios of investments were not consistent with the Company's Investment Policy and Asset Liability Management Policy. During 2006, the only investment security sold was a bond issued by General Motors, the risk profile of which was not consistent with the Company's revised Investment Policy.

Based on the analysis of its impaired debt securities, the Company determined it was probable the Company will fully recover the amortized cost of the securities, and that none of such securities had other-than-temporary impairment.

### Fair Value Measurements

On January 1, 2008, the Company adopted SFAS 157, Fair Value Measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

In April 2009, FASB issued FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The Company has decided to adopt the FSP effective for the interim period ending June 30, 2009 and is currently evaluating the impact of the adoption of the FSP, but does not expect it to have a material effect on the Company's financial position or results of operations. For further information regarding the FSP see discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards".

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

On a recurring basis, the Company measures investment securities in accordance with SFAS 157. The fair value of such investments is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services and models, the inputs of which are

market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. For those securities where greater

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

reliance on unobservable inputs occurs, such securities are classified as Level 3 within the hierarchy.

In performing due diligence reviews of the independent asset pricing services and models for investment securities, the Company reviewed the vendors' inputs for fair value estimates and the recommended assignments of levels within the fair value hierarchy. The Company's review included the extent to which markets for investment securities were determined to have limited or no activity, or was judged to be an active market. The Company reviewed the extent to which observable and unobservable inputs were used as well as the appropriateness of the underlying assumptions about risk that a market participant would use in active markets, with adjustments for limited or inactive markets. In considering the inputs to the fair value estimates, the Company placed less reliance on quotes that were judged to not reflect market transactions, or were non-binding indications. The Company made independent inquiries of other knowledgeable parties in testing the reliability of the inputs, including consideration for illiquidity, credit risk, and cash flow estimates. In assessing credit risk, the Company reviewed payment performance, collateral adequacy, credit rating histories, and issuers' financial statements with follow-up discussion with issuers. For those markets determined to be inactive, the valuation techniques used were models for which management verified that discount rates were appropriately adjusted to reflect illiquidity and credit risk. The Company independently obtained cash flow estimates that were stressed at levels that exceeded those used by independent third party pricing vendors. Based on the Company's due diligence review, investment securities are placed in the appropriate hierarchy levels with adjustment to vendors' recommendations made as necessary. Most notably, the Company determined that its collateralized debt obligation securities, i.e., trust preferred securities, were illiquid due to inactive markets (i.e., due to the absence of trade volume during 2008 and the first quarter of 2009), the fair values of which had significant reliance on unobservable inputs, and therefore were classified as Level 3 within the hierarchy.

On a non-recurring basis, the Company measures real estate and other assets owned and impaired loans in accordance with SFAS 157. Real estate and other assets owned is carried at the lower of cost or estimated fair value, less estimated cost to sell. Estimated fair value of real estate and other assets owned is based on appraisals. The Company reviews the appraisals, giving consideration to the highest and best use of the collateral. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell. Real estate and other assets owned are classified within Level 3 of the fair value hierarchy. Allowable methods for estimating fair value of impaired loans include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the appraised fair value of the collateral. The Company reviews the appraisals, giving consideration to the highest and best use of the collateral. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell. Impaired loans are classified within Level 3 of the fair value hierarchy.

For additional information on fair value measurements see Part I, Item 2 "Financial Statements - Note 13, Fair Value Measurements".

### Impact of Recently Issued Accounting Standards

In April 2009, FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The objective of an other-than-temporary impairment analysis under existing U.S. generally accepted accounting principles ("GAAP") is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement

35

guidance related to other-than-temporary impairments of equity securities. The FSP shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has decided to adopt the FSP effective for the interim period ending June 30, 2009 and is currently evaluating the impact of the adoption of this FSP, but does not expect it to have a material effect on the Company's financial position or results of operations.

In April 2009, FASB issued FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This FSP shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company has decided to adopt the FSP effective for the interim period ending June 30, 2009 and is currently evaluating the impact of the adoption of this FSP, but does not expect it to have a material effect on the Company's financial position or results of operations.

In April 2009, FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. An entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by SFAS No. 107. Fair value information disclosed in the notes shall be presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the statement of financial position. An entity also shall disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments and shall describe changes in method(s)

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

and significant assumptions, if any, during the period. This FSP shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has decided to adopt the FSP effective for the interim period ending June 30, 2009 and is currently evaluating the impact of the adoption of this FSP but does not expect it to have a material effect on the Company's financial position or results of operations.

In December 2007, FASB issued SFAS No. 141(R), Business Combinations. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The Statement establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company is currently evaluating the impact of the adoption of this standard, but does not expect it to have a material effect on the Company's financial position or results of operations with any future business combinations.

36

### Forward Looking Statements

This Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about management's plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "should," "projects," "seeks," "estimates" or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations in the forward-looking statements, including those set forth in this Form 10-Q:

- the risks associated with lending and potential adverse changes in credit quality;
- increased loan delinquency rates;
- the risks presented by a continued economic slowdown, which could adversely affect credit quality, loan collateral values, investment values, liquidity levels, and loan originations;
- changes in market interest rates, which could adversely affect our net interest income and profitability;
- legislative or regulatory changes that adversely affect our business



## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

- or our ability to complete pending or prospective future acquisitions;
- costs or difficulties related to the integration of acquisitions;
- reduced demand for banking products and services;
- the risks presented by public stock market volatility, which could adversely affect the Company's stock value and the ability to raise capital in the future;
- competition from other financial services companies in our markets;
- loss of services from the senior management team; and
- the Company's success in managing risks involved in the foregoing.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in Risk Factors in Item 1A. Please take into account that forward-looking statements speak only as of the date of this 10Q. The Company does not undertake any obligation to publicly correct or update any forward-looking statement if it later becomes aware that it is not likely to be achieved.

### 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, 2008.

### 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 the Company files or submits under the Exchange Act.

37

#### 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 2009, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control 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.

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

### ITEM 1A. RISK FACTORS

The Company and its ten wholly-owned, independent community bank subsidiaries are exposed to certain risks. The following is a discussion of the most significant risks and uncertainties that may affect the Company's business, financial condition and future results.

The effect of the national economic situation on the Company's future results of operations or stock trading price.

The national economy, and the financial services sector in particular, is currently facing challenges of a scope unprecedented in recent history. No one can predict the severity or duration of this national downturn, which has adversely impacted the markets the Company serves. Any deterioration in the Company's markets resulting from the economic slowdown would have an adverse effect on business, financial condition, results of operations and prospects, and could also cause the trading price of the Company's stock to decline.

A further economic downturn in the market areas the Company serves may cause the Company to have lower earnings and could increase credit risk associated with the loan portfolio.

The inability of borrowers to repay loans can erode earnings. Although the adverse effects of the national economic downturn have not yet been fully experienced in the Company's primary market areas to the extent of many other regions of the country, there can be no assurance that the Company's market areas will also not continue to deteriorate. A further deterioration in economic conditions in the market areas the Company serves could result in the following consequences, any of which could have a material adverse impact on the Company's prospects, results of operations and financial condition:

- loan delinquencies may increase further, migrating into the substantial commercial real estate and business lending portfolios;
- collateral for loans made may decline further in value, in turn reducing customers' borrowing power, reducing the value of assets and collateral associated with existing loans;
- demand for banking products and services may decline; and
- low cost or non-interest bearing deposits may decrease.

The allowance for loan and lease losses may not be adequate to cover actual loan losses, which could adversely affect earnings.

The Company maintains an ALLL in an amount that it believes is adequate to provide for losses inherent in the portfolio. While the Company strives to carefully manage and monitor credit quality and to identify loans that may become nonperforming, at any time there are loans included in the portfolio that will result in losses, but that have not been identified as nonperforming or potential problem loans. By managing credit quality, the Company attempts to identify deteriorating loans before they become nonperforming assets and adjust the ALLL accordingly. However, because future events are uncertain, and if the economy continues to deteriorate, there may be loans that deteriorate to a nonperforming status in an accelerated time frame. As a result, future additions to the ALLL may be necessary. Because the loan portfolio contains a number of loans with relatively

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans, requiring an increase to the ALLL. Additionally, future significant additions to the ALLL may be required based on changes in the mix of loans comprising the portfolio, changes in the financial condition of borrowers, such as may result from changes in economic conditions, or as a result of incorrect assumptions by management in determining the ALLL. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review the Company's loan portfolio and the adequacy of the ALLL. These regulatory agencies may require the Company to recognize further loan loss provisions or charge-offs based upon their judgments, which may be different from the Company's judgments. Any increase in the ALLL could have a negative effect on the financial condition and results of operation.

The Company has a high concentration of loans secured by real estate.

The Company has a concentration of loans secured by real estate. While the Pacific Northwest economy typically lags the national economy, the effects of the economic downturn are now significantly impacting the Company's market area. Further downturn in the market areas the Company serves may cause the Company to have lower earnings and could increase credit risk associated with the loan portfolio, as the collateral securing those loans may decrease in value. A continued downturn in the local economy could have a material adverse effect both on the borrowers' ability to repay these loans, as well as the value of the real property held as collateral. The Company's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Company would be more likely to suffer losses on defaulted loans.

A continued tightening of the credit markets may make it difficult to obtain adequate funding for loan growth, which could adversely affect earnings.

A continued tightening of the credit market and the inability to obtain or retain adequate money to fund continued loan growth may negatively affect the Company's asset growth and liquidity position and, therefore, earnings capability. In addition to core deposit growth, maturity of investment securities and loan payments, the Company also relies on alternative funding sources through correspondent banking, and borrowing lines with the FRB and FHLB to fund loans. In the event the current economic downturn continues, particularly in the housing market, these resources could be negatively affected, both as to price and availability, which would limit and or raise the cost of the funds available to the Company.

The FDIC has increased insurance premiums to rebuild and maintain the federal deposit insurance fund.

Based on recent events and the state of the economy, the FDIC has increased federal deposit insurance premiums beginning in the first quarter of 2009. The increase of these premiums will add to the cost of operations and could have a significant impact on the Company. Depending on any future losses that the FDIC insurance fund may suffer due to failed institutions, there can be no assurance that there will not be additional significant premium increases in order to replenish the fund.

On February 27, 2009 the FDIC issued a press release announcing a special Deposit Insurance Fund assessment of 20 basis points on insured institutions and granting the FDIC the authority to impose an additional assessment after June 30, 2009 of up to 10 basis points if necessary. The assessment will be calculated on June 30, 2009 deposit balances and collected on September 30, 2009. Subject to the passing of certain legislation that would allow the FDIC increased borrowing from the Treasury, the FDIC has indicated that it would

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

reduce the special assessment by half; however, there can be no assurance that this will occur.

The Company's loan portfolio mix could result in increased credit risk in an economic downturn.

The loan portfolio contains a high percentage of commercial, commercial real estate, real estate acquisition and development loans in relation to the total loans and total assets. These types of loans have historically been viewed as having more risk of default than residential real estate loans or certain other types of loans or investments. In fact, the FDIC has issued pronouncements alerting banks of its concern about banks with a heavy concentration of commercial real estate loans. These types of loans also typically are larger than residential real estate loans and other commercial loans. Because the Company's loan portfolio contains a

39

significant number of commercial and commercial real estate loans with relatively large balances, the deterioration of one or more of these loans may cause a significant increase in non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses, or an increase in loan charge-offs, which could have an adverse impact on results of operations and financial condition.

The Company's ability to access markets for funding and acquire and retain customers could be adversely affected to the extent the financial service industry's reputation is damaged.

Reputation risk is the risk to liquidity, earnings and capital arising from negative publicity regarding the financial services industry. The financial services industry continues to be featured in negative headlines about the global and national credit crisis and the resulting stabilization legislation enacted by the U.S. federal government. These reports can be damaging to the industry's image and potentially erode consumer confidence in insured financial institutions, such as the Company's bank subsidiaries.

Decline in the fair value of the Company's investment portfolio could adversely affect earnings

Investment securities fair value could decline as a result of factors including changes in market interest rate, credit quality and ratings, liquidity and other economic conditions. Investment securities are impaired if the fair value of the security is less than the carrying value. When a security is impaired, the Company determines whether an impairment is temporary or other-than-temporary. If an impairment is determined to be other-than-temporary, an impaired loss is recognized by reducing the amortized cost basis to fair value and as a charge to earnings. When the Company adopts FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, effective for the interim period ending June 30, 2009, only the credit losses associated with an other-than-temporary loss will be recognized as a charge to earnings. For further information regarding the FSP see discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Recently Issued Standards".

Fluctuating interest rates can adversely affect profitability.

The Company's profitability is dependent to a large extent upon net interest

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

income, which is the difference (or "spread") between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect the Company's interest rate spread, and, in turn, profitability. The Company seeks to manage its interest rate risk within well established guidelines. Generally, the Company seeks an asset and liability structure that insulates net interest income from large deviations attributable to changes in market rates.

If the goodwill recorded in connection with acquisitions becomes impaired, it could have an adverse impact on earnings and capital.

Accounting standards require that the Company account for acquisitions using the purchase method of accounting. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquiror's balance sheet as goodwill. In accordance with generally accepted accounting principles, goodwill is not amortized but rather is evaluated for impairment on an annual basis or more frequently if events or circumstances indicate that a potential impairment exists. Although at the current time the Company has not incurred an impairment of goodwill, there can be no assurance that future evaluations of goodwill will not result in findings of impairment and write-downs, which could be material.

The effect of recently enacted federal legislation.

On October 3, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 ("EESA"), which provides the United States Treasury Department ("Treasury") with broad authority to implement action intended to help restore stability and liquidity to the US financial markets. Pursuant to the EESA, the Treasury

40

has the ability to purchase or insure up to \$700 billion in troubled assets held by financial institutions under the Troubled Asset Relief Program ("TARP"). On October 14, 2008, the Treasury announced it would initially purchase equity stakes in financial institutions under a Capital Purchase Program (the "CPP") of up to \$350 billion of the \$700 billion authorized under the TARP legislation. The CPP provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The EESA also increases the amount of deposit account insurance coverage from \$100,000 to \$250,000 effective until December 31, 2009. In early 2009, Treasury also announced the Financial Stability Plan which, among other things, provides a new capital program called the Capital Assistance Program, establishes a public-private investment fund for the purchase of troubled assets and expands the Term Asset-Backed Securities Loan Facility. In October 2008, the FDIC announced the Temporary Liquidity Guarantee Program, which has two components--the Debt Guarantee Program and the Transaction Account Guarantee Program. Under the Transaction Account Guarantee Program any participating depository institution is able to provide full deposit insurance coverage for non-interest bearing transaction accounts, regardless of the dollar amount. Non-interest bearing transaction accounts include demand accounts and NOW accounts paying 50 basis points or less. Under the program, effective November 14, 2008, insured depository institutions that have not opted out of the FDIC Temporary Liquidity Guarantee Program will be subject to a 0.10% surcharge applied to non-interest bearing transaction deposit account balances in excess of \$250,000, which surcharge will be added to the institution's

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

existing risk-based deposit insurance assessments. Under the Debt Guarantee Program, qualifying unsecured senior debt issued by a participating institution can be guaranteed by the FDIC. The Company and its bank subsidiaries chose to participate in both components of the FDIC Temporary Liquidity Guaranty Program. The full effect of this broad legislation on the national economy and financial institutions, particularly on mid-sized institutions like the Company, cannot now be predicted.

Growth through future acquisitions, which could, in some circumstances, adversely affect profitability measures.

The Company has in recent years acquired other financial institutions. The Company may in the future engage in selected acquisitions of additional financial institutions, including transactions that may receive assistance from the FDIC. There are risks associated with any such acquisitions that could adversely affect profitability. These risks include, among other things, incorrectly assessing the asset quality of a financial institution being acquired, encountering greater than anticipated cost of incorporating acquired businesses into the Company's operations, and being unable to profitably deploy funds acquired in an acquisition.

The Company anticipates that it might issue capital stock in connection with future acquisitions. Acquisitions and related issuances of stock may have a dilutive effect on earnings per share and the percentage ownership of current shareholders. The Company currently does not have any definitive understandings or agreements for any acquisitions other than the agreement to acquire First Company and its subsidiary First National Bank & Trust, a community bank based in Powell, Wyoming.

Business would be harmed if the Company lost the services of any of the senior management team.

The Company believes its success to date has been substantially dependent on its Chief Executive Officer and other members of the executive management team, and on the Presidents of its bank subsidiaries. The loss of any of these persons could have an adverse affect on the Company's business and future growth prospects.

Competition in the Company's market areas may limit future success.

Commercial banking is a highly competitive business. The Company competes with other commercial banks, savings and loan associations, credit unions, finance, insurance and other non-depository companies operating in its market areas. The Company is subject to substantial competition for loans and deposits from other financial institutions. Some of its competitors are not subject to the same degree of regulation and restriction as the Company is. Some of the Company's competitors have greater financial resources than the Company does. If the Company is unable to effectively compete in its market areas, the Company's business, results of operations and prospects could be adversely affected.

The Company operates in a highly regulated environment and may be adversely affected by changes in federal state and local laws and regulations.

The Company is subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal, state or local legislation could have a substantial impact on the Company and its operations. Additional legislation and regulations that could

## Edgar Filing: GLACIER BANCORP INC - Form 10-Q

significantly affect the Company's powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on the Company's financial condition and results of operations. Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. These powers recently have been utilized more frequently due to the serious national, regional and local economic conditions the Company is facing. The exercise of regulatory authority may have a negative impact on the Company's financial condition and results of operations.

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

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

### 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 2 - Plan and Agreement of Merger dated as of February 6, 2009 by and amount Glacier Bancorp, Inc., First Company and First National Bank & Trust

42

(incorporated by reference to exhibit 2 of the Company's Registration Statement on Form S-4 (File No. 333-158078).

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

Edgar Filing: GLACIER BANCORP INC - Form 10-Q

Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

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 5, 2009

/s/ Michael J. Blodnick

-----  
Michael J. Blodnick  
President/CEO

May 5, 2009

/s/ Ron J. Copher

-----  
Ron J. Copher  
Senior Vice President/CFO