GLACIER BANCORP INC
Form 10-Q
August 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

o **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 incorporation or organization)	(IRS Employer Identification No.)
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. þ Yes o 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No

Indicate by checkmark 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 þ	Accelerated Filer o	Non-Accelerated Filer o	Smaller reporting Company o
		(Do not check if a smaller reporting company)	

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

The number of shares of Registrant s common stock outstanding on July 19, 2010 was 71,915,073. No preferred shares are issued or outstanding.

GLACIER BANCORP, INC.
Quarterly Report on Form 10-Q
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EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Financial Condition

(Dollars in thousands, except per share data)	June 30, 2010	December 31, 2009	June 30, 2009
Assets			
Cash on hand and in banks	$ 95,603	120,731	100,773
Federal funds sold	71,605	87,155	62,405
Interest bearing cash deposits	1,260	2,689	24,608
Cash and cash equivalents	168,468	210,575	187,786
Investment securities, available-for-sale	1,743,268	1,506,394	994,147
Loans held for sale	73,207	66,330	92,166
Loans receivable, gross	3,958,962	4,063,915	4,036,593
Allowance for loan and lease losses	(141,665)	(142,927)	(97,374)
Loans receivable, net	3,890,504	3,987,318	4,031,385
Premises and equipment, net	144,361	140,921	135,902
Other real estate owned	64,419	57,320	47,424
Accrued interest receivable	29,973	29,729	30,346
Deferred tax asset	35,361	41,082	14,890
Core deposit intangible, net	12,316	13,937	11,477
Goodwill	146,259	146,259	146,259
Other assets	59,907	58,260	38,808
Total assets	$ 6,294,836	6,191,795	5,638,424
Liabilities			
Non-interest bearing deposits	$ 852,121	810,550	754,844
Interest bearing deposits	3,657,995	3,289,602	2,631,599
Federal Home Loan Bank advances	529,982	790,367	613,478
Securities sold under agreements to repurchase	224,397	212,506	180,779
Federal Reserve Bank discount window		225,000	587,000
Other borrowed funds	10,063	13,745	17,192
Accrued interest payable	8,300	7,928	8,421
Subordinated debentures	125,060	124,988	120,157
Other liabilities	41,170	31,219	35,290
Total liabilities	5,449,088	5,505,905	4,948,760
Stockholders Equity			
Preferred shares, $0.01 par value per share, 1,000,000 shares authorized, none issued or outstanding			

Common stock, $0.01 par value per share, 117,187,500 shares authorized	719	616	615
Paid-in capital	643,512	497,493	495,223
Retained earnings substantially restricted	192,724	188,129	196,208
Accumulated other comprehensive income (loss)	8,793	(348)	(2,382)
Total stockholders equity	845,748	685,890	689,664
Total liabilities and stockholders equity	$ 6,294,836	6,191,795	5,638,424
Number of shares outstanding	71,915,073	61,619,803	61,519,808
Book value per share	$ 11.76	11.13	11.21

See accompanying notes to unaudited condensed consolidated financial statements.

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Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Operations

(Dollars in thousands, except per share data)	Three Months ended June 30, 2010	Three Months ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009
Interest Income				
Residential real estate loans	$ 11,421	13,871	23,254	28,212
Commercial loans	37,003	37,597	73,675	75,563
Consumer and other loans	10,720	11,142	21,360	22,481
Investment securities and other	14,674	11,810	28,927	23,696
Total interest income	73,818	74,420	147,216	149,952
Interest Expense				
Deposits	9,222	9,433	18,553	19,567
Federal Home Loan Bank advances	2,454	1,852	4,765	3,671
Securities sold under agreements to repurchase	399	409	815	1,003
Subordinated debentures	1,648	1,676	3,284	3,583
Other borrowed funds	26	569	216	1,269
Total interest expense	13,749	13,939	27,633	29,093
Net Interest Income	60,069	60,481	119,583	120,859
Provision for loan losses	17,246	25,140	38,156	40,855
Net interest income after provision for loan losses	42,823	35,341	81,427	80,004
Non-Interest Income				
Service charges and other fees	10,641	10,215	20,161	19,234
Miscellaneous loan fees and charges	1,259	1,162	2,385	2,322
Gain on sale of loans	6,133	9,071	10,024	15,221
Gain on sale of investments	242		556	
Other income	3,143	870	4,475	1,918
Total non-interest income	21,418	21,318	37,601	38,695
Non-Interest Expense				
Compensation, employee benefits and related expense	21,652	20,710	43,008	42,654
Occupancy and equipment expense	5,988	5,611	11,936	11,506
Advertising and promotions	1,644	1,722	3,236	3,446
Outsourced data processing expense	761	680	1,455	1,351
Core deposit intangibles amortization	801	762	1,621	1,536
Other real estate owned expense	7,373	2,321	9,691	2,841

Federal Deposit Insurance Corporation premiums		2,165	3,832	4,365	5,000
Other expense		7,852	7,325	14,885	14,255
Total non-interest expense		48,236	42,963	90,197	82,589
Earnings Before Income Taxes		16,005	13,696	28,831	36,110
Federal and state income tax expense		2,783	3,044	5,539	9,679
Net Earnings	$	13,222	10,652	23,292	26,431
Basic earnings per share	$	0.19	0.17	0.35	0.43
Diluted earnings per share	$	0.19	0.17	0.35	0.43
Dividends declared per share	$	0.13	0.13	0.26	0.26
Return on average assets (annualized)		0.85%	0.77%	0.76%	0.96%
Return on average equity (annualized)		6.25%	6.18%	6.02%	7.72%
Average outstanding shares basic		71,913,102	61,515,946	67,363,476	61,489,422
Average outstanding shares diluted		71,914,894	61,518,289	67,364,377	61,493,266

See accompanying notes to unaudited condensed consolidated financial statements.

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Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income
Year ended December 31, 2009 and Six Months ended June 30, 2010

(Dollars in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings Substantially Restricted	Accumulated Other Comp-rehensive (Loss) Income	Total Stock-holders Equity
Balance at December 31, 2008	61,331,273	$ 613	491,794	185,776	(1,243)	676,940
Comprehensive income:						
Net earnings				34,374		34,374
Unrealized gain on securities, net of reclassification adjustment and taxes					895	895
Total comprehensive income						35,269
Cash dividends declared ($0.52 per share)				(32,021)		(32,021)
Stock options exercised	188,535	2	2,552			2,554
Stock issued in connection with acquisition	99,995	1	1,419			1,420
Stock based compensation and tax benefit			1,728			1,728
Balance at December 31, 2009	61,619,803	$ 616	497,493	188,129	(348)	685,890
Comprehensive income:						
Net earnings				23,292		23,292
Unrealized gain on securities, net of reclassification adjustment and taxes					9,141	9,141
Total comprehensive income						32,433
Cash dividends declared ($0.26 per share)				(18,697)		(18,697)
Public offering of stock issued	10,291,465	103	145,493			145,596
Stock options exercised	3,805		58			58
Stock based compensation and tax benefit			468			468
Balance at June 30, 2010	71,915,073	$ 719	643,512	192,724	8,793	845,748

See accompanying notes to unaudited condensed consolidated financial statements.

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Glacier Bancorp, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)	Six Months ended June 30 2010	2009
Operating Activities		
Net cash provided by operating activities	$ 96,450	25,726
Investing Activities		
Proceeds from sales, maturities and prepayments of investments available-for-sale	244,484	97,332
Purchases of investments available-for-sale	(469,030)	(103,724)
Principal collected on commercial and consumer loans	335,866	483,879
Commercial and consumer loans originated or acquired	(349,027)	(529,042)
Principal collections on real estate loans	92,035	97,507
Real estate loans originated or acquired	(67,688)	(76,282)
Net purchase of FHLB and FRB stock	(1,729)	(61)
Proceeds from sale of other real estate owned	25,722	5,257
Net addition of premises and equipment and other real estate owned	(9,003)	(7,854)
Net cash used in investment activities	(198,370)	(32,988)
Financing Activities		
Net increase in deposits	409,964	123,881
Net (decrease) increase in FHLB advances	(260,385)	275,022
Net increase (decrease) in securities sold under repurchase agreements	11,891	(7,584)
Net decrease in Federal Reserve Bank discount window	(225,000)	(327,000)
Net (decrease) increase in other borrowed funds	(3,610)	8,844
Cash dividends paid	(18,697)	(15,999)
Excess (deficiencies) benefits related to the exercise of stock options	(4)	75
Proceeds from exercise of stock options and other stock issued	145,654	2,554
Net cash provided by financing activities	59,813	59,793
Net (decrease) increase in cash and cash equivalents	(42,107)	52,531
Cash and cash equivalents at beginning of period	210,575	135,255
Cash and cash equivalents at end of period	$ 168,468	187,786
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$ 27,262	30,423
Cash paid during the period for income taxes	8,061	23,407
Sale and refinancing of other real estate owned	6,320	2,243
Other real estate acquired in settlement of loans	45,888	44,584

See accompanying notes to unaudited condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

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 June 30, 2010 and 2009, stockholders equity and comprehensive income for the six months ended June 30, 2010, the results of operations for the three and six month periods ended June 30, 2010 and 2009, and cash flows for the six months ended June 30, 2010 and 2009. The condensed consolidated statement of financial condition and statement of stockholders equity and comprehensive income of the Company as of December 31, 2009 have been derived from the audited consolidated statements of the Company as of that date.

The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by 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/A for the year ended December 31, 2009. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results anticipated for the year ending December 31, 2010. Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Material estimates that are particularly susceptible to significant change include 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 real estate valuation estimates management obtains independent appraisals for significant items. Estimates relating to investments are obtained from independent parties. Estimates relating to business combinations are determined based on internal calculations using significant independent party inputs and independent party valuations.

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 (collectively referred to hereafter as the Banks). 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 June 30, 2010, the Company is the parent holding company for eleven 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), and First Bank of Montana (First Bank-MT), all located in Montana, Mountain West Bank (Mountain West) and Citizens Community Bank (Citizens) located in Idaho, 1st Bank (1st Bank) and First National Bank & Trust (First National) located in Wyoming, and Bank of the San Juans (San Juans) located in Colorado.

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In April 2010, the Company formed a wholly owned subsidiary, GBCI Other Real Estate (GORE) to isolate bank foreclosed properties for legal protection and administrative purposes. During the quarter, foreclosed properties were transferred to the new entity from bank subsidiaries at fair market value and such properties are currently held for sale.

In addition, the Company owns seven 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), Bank of the San Juans Bancorporation Trust I (San Juans Trust I), First Company Statutory Trust 2001 (First Co Trust 01) and First Company Statutory Trust 2003 (First Co Trust 03) for the purpose of issuing trust preferred securities and, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, *Consolidation*, the trust subsidiaries are not consolidated into the Company s financial statements. The Company does not have any other off-balance sheet entities.

On October 2, 2009, the Company completed the acquisition of First Company and its subsidiary First National. First National became a separate wholly-owned subsidiary of the Company and the financial condition and results of operations are included from the acquisition date.

FASB ASC Topic 810, *Consolidation*, provides guidance as to when a company should consolidate the assets, liabilities, and activities of a variable interest entity (VIE) in its financial statements, and when a company should disclose information about its relationship with a VIE. A VIE is a legal structure used to conduct activities or hold assets, and a VIE must be consolidated by a company if it is the primary beneficiary that absorbs the majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both.

The Company has equity investments in Certified Development Entities (CDE) which have received allocations of new markets tax credits (NMTC). The Company also has equity investments in low-income housing tax credit (LIHTC) partnerships. The CDE s and the LIHTC partnerships are VIE s. The underlying activities of the VIE s are community development projects designed primarily to promote community welfare, such as economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents. The maximum exposure to loss in the VIE s is the amount of equity invested or credit extended by the Company; however, the Company has credit protection in the form of indemnification agreements, guarantees, and collateral arrangements. The Company has evaluated the variable interests held by the Company and others and where the Company is the primary beneficiary of a VIE, the VIE has been consolidated into the bank subsidiary which holds the direct investment in the VIE. Currently, only CDE (NMTC) investments are consolidated into the Company s financial statements. For the CDE (NMTC) investments, the creditors and other beneficial interest holders have no recourse to the general credit of the bank subsidiaries. As of June 30, 2010, the Company had investments in VIE s of $39,876,000 and $2,362,000 for the CDE (NMTC) and LIHTC partnerships, respectively. The consolidated VIE s as well as the unconsolidated VIE s are regularly monitored by the Company to determine if any reconsideration events have occurred that could cause its primary beneficiary status to change.

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See Note 12 *Operating Segment Information* for selected financial data including net earnings and total assets for the parent company and each of the subsidiaries. Although the consolidated total assets of the Company were $6.3 billion at June 30, 2010, nine of the eleven community banks had total assets of less than $1 billion. The smallest community bank subsidiary had $194 million in total assets, while the largest community bank subsidiary had $1.3 billion in total assets at June 30, 2010.

The following abbreviated organizational chart illustrates the various relationships as of June 30, 2010:

Glacier Bancorp. Inc.
(Parent Holding Company)

Glacier Bank (MT Community Bank)	Mountain West Bank (ID Community Bank)	First Security Bank of Missoula (MT Community Bank)	1st Bank (WY Community Bank)
Western Security Bank (MT Community Bank)	Big Sky Western Bank (MT Community Bank)	Valley Bank of Helena (MT Community Bank)	First National Bank & Trust (WY Community Bank)
Citizens Community Bank (ID Community Bank)	First Bank of Montana (MT Community Bank)	Bank of the San Juans (CO Community Bank)	GBCI Other Real Estate
Glacier Capital Trust II	Glacier Capital Trust III	Glacier Capital Trust IV	Citizens (ID) Statutory Trust I

San Juans Trust I	First Company Statutory Trust 2001	First Company Statutory Trust 2003

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3) Investment Securities

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:

	As of June 30, 2010				
(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and federal agency					
Maturing after one year through five years	1.62%	$ 210	4		214
Government sponsored enterprises					
Maturing after one year through five years	2.43%	41,963	627		42,590
Maturing after five years through ten years	1.75%	82			82
Maturing after ten years	1.15%	11			11
	2.43%	42,056	627		42,683
State and local governments and other issues					
Maturing within one year	3.95%	920	7		927
Maturing after one year through five years	3.92%	8,970	202	(6)	9,166
Maturing after five years through ten years	4.15%	27,339	674	(67)	27,946
Maturing after ten years	4.80%	481,374	10,697	(1,944)	490,127
	4.75%	518,603	11,580	(2,017)	528,166
Collateralized debt obligations					
Maturing after ten years	8.40%	14,360		(5,532)	8,828
Residential mortgage-backed securities	2.58%	1,088,635	17,531	(7,734)	1,098,432
Total marketable securities	3.31%	1,663,864	29,742	(15,283)	1,678,323
Other investments					
FHLB and FRB stock, at cost	1.42%	64,319			64,319
Other stock	0.05%	624	7	(5)	626
Total investment securities	3.23%	$ 1,728,807	29,749	(15,288)	1,743,268

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(Dollars in thousands)	Weighted Yield	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	As of December 31, 2009				
U.S. Government and federal agency					
Maturing after one year through five years	1.62%	$ 210		(1)	209
Government sponsored enterprises					
Maturing after one year through five years	3.21%	74			74
Maturing after five years through ten years	1.64%	40			40
Maturing after ten years	2.05%	63			63
	2.43%	177			177
State and local governments and other issues					
Maturing within one year	2.48%	2,040	6		2,046
Maturing after one year through five years	3.30%	9,326	208	(12)	9,522
Maturing after five years through ten years	3.84%	27,125	786	(168)	27,743
Maturing after ten years	4.80%	434,165	10,140	(2,640)	441,665
	4.71%	472,656	11,140	(2,820)	480,976
Collateralized debt obligations					
Maturing after ten years	8.40%	14,688		(7,899)	6,789
Residential mortgage-backed securities	3.42%	956,033	15,167	(16,158)	955,042
Total marketable securities	3.89%	1,443,764	26,307	(26,878)	1,443,193
Other investments					
FHLB and FRB stock, at cost	1.30%	62,577			62,577
Other stock	0.05%	624			624
Total investment securities	3.78%	$ 1,506,965	26,307	(26,878)	1,506,394

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.

Interest income includes tax-exempt interest for the six months ended June 30, 2010 and 2009 of $11,438,000 and $11,070,000, respectively, and for the three months ended June 30, 2010 and 2009 of $5,870,000 and $5,739,000 respectively.

Gross proceeds from sale of marketable securities for the six months ended June 30, 2010 and 2009 were $32,323,000 and $0, respectively, resulting in gross gains of $1,349,000 and $0, respectively, and gross losses of $793,000 and $0, respectively. The cost of any investment sold is determined by specific identification.

At June 30, 2010, the Company had investment securities with carrying values of approximately $904,230,000, pledged as collateral for Federal Home Loan Bank (FHLB) advances, Federal Reserve Bank (FRB) discount window borrowings, securities sold under agreements to repurchase, U.S. Treasury Tax and Loan borrowings and deposits of several local government units.

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The investments in the 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.

Investments with an unrealized loss position at June 30, 2010:

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and local governments and other issues	$ 69,320	985	22,342	1,032	91,662	2,017
Collateralized debt obligations	1,940	60	6,888	5,472	8,828	5,532
Residential mortgage-backed securities	431,208	1,783	36,090	5,951	467,298	7,734
Other investments other stock	7	5			7	5
Total temporarily impaired securities	$ 502,475	2,833	65,320	12,455	567,795	15,288

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

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and federal agency	$ 208	1			208	1
State and local governments and other issues	74,045	1,835	18,094	985	92,139	2,820
Collateralized debt obligations	6,789	7,899			6,789	7,899
Residential mortgage-backed securities	466,196	3,861	39,780	12,297	505,976	16,158
Total temporarily impaired securities	$ 547,238	13,596	57,874	13,282	605,112	26,878

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 for the credit loss portion of the impairment with a corresponding charge to earnings.

For fair value estimates provided by third party vendors, management also considered the 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, and whether the quoted prices reflect orderly transactions. For certain securities, 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 select issuers, with follow up discussions with issuers management for clarification and verification of information relevant to the Company s impairment analysis.

In evaluating debt securities for other-than-temporary impairment losses, management assesses whether the Company intends to sell or if it is more likely-than-not that it will be required to sell impaired debt securities. In so doing, management considers contractual constraints, liquidity, capital, asset / liability management and securities portfolio objectives. With respect to its impaired debt securities at June 30, 2010, management determined that it does not intend to sell and that there is no expected requirement to sell any of its impaired debt securities.

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Based on an analysis of its impaired securities as of June 30, 2010, the Company determined that none of such securities had other-than-temporary impairment.

4) Loans Receivable, Net and Loans Held for Sale

The following table summarizes the Company s loan and lease portfolio:

	June 30, 2010		December 31, 2009		June 30, 2009	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Real estate loans						
Residential	$ 693,768	17.8%	$ 746,050	18.7%	$ 747,931	18.6%
Held for sale	73,207	1.9%	66,330	1.7%	92,166	2.3%
Total	766,975	19.7%	812,380	20.4%	840,097	20.9%
Commercial loans						
Real estate	1,882,285	48.4%	1,900,438	47.7%	1,944,784	48.2%
Other commercial	692,031	17.8%	724,966	18.2%	649,634	16.1%
Total	2,574,316	66.2%	2,625,404	65.9%	2,594,418	64.3%
Consumer and other loans						
Consumer	188,654	4.8%	201,001	5.0%	198,454	4.9%
Home equity	510,030	13.1%	501,920	12.6%	502,288	12.5%
Total	698,684	17.9%	702,921	17.6%	700,742	17.4%
Net deferred loan fees premiums and discounts	(7,806)	-0.2%	(10,460)	-0.3%	(6,498)	-0.2%
Loans receivable, gross	4,032,169	103.6%	4,130,245	103.6%	4,128,759	102.4%
Allowance for loan and lease losses	(141,665)	-3.6%	(142,927)	-3.6%	(97,374)	-2.4%
Loans receivable, net	$ 3,890,504	100.0%	$ 3,987,318	100.0%	$ 4,031,385	100.0%

In June 2009, FASB issued an amendment to FASB ASC Topic 860, *Accounting for Transfers and Servicing of Financial Assets*, and is effective for transfers occurring after the beginning of the first annual reporting period that begins after November 15, 2009. The Company adopted this amendment for all new transfers, primarily consisting of transfers of loans, occurring on or subsequent to January 1, 2010. The Company generally sells its long-term mortgage loans originated, retaining servicing only when required by 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 no servicing rights retained for the six months ended June 30, 2010 and 2009 were $402,116,000 and $706,310,000, respectively. The amount of loans sold and serviced for others at June 30, 2010 and 2009 was approximately $181,348,000 and $170,594,000, respectively.

In accordance with this amendment, transfers of SBA loans are recognized as sales when the warranty period expires, which is typically 90 days. The Company has been active in originating commercial SBA loans, some of which are sold to investors. As of June 30, 2010, the Company had $8,094,000 of SBA loans sold for which there was a deferred gain of $753,000 due to unexpired warranty periods.

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The Company occasionally purchases and sells other loan participations, the majority of which are large commercial loans. For participation transactions after the adoption of the amendment, the bank subsidiaries typically originate and sell the loan participations, at fair value, on a proportionate ownership basis, with no recourse conditions.
The following table sets forth information regarding the Company s non-performing assets at the dates indicated:

(Dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Real estate and other assets owned	$ 64,419	57,320	47,424
Accruing loans 90 days or more overdue	3,030	5,537	10,086
Non-accrual loans	190,338	198,281	116,362
Total non-performing assets	$ 257,787	261,138	173,872
Non-performing assets as a percentage of total subsidiary assets	4.01%	4.13%	3.06%

The following table summarizes impaired loans at the dates indicated:

(Dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Impaired loans, without valuation allowance	$ 144,109	141,613	92,338
Impaired loans, with valuation allowance	72,830	77,129	47,749
Impaired loans, gross	216,939	218,742	140,087
Valuation allowance included in ALLL	(15,221)	(19,760)	(9,034)
Impaired loans, net	$ 201,718	198,982	131,053

The following table illustrates the loan and lease loss experience:

(Dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009
Balance at the beginning of the year	$ 142,927	76,739	76,739
Charge-offs	(41,584)	(60,896)	(21,246)
Recoveries	2,166	2,466	1,026
Provision	38,156	124,618	40,855
Balance at the end of the period	$ 141,665	142,927	97,374
Net charge-offs as a percentage of total loans	0.98%	1.42%	0.49%

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5) Intangible Assets

The following table sets forth information regarding the Company s core deposit intangible and mortgage servicing rights as of June 30, 2010:

(Dollars in thousands)	Core Deposit Intangible	Mortgage Servicing Rights [1]	Total
Gross carrying value	$ 31,847		
Accumulated amortization	(19,531)		
Net carrying value	$ 12,316	978	13,294
Weighted-average amortization period			
(Period in years)	9.1	9.3	9.1
Aggregate amortization expense			
For the three months ended June 30, 2010	$ 801	46	847
For the six months ended June 30, 2010	1,621	81	1,702
Estimated amortization expense			
For the year ended December 31, 2010	$ 2,603	116	2,719
For the year ended December 31, 2011	1,895	69	1,964
For the year ended December 31, 2012	1,534	67	1,601
For the year ended December 31, 2013	1,283	65	1,348
For the year ended December 31, 2014	1,034	63	1,097

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

Acquisitions are accounted for as prescribed by FASB ASC Topic 805, *Business Combinations*. Acquisition accounting 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 if the purchase price exceeds the net fair value of assets acquired and a bargain purchase gain is recorded in other income if the net fair value of assets acquired exceeds the purchase price.

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.

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6) Deposits

The following table illustrates the amounts outstanding for deposits $100,000 and greater at June 30, 2010 according to the time remaining to maturity. Included in the Certificates of Deposit are brokered deposits of $504,399,000, of which $395,685,000 are issued through the Certificate of Deposit Account Registry System. Included in the Demand Deposits are brokered deposits of $142,253,000.

(Dollars in thousands)	Certificates of Deposit	Demand Deposits	Totals
Within three months	$ 433,687	1,699,321	2,133,008
Three months to six months	280,875		280,875
Seven months to twelve months	185,349		185,349
Over twelve months	119,816		119,816
Totals	$ 1,019,727	1,699,321	2,719,048

7) Advances and Other Borrowings

The following chart illustrates the average balances and the maximum outstanding month-end balances for FHLB advances, repurchase agreements and borrowings through the FRB:

(Dollars in thousands)	As of and for the Six Months ended June 30, 2010	As of and for the Year ended December 31, 2009	As of and for the Six Months ended June 30, 2009
FHLB advances			
Amount outstanding at end of period	$ 529,982	790,367	613,478
Average balance	$ 717,628	473,038	352,183
Maximum outstanding at any month-end	$ 807,644	790,367	613,478
Weighted average interest rate	1.34%	1.68%	2.10%
Repurchase agreements			
Amount outstanding at end of period	$ 224,397	212,506	180,779
Average balance	$ 222,371	204,503	191,388
Maximum outstanding at any month-end	$ 242,110	234,914	199,669
Weighted average interest rate	0.74%	0.98%	1.06%
Federal Reserve Bank discount window			
Amount outstanding at end of period	$	225,000	587,000
Average balance	$ 71,851	658,262	891,558
Maximum outstanding at any month-end	$ 235,000	1,005,000	1,005,000
Weighted average interest rate	0.25%	0.26%	0.27%
Total FHLB advances, repurchase agreements, and Federal Reserve Bank discount window			
Amount outstanding at end of period	$ 754,379	1,227,873	1,381,257
Average balance	$ 1,011,850	1,335,803	1,435,129
Maximum outstanding at any month-end	$ 1,284,754	2,030,281	1,818,147
Weighted average interest rate	1.13%	0.87%	0.82%

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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 June 30, 2010.

(Dollars in thousands)	Tier 1 (Core) Capital	Tier 2 (Total) Capital	Leverage Capital
Total stockholders equity	$ 845,748	845,748	845,748
Less:			
Goodwill and intangibles	(152,133)	(152,133)	(152,133)
Accumulated other comprehensive unrealized gain on AFS securities	(8,793)	(8,793)	(8,793)
Plus:			
Allowance for loan and lease losses		58,296	
Unrealized gain on AFS securities		1	
Subordinated debentures	124,500	124,500	124,500
Regulatory capital	$ 809,322	867,619	809,322
Risk weighted assets	$ 4,580,391	4,580,391	
Total adjusted average assets			$ 6,118,846
Capital as % of risk weighted assets	17.67%	18.94%	13.23%
Regulatory well capitalized requirement	6.00%	10.00%	5.00%
Excess over well capitalized requirement	11.67%	8.94%	8.23%

9) Earnings Per Share

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:

	For the Three Months ended June 30, 2010	For the Three Months ended June 30, 2009	For the Six Months ended June 30, 2010	For the Six Months ended June 30, 2009
Net earnings available to common stockholders, basic and diluted	$ 13,222,000	10,652,000	23,292,000	26,431,000
Average outstanding shares basic	71,913,102	61,515,946	67,363,476	61,489,422
Add: dilutive stock options	1,792	2,343	901	3,844
Average outstanding shares diluted	71,914,894	61,518,289	67,364,377	61,493,266

Basic earnings per share	$	0.19	0.17	0.35	0.43
Diluted earnings per share	$	0.19	0.17	0.35	0.43

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There were approximately 1,861,188 and 2,399,487 average shares excluded from the diluted average outstanding share calculation for the three months ended June 30, 2010 and 2009, 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 June 30,		For the Six Months ended June 30,	
(Dollars in thousands)	2010	2009	2010	2009
Net earnings	$ 13,222	10,652	23,292	26,431
Unrealized holding gain (loss) arising during the period	5,635	7,687	15,588	(1,866)
Tax (expense) benefit	(2,209)	(3,012)	(6,109)	727
Net after tax	3,426	4,675	9,479	(1,139)
Reclassification adjustment for gains included in net earnings	(242)		(556)	
Tax expense	95		218	
Net after tax	(147)		(338)	
Net unrealized gain (loss) on securities	3,279	4,675	9,141	(1,139)
Total comprehensive income	$ 16,501	15,327	32,433	25,292

11) Federal and State Income Taxes

The Company and its bank subsidiaries join together in the filing of consolidated income tax returns in the following jurisdictions: federal, Montana, Idaho, Colorado and Utah. Although 1st Bank and First National have operations in Wyoming and Mountain has operations in Washington, neither Wyoming nor Washington imposes a corporate-level income tax. All required income tax returns have been timely filed. The following schedule summarizes the years that remain subject to examination as of June 30, 2010:

	Years ended December 31,
Federal	2006, 2007 and 2008
Montana	2003, 2004, 2005, 2006, 2007 and 2008
Idaho	2003, 2004, 2005, 2006, 2007 and 2008
Colorado	2005, 2006, 2007 and 2008
Utah	2006, 2007 and 2008

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During 2010 and 2009, the Company made investments in CDE s which received NMTC allocations. Administered by the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, the NMTC program is aimed at stimulating economic and community development and job creation in low-income communities. The federal income tax credits received are claimed over a seven-year credit allowance period. The Company also has made investments in LIHTC s which are indirect Federal subsidies used to finance the development of affordable rental housing for low-income households. The federal income tax credits received are claimed over a ten-year credit allowance period. The Company invests in Qualified Zone Academy and Qualified School Construction bonds whereby the Company receives quarterly federal income tax credits until the bonds mature. The federal income tax credits on the bonds are subject to federal and state income tax. Following is a list of expected federal income tax credits to be received in the years indicated.

Years ended (Dollars in thousands)	New Markets Tax Credits	Low-Income Housing Tax Credits	Investment Securities Tax Credits	Total
2010	$ 2,000	337	916	3,253
2011	2,000	785	970	3,755
2012	2,306	785	970	4,061
2013	2,400	785	970	4,155
2014	2,400	785	970	4,155
Thereafter	2,964	3,324	8,349	14,637
	$ 14,070	6,801	13,145	34,016

The Company determined its unrecognized tax benefit to be $0 and $113,000 as of June 30, 2010 and 2009, respectively. The Company recognizes interest related to unrecognized income tax benefits in interest expense and penalties are recognized in other expense. During the six months ended June 30, 2010 and 2009, the Company did not recognize interest expense or penalties with respect to income tax liabilities. The Company had approximately $0 and $20,000 accrued for the payment of interest at June 30, 2010 and 2009, respectively. The Company had no accrued liabilities for the payment of penalties at June 30, 2010 and 2009.

12) Operating Segment Information

FASB ASC Topic 280, *Segment Reporting*, 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 makers 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. If required, VIEs are consolidated into the operating segment which invested into such entities.

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The accounting policies of the individual operating segments are the same as those of the Company. Transactions between operating segments are conducted at fair value, resulting in profits that are eliminated for reporting consolidated results of operations. Intersegment revenues primarily represents interest income on intercompany borrowings, management fees, and data processing fees received 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. Expenses for centrally provided services are allocated based on the estimated usage of those services.

The following schedules provide selected financial data for the Company s operating segments:

	Three months ended and as of June 30, 2010							
(Dollars in thousands)	Glacier	Mountain West	First Security	1st Bank	Western	Big Sky	Valley	First National
External revenues	$ 18,969	22,183	13,097	7,753	8,811	5,099	5,798	3,659
Intersegment revenues	48	19	20	30	123	1	40	14
Expenses	(16,407)	(21,759)	(10,057)	(6,919)	(6,686)	(4,397)	(3,921)	(3,180)
Net Earnings (Loss)	$ 2,610	443	3,060	864	2,248	703	1,917	493
Total Assets	$ 1,320,555	1,200,382	932,179	644,877	610,208	366,439	368,321	295,164

	Citizens	First Bank of MT	San Juans	GORE	Parent	Eliminations	Total Consolidated
External revenues	$ 4,608	2,472	2,688	43	56		95,236
Intersegment revenues	28	32	24		17,885	(18,264)	
Expenses	(3,842)	(1,705)	(2,135)	(268)	(4,719)	3,981	(82,014)
Net Earnings (Loss)	$ 794	799	577	(225)	13,222	(14,283)	13,222
Total Assets	$ 271,190	193,806	204,815	19,856	985,895	(1,118,851)	6,294,836

	Three months ended and as of June 30, 2009						
(Dollars in thousands)	Glacier	Mountain West	First Security	1st Bank	Western	Big Sky	Valley
External revenues	$ 20,283	23,859	13,332	8,470	9,055	5,522	5,777
Intersegment revenues	46	1	248	55	208		66
Expenses	(17,555)	(22,853)	(10,279)	(9,637)	(7,762)	(4,746)	(4,231)
Net Earnings (Loss)	$ 2,774	1,007	3,301	(1,112)	1,501	776	1,612
Total Assets	$ 1,217,302	1,266,555	831,352	588,480	541,763	332,505	291,021

	Citizens	First Bank of MT	San Juans	Parent	Eliminations	Total Consolidated
External revenues	$ 4,186	2,521	2,643	58	32	95,738
Intersegment revenues	2			14,990	(15,616)	

Expenses	(3,591)	(1,844)	(2,193)	(4,396)	4,001	(85,086)
Net Earnings (Loss)	$ 597	677	450	10,652	(11,583)	10,652
Total Assets	$ 243,830	176,222	177,850	825,575	(854,031)	5,638,424

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	Six Months ended and as of June 30, 2010							
(Dollars in thousands)	Glacier	Mountain West	First Security	1st Bank	Western	Big Sky	Valley	First National
External revenues	$ 37,704	41,133	25,653	15,729	16,939	9,935	10,890	7,699
Intersegment revenues	96	38	38	121	255	1	76	22
Expenses	(34,142)	(40,243)	(20,217)	(13,420)	(13,003)	(8,901)	(7,552)	(6,856)
Net Earnings (Loss)	$ 3,658	928	5,474	2,430	4,191	1,035	3,414	865
Total Assets	$ 1,320,555	1,200,382	932,179	644,877	610,208	366,439	368,321	295,164

	Citizens	First Bank of MT	San Juans	GORE	Parent	Eliminations	Total Consolidated
External revenues	$ 8,756	4,892	5,325	43	119		184,817
Intersegment revenues	28	82	24		32,521	(33,302)	
Expenses	(7,412)	(3,396)	(4,596)	(268)	(9,348)	7,829	(161,525)
Net Earnings (Loss)	$ 1,372	1,578	753	(225)	23,292	(25,473)	23,292
Total Assets	$ 271,190	193,806	204,815	19,856	985,895	(1,118,851)	6,294,836

	Six Months ended and as of June 30, 2009						
(Dollars in thousands)	Glacier	Mountain West	First Security	1st Bank	Western	Big Sky	Valley
External revenues	$ 41,022	45,239	26,644	16,781	17,994	11,168	11,474
Intersegment revenues	93	1	555	126	371		85
Expenses	(33,766)	(43,043)	(20,391)	(16,940)	(14,811)	(9,284)	(8,277)
Net Earnings (Loss)	$ 7,349	2,197	6,808	(33)	3,554	1,884	3,282
Total Assets	$ 1,217,302	1,266,555	831,352	588,480	541,763	332,505	291,021

	Citizens	First Bank of MT	San Juans	Parent	Eliminations	Total Consolidated
External revenues	$ 8,105	4,933	5,171	116		188,647
Intersegment revenues	2			35,242	(36,475)	
Expenses	(6,910)	(3,611)	(4,306)	(8,927)	8,050	(162,216)
Net Earnings (Loss)	$ 1,197	1,322	865	26,431	(28,425)	26,431
Total Assets	$ 243,830	176,222	177,850	825,575	(854,031)	5,638,424

13) Fair Value Measurement

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, requires the Company to disclose information relating to fair value. Fair value is defined 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. The Topic 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
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

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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 ended June 30, 2010.

Investment 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 schedule discloses the major class of assets measured at fair value on a recurring basis for the period ended June 30, 2010:

(Dollars in thousands)	Assets/ Liabilities Measured at Fair Value 6/30/10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
U.S. Government and federal agency	$ 214		214	
Government sponsored enterprises	42,683		42,683	
State and local governments and other issues	528,166		528,166	
Collateralized debt obligations	8,828			8,828
Residential mortgage-backed securities	1,098,432		1,096,540	1,892
Total financial assets	$ 1,678,323		1,667,603	10,720

The following schedule discloses the major class of assets measured at fair value on a recurring basis for the period ended June 30, 2009:

(Dollars in thousands)	Assets/ Liabilities Measured at Fair Value 6/30/09	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
U.S. Government and federal agency	$ 207		207	
Government sponsored enterprises	291		291	
State and local governments and other issues	466,382		466,107	275
Collateralized debt obligations	9,972			9,972
Residential mortgage-backed securities	455,820		450,567	5,253
Total financial assets	$ 932,672		917,172	15,500

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The following schedules reconcile the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six month periods ended June 30, 2010 and 2009.

		Significant Unobservable Inputs (Level 3)		
(Dollars in thousands)	Total	State and Local Government and Other Issues	Collateralized Debt Obligations	Residential Mortgage-backed Securities
Balance as of December 31, 2009	$ 9,988	2,088	6,789	1,111
Total unrealized gains included in other comprehensive income	3,147		2,366	781
Amortization, accretion and principal payments	(327)		(327)	
Transfers out of Level 3	(2,088)	(2,088)		
Balance as of June 30, 2010	$ 10,720		8,828	1,892

		Significant Unobservable Inputs (Level 3)		
(Dollars in thousands)	Total	State and Local Government and Other Issues	Collateralized Debt Obligations	Residential Mortgage-backed Securities
Balance as of December 31, 2008	$ 23,421	284	15,540	7,597
Total unrealized gains included in other comprehensive income	(7,295)		(5,408)	(1,887)
Amortization, accretion and principal payments	(887)	(9)	(160)	(718)
Purchases	261			261
Balance as of June 30, 2009	$ 15,500	275	9,972	5,253

The change in unrealized gains related to available-for-sale securities is reported in the accumulated other comprehensive income (loss). A state and local government security was transferred out of Level 3 and into Level 2 during the first quarter 2010 as a result of third party pricing being obtained and expected to be obtained in future quarters, whereas third party pricing was unavailable prior to first quarter 2010 for such security and there was a greater reliance on unobservable inputs for fair value.

The following is a description of the inputs and valuation methodologies used for assets recorded at fair value on a non-recurring basis. There have been no significant changes in the valuation techniques during the period ended June 30, 2010.

Other real estate owned real estate and other assets owned are carried at the lower of fair value at acquisition date or current 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.

Collateral-dependent 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 FASB ASC Topic 310, *Receivables*. Estimated fair value of collateral-dependent impaired loans is based on the fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

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The following schedule discloses the major class of assets with a recorded change in the financial statements resulting from re-measuring the assets at fair value on a non-recurring basis for the periods ended June 30, 2010 and 2009:

(Dollars in thousands)	Assets/ Liabilities Measured at Fair Value 6/30/10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Other real estate owned	$ 3,694			3,694
Collateral-dependent impaired loans, net of allowance for loan and lease losses	49,162			49,162
Total financial assets	$ 52,856			52,856

(Dollars in thousands)	Assets/ Liabilities Measured at Fair Value 6/30/09	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Other real estate owned	$ 6,883			6,883
Collateral-dependent impaired loans, net of allowance for loan and lease losses	42,015			42,015
Total financial assets	$ 48,898			48,898

The following is a description of the methods used to estimate the fair value of all other financial instruments recognized at amounts other than fair value.

Financial Assets

The estimated fair value of cash, federal funds sold, interest bearing cash deposits, and accrued interest receivable is the book value of such financial assets.

The estimated fair value of FHLB and FRB stock is book value due to the restrictions that such stock may only be sold to another member institution or the FHLB or FRB at par value.

Loans receivable, net of ALLL fair value for unimpaired loans, net of ALLL, is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities. Impaired loans are primarily collateral-dependent and the estimated fair value is based on the fair value of the collateral.

Financial Liabilities

The estimated fair value of accrued interest payable is the book value of such financial liabilities.

Deposits   fair value of term deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities. The estimated fair value of demand, NOW, savings, and money market deposits is the book value since rates are regularly adjusted to market rates.

Advances from FHLB   fair value of advances is estimated based on borrowing rates currently available to the Company for advances with similar terms and maturities.

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Repurchase agreements and other borrowed funds   fair value of term repurchase agreements and other term borrowings is estimated based on current repurchase rates and borrowing rates currently available to the Company for repurchases and borrowings with similar terms and maturities. The estimated fair value for overnight repurchase agreements and other borrowings is book value.

Subordinated debentures   fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates for subordinated debt issuances with similar characteristics.

Off-balance sheet financial instruments   commitments to extend credit and letters of credit represent the principal categories of off-balance sheet financial instruments. Rates for these commitments are set at time of loan closing, such that no adjustment is necessary to reflect these commitments at market value. The Company has immaterial off-balance sheet financial instruments.

The following presents the carrying amounts and estimated fair values in accordance with FASB ASC Topic 825, *Financial Instruments*, as of June 30, 2010:

	June 30, 2010		June 30, 2009	
(Dollars in thousands)	Amount	Fair Value	Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 168,468	168,468	187,786	187,786
Investment securities	1,678,949	1,678,949	933,136	933,136
FHLB and FRB stock	64,319	64,319	61,011	61,011
Loans receivable, net of allowance for loan and lease losses	3,890,504	3,880,395	4,031,385	4,036,828
Accrued interest receivable	29,973	29,973	30,346	30,346
Total financial assets	$ 5,832,213	5,822,104	5,243,664	5,249,107
Financial liabilities				
Deposits	$ 4,510,116	4,521,182	3,386,443	3,397,205
Federal Home Loan Bank advances	529,982	542,390	613,478	618,812
Federal Reserve Bank discount window			587,000	587,000
Repurchase agreements and other borrowed funds	234,460	234,472	197,971	197,993
Subordinated debentures	125,060	74,488	120,157	65,987
Accrued interest payable	8,300	8,300	8,421	8,421
Total financial liabilities	$ 5,407,918	5,380,832	4,913,470	4,875,418

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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.

	Six Months ended June 30, 2010 vs. 2009 Increase (Decrease) Due to:		
(Dollars in thousands)	Volume	Rate	Net
Interest income			
Residential real estate loans	$ (2,513)	(2,445)	(4,958)
Commercial loans	(412)	(1,476)	(1,888)
Consumer and other loans	(343)	(778)	(1,121)
Investment securities	15,900	(10,669)	5,231
Total interest income	12,632	(15,368)	(2,736)
Interest expense			
NOW accounts	377	5	382
Savings accounts	79	(208)	(129)
Money market demand accounts	430	(991)	(561)
Certificate accounts	2,113	(4,394)	(2,281)
Wholesale deposits	5,261	(3,686)	1,575
FHLB advances	3,810	(2,716)	1,094
Repurchase agreements and other borrowed funds	(3,776)	2,236	(1,540)
Total interest expense	8,294	(9,754)	(1,460)
Net interest income	$ 4,338	(5,614)	(1,276)

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 and interest rate spread; and (iv) net interest margin and net interest margin (tax-equivalent). Non-accrual loans are included in the average balance of the loans.

(Dollars in thousands)	Three Months ended 6/30/10 Average Balance	Interest & Dividends	Average Yield/ Rate	Six Months ended 6/30/10 Average Balance	Interest & Dividends	Average Yield/ Rate
Assets						
Residential real estate loans	$ 768,174	11,421	5.95%	$ 775,634	23,254	6.00%
Commercial loans	2,588,734	37,003	5.73%	2,590,621	73,675	5.73%
Consumer and other loans	695,835	10,720	6.18%	693,525	21,360	6.21%
Total loans	4,052,743	59,144	5.85%	4,059,780	118,289	5.88%
Tax-exempt investment securities [1]	473,222	5,870	4.96%	466,530	11,438	4.90%
Taxable investment securities [2]	1,294,892	8,804	2.72%	1,238,682	17,489	2.82%
Total earning assets	5,820,857	73,818	5.09%	5,764,992	147,216	5.15%
Goodwill and intangibles	159,039			159,443		
Non-earning assets	291,083			279,947		
Total assets	$ 6,270,979			$ 6,204,382		
Liabilities						
NOW accounts	$ 714,714	673	0.38%	$ 715,472	1,406	0.40%
Savings accounts	341,882	189	0.22%	336,807	393	0.24%
Money market demand accounts	847,712	1,962	0.93%	829,746	3,925	0.95%
Certificate accounts	1,080,561	5,183	1.92%	1,076,479	10,594	1.98%
Wholesale deposits [3]	602,342	1,215	0.81%	488,388	2,235	0.92%
FHLB advances	634,182	2,454	1.55%	717,628	4,765	1.34%
Securities sold under agreements to repurchase and other borrowed funds	352,840	2,073	2.36%	429,973	4,315	2.02%
Total interest bearing liabilities	4,574,233	13,749	1.21%	4,594,493	27,633	1.21%
Non-interest bearing deposits	808,371			794,263		
Other liabilities	39,645			35,545		
Total liabilities	5,422,249			5,424,301		
Stockholders Equity						
Common stock	719			674		

Paid-in capital	643,395		578,959	
Retained earnings	196,250		194,954	
Accumulated other comprehensive income	8,366		5,494	
Total stockholders equity	848,730		780,081	
Total liabilities and stockholders equity	$ 6,270,979		$ 6,204,382	
Net Interest Income		$ 60,069		$ 119,583
Net Interest Spread		3.88%		3.94%
Net Interest Margin		4.14%		4.18%
Net Interest Margin (tax-equivalent)		4.35%		4.39%

[1] Excludes tax effect of $5,064,000 and $2,599,000 on tax-exempt investment security income for the year-to-date and quarter ended June 30, 2010, respectively.

[2] Excludes tax effect of $709,000 and $397,000 on investment security tax credits for the year-to-date and quarter ended June 30, 2010, respectively.

[3] Wholesale deposits include brokered deposits classified as NOW, money market demand, and CDs.

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ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations The three months ended June 30, 2010 Compared to March 31, 2010 and June 30, 2009

Performance Summary

The Company reported net earnings of $13.2 million for the second quarter of 2010, an increase of $2.6 million, or 24 percent, from the $10.7 million net earnings reported for the second quarter of 2009. Included in this increase was a pre-tax gain of $1.8 million from the sale of Mountain West s merchant card servicing portfolio. The diluted earnings per share of $0.19 for the quarter represented a 12 percent increase from the diluted earnings per share of $0.17 for the same quarter of 2009. Annualized return on average assets and return on average equity for the second quarter were 0.85 percent and 6.25 percent, respectively, which compares with prior year returns for the second quarter of 0.77 percent and 6.18 percent, respectively.

Revenue Summary

	Three Months ended		
(Unaudited - Dollars in thousands)	June 30, 2010	March 31, 2010	June 30, 2009
Net interest income			
Interest income	$ 73,818	73,398	74,420
Interest expense	13,749	13,884	13,939
Total net interest income	60,069	59,514	60,481
Non-interest income			
Service charges, loan fees, and other fees	11,900	10,646	11,377
Gain on sale of loans	6,133	3,891	9,071
Gain on sale of investments	242	314	
Other income	3,143	1,332	870
Total non-interest income	21,418	16,183	21,318
	$ 81,487	75,697	81,799
Net interest margin (tax-equivalent)	4.35%	4.43%	4.87%

(Unaudited - Dollars in thousands)	$ Change from March 31, 2010	$ Change from June 30, 2009	% Change from March 31, 2010	% Change from June 30, 2009
Net interest income				
Interest income	$ 420	(602)	1%	-1%
Interest expense	(135)	(190)	-1%	-1%
Total net interest income	555	(412)	1%	-1%
Non-interest income				
Service charges, loan fees, and other fees	1,254	523	12%	5%

Gain on sale of loans	2,242	(2,938)	58%	-32%
Gain on sale of investments	(72)	242	-23%	n/m
Other income	1,811	2,273	136%	261%
Total non-interest income	5,235	100	32%	0%
	$ 5,790	(312)	8%	0%

n/m not measurable

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Net Interest Income

Net interest income for the current quarter increased $555 thousand and decreased $412 thousand over prior year s quarter. The current quarter net interest margin as a percentage of earning assets, on a tax-equivalent basis, was 4.35 percent which is 8 basis points lower than the 4.43 percent for the prior quarter and included a 4 basis points reduction from the reversal of interest on non-accrual loans. The net interest margin for the current quarter is 52 basis points lower than the 4.87 percent result for the second quarter of 2009.

Non-interest Income

Non-interest income for the quarter totaled $21.4 million, an increase of $5.2 million over the prior quarter and $100 thousand over the same quarter as last year. Fee income of $11.9 million increased $1.3 million, or 12 percent, during the quarter primarily from an increase in debit card income. This compares to an increase of $523 thousand, or 5 percent, over the same period last year. Gain on sale of loans increased $2.2 million, or 58 percent, over the prior quarter as a reduction in mortgage interest rates during the second quarter led to an increase in loan origination volume. Gain on sale of loans decreased $2.9 million, or 32 percent, over the same period last year, primarily the result of a significant reduction in re-finance activity and a slowing of residential loans originated and sold in the secondary market. Net gain on sale of investments was $242 thousand for the current quarter 2010 compared to $314 thousand for the previous quarter. Other income of $3.1 million for the current quarter is an increase of $1.8 million and $2.3 million from prior quarter and prior year second quarter, respectively, of which $1.8 million relates to the current quarter sale of Mountain West s merchant card servicing portfolio.

Non-interest Expense

	Three Months ended		
(Unaudited - Dollars in thousands)	June 30, 2010	March 31, 2010	June 30, 2009
Compensation and employee benefits	$ 21,652	21,356	20,710
Occupancy and equipment expense	5,988	5,948	5,611
Advertising and promotions	1,644	1,592	1,722
Outsourced data processing	761	694	680
Core deposit intangibles amortization	801	820	762
Other real estate owned expense	7,373	2,318	2,321
Federal Deposit Insurance Corporation premiums	2,165	2,200	3,832
Other expenses	7,852	7,033	7,325
Total non-interest expense	$ 48,236	41,961	42,963

(Unaudited - Dollars in thousands)	$ Change from March 31, 2010	$ Change from June 30, 2009	% Change from March 31, 2010	% Change from June 30, 2009
Compensation and employee benefits	$ 296	942	1%	5%
Occupancy and equipment expense	40	377	1%	7%
Advertising and promotions	52	(78)	3%	-5%
Outsourced data processing	67	81	10%	12%
Core deposit intangibles amortization	(19)	39	-2%	5%
Other real estate owned expense	5,055	5,052	218%	218%
Federal Deposit Insurance Corporation premiums	(35)	(1,667)	-2%	-44%
Other expenses	819	527	12%	7%
Total non-interest expense	$ 6,275	5,273	15%	12%

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Non-interest expense of $48.2 million for the quarter increased by $6.3 million, or 15 percent, from the prior quarter and increased $5.3 million, or 12 percent, from the prior year second quarter. Compensation and employee benefits of $21.7 million increased only $296 thousand, or 1 percent, from the previous quarter and $942 thousand, or 5 percent, from the prior year second quarter which is due to the addition of First National employees. The number of full-time equivalent employees increased from 1,651 to 1,654 during the quarter, and increased from 1,597 since the end of the 2009 second quarter.

Occupancy and equipment expense increased $40 thousand, or 1 percent, from the prior quarter and increased $377 thousand, or 7 percent, from the prior year second quarter. Advertising and promotion expense increased $52 thousand, or 3 percent, from prior quarter and decreased $78 thousand, or 5 percent, from the second quarter of 2009. Other real estate owned expenses increased $5.1 million, or 218 percent, from prior quarter and increased $5.1 million, or 218 percent, from the prior year. The current quarter other real estate owned expense of $7.4 million included $1.5 million of operating expenses, $2.9 million of fair value write-downs, and $3.0 million of loss on sale of other real estate owned. The other real estate owned expenses have increased as the Company moves to aggressively dispose of problem assets and other real estate owned. Federal Deposit Insurance Corporation (FDIC) premiums decreased $1.7 million, or 44 percent, from the prior year second quarter which included a FDIC special assessment. Other expenses increased $819 thousand, or 12 percent, from the prior quarter and increased $527 thousand, or 7 percent, from the prior year second quarter.

The efficiency ratio (non-interest expense / net interest income plus non-interest income) was 59 percent for the quarter, compared to 53 percent for the 2009 second quarter. The increase in the efficiency ratio from the prior year is the result of the increase in other expenses primarily from other real estate owned expenses, losses and write-downs.

Provision for Loan Losses

The current quarter provision for loan loss expense was $17.2 million, a decrease of $3.7 million from prior quarter and a decrease of $7.9 million from the same quarter in 2009. Net charged-off loans for the current quarter were $19.2 million compared to $20.2 million for the prior quarter and $11.5 million for the same quarter in 2009.

The determination of the allowance for loan and lease losses (ALLL or Allowance) 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 Additional Management s Discussion and Analysis Allowance for Loan and Lease Losses.

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Results of Operations The six months ended June 30, 2010
Compared to the six months ended June 30, 2009

Performance Summary

Net earnings for the six months ended June 30, 2010 were $23.3 million, which is a decrease of $3.1 million or 12 percent, over the prior year. Diluted earnings per share of $0.35 is a decrease of 19 percent over $0.43 earned in the first half of 2009.

Revenue Summary

(Unaudited - Dollars in thousands)	Six Months ended June 30, 2010	June 30, 2009	$ Change	% Change
Net interest income				
Interest income	$ 147,216	$ 149,952	$ (2,736)	-2%
Interest expense	27,633	29,093	(1,460)	-5%
Total net interest income	119,583	120,859	(1,276)	-1%
Non-interest income				
Service charges, loan fees, and other fees	22,546	21,556	990	5%
Gain on sale of loans	10,024	15,221	(5,197)	-34%
Gain on sale of investments	556		556	n/m
Other income	4,475	1,918	2,557	133%
Total non-interest income	37,601	38,695	(1,094)	-3%
	$ 157,184	$ 159,554	$ (2,370)	-1%
Net interest margin (tax-equivalent)	4.39%	4.90%		

Net Interest Income

Net interest income for the six month period decreased $1.3 million, or 1 percent, over the same period in 2009. Total interest income decreased $2.7 million, or 2 percent, while total interest expense decreased $1.5 million, or 5 percent. The decrease in interest income is due to a lower yield and volume of loans coupled with an increase in lower yielding investment securities. The decrease in interest expense is primarily attributable to the rate decreases on interest bearing deposits and lower cost borrowings. The net interest margin as a percentage of earning assets, on a tax equivalent basis, decreased 51 basis points from 4.90 percent for 2009 to 4.39 percent for 2010.

Non-interest Income

Non-interest income decreased $1.1 million over the same period in 2009. Fee income for the first half of 2010 has increased $990 thousand, or 5 percent, compared to prior year primarily from an increase in debit card income. Gain on sale of loans decreased $5.2 million, or 34 percent, over the first six months of last year, primarily the result of a significant reduction in re-finance activity and a slowing of residential loans originated and sold in the secondary market. Other income increased $2.6 million over the same period in 2009, of which $1.8 million relates to the current quarter sale of Mountain West s merchant card servicing portfolio.

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Non-interest Expense

(Unaudited - Dollars in thousands)	Six Months ended June 30, 2010	June 30, 2009	$ Change	% Change
Compensation and employee benefits	$ 43,008	$ 42,654	$ 354	1%
Occupancy and equipment expense	11,936	11,506	430	4%
Advertising and promotions	3,236	3,446	(210)	-6%
Outsourced data processing	1,455	1,351	104	8%
Core deposit intangibles amortization	1,621	1,536	85	6%
Other real estate owned expense	9,691	2,841	6,850	241%
Federal Deposit Insurance Corporation premiums	4,365	5,000	(635)	-13%
Other expenses	14,885	14,255	630	4%
Total non-interest expense	$ 90,197	$ 82,589	$ 7,608	9%

Non-interest expense for the first six month of 2010 increased by $7.6 million, or 9 percent, from the same period prior year. Compensation and employee benefits increased $354 thousand, or 1 percent, from 2009. Occupancy and equipment expense increased $430 thousand, or 4 percent, reflecting the cost of additional locations and facility upgrades. Advertising and promotion expense decreased by $210 thousand, or 6 percent, from 2009. Other real estate owned expense increased $6.9 million, or 241 percent, from the prior first six months. The other real estate owned expenses for the first six months of 2010 of $9.7 million included $2.2 million of operating expenses, $3.3 million of fair value write-downs, and $4.2 of loss on sale of other real estate owned. FDIC premiums decreased $635 thousand, or 13 percent, from the prior year first six months which included a special assessment of $2.5 million. Other expense increased $630 thousand, or 4 percent, from the prior year.

The efficiency ratio (non-interest expense / net interest income plus non-interest income) was 57 percent for the first six months of 2010, compared to 52 percent for the same period in 2009. The increase in the efficiency ratio from the prior year is the result of the increase in other expenses primarily from other real estate owned expenses, losses and write-downs.

Provision for Loan Losses

The provision for loan loss expense was $38.2 million for the first six months of 2010, a decrease of $2.7 million, or 7 percent, from the same period in 2009. Net charged-off loans during the six months ended June 30, 2010 was $39.4 million, an increase of $19.2 million from the same period in 2009.

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Financial Condition Analysis
Assets

(Unaudited - Dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009	$ Change from December 31, 2009	$ Change from June 30, 2009
Cash on hand and in banks	$ 95,603	120,731	100,773	(25,128)	(5,170)
Investments, interest bearing deposits, FHLB stock, FRB stock, and fed funds	1,816,133	1,596,238	1,081,160	219,895	734,973
Loans					
Residential real estate	764,286	797,626	836,917	(33,340)	(72,631)
Commercial	2,570,140	2,613,218	2,591,149	(43,078)	(21,009)
Consumer and other	697,743	719,401	700,693	(21,658)	(2,950)
Loans receivable, gross	4,032,169	4,130,245	4,128,759	(98,076)	(96,590)
Allowance for loan and lease losses	(141,665)	(142,927)	(97,374)	1,262	(44,291)
Loans receivable, net	3,890,504	3,987,318	4,031,385	(96,814)	(140,881)
Other assets	492,596	487,508	425,106	5,088	67,490
Total assets	$ 6,294,836	6,191,795	5,638,424	103,041	656,412

Total assets at June 30 2010 were $6.295 billion, which is $103 million, or 2 percent, greater than total assets of $6.192 billion at December 31, 2009. Total assets increased $656 million, or 12 percent, from June 30, 2009, of which $272 million, including $161 million in loans, related to the acquisition of First National in October 2009.
Investment securities, including interest bearing deposits, FHLB and FRB stock, and federal funds sold, have increased $220 million, or 14 percent, from December 31, 2009 and increased $735 million, or 68 percent, from June 30, 2009. The Company continues to purchase investment securities as loan originations slow, such purchases are predominately mortgage-backed securities issued by Freddie Mac and Fannie Mae with short weighted average lives. The Company continues to be very selective in its purchases of tax-exempt investment securities. Investment securities represent 29 percent of total assets at June 30, 2010 versus 19 percent of total assets at June 30, 2009.
At June 30, 2010, gross loans were $4.032 billion, a decrease of $98 million over gross loans of $4.130 billion at December 31, 2009. Excluding net charge-offs of $39 million and loans transferred to other real estate of $46 million, loans decreased $13 million, or 1 percent annualized, from December 31, 2009.
Liabilities

(Unaudited - Dollars in thousands)	June 30, 2010	December 31, 2009	June 30, 2009	$ Change from December 31, 2009	$ Change from June 30, 2009
Non-interest bearing deposits	$ 852,121	810,550	754,844	41,571	97,277
Interest bearing deposits	3,657,995	3,289,602	2,631,599	368,393	1,026,396
Federal Home Loan Bank advances	529,982	790,367	613,478	(260,385)	(83,496)
Federal Reserve Bank discount window		225,000	587,000	(225,000)	(587,000)

Securities sold under agreements to repurchase and other borrowed funds	234,460	226,251	197,971	8,209	36,489
Other liabilities	49,470	39,147	43,711	10,323	5,759
Subordinated debentures	125,060	124,988	120,157	72	4,903
Total liabilities	$ 5,449,088	5,505,905	4,948,760	(56,817)	500,328

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As of June 30, 2010, non-interest bearing deposits increased $42 million, or 10 percent annualized, since December 31, 2009 and increased $97 million, or 13 percent, since June 30, 2009. Interest bearing deposits of $3.658 billion at June 30, 2010 includes $414 million issued through the Certificate of Deposit Account Registry System. Interest bearing deposits increased $368 million, or 22 percent annualized, from December 31, 2009 and $1.026 billion, or 39 percent from June 30, 2009. The increase in interest bearing deposits from December 31, 2009 and June 30, 2009 includes $308 million and $507 million, respectively, from wholesale deposits. The increase in non-interest bearing deposits and interest bearing deposits from June 30, 2009 includes $39 million and $197 million, respectively, from the First National acquisition.

As a result of the deposit growth, borrowings overall have been reduced. FHLB advances decreased $260 million, or 33 percent, from December 31, 2009 and decreased $83 million, or 14 percent, from June 30, 2009. There were no Federal Reserve Bank borrowings through the Term Auction Facility program (TAF) at June 30, 2010 due to cessation of the TAF program by the Federal Reserve. TAF borrowings totaled $225 million at December 31, 2009 and $587 million at June 30, 2009. Repurchase agreements and other borrowed funds were $234 million at June 30, 2010, an increase of $8 million from December 31, 2009 and an increase of $36 million from June 30, 2009.

Stockholders Equity

Unaudited - Dollars in thousands, except per share data)	June 30, 2010	December 31, 2009	June 30, 2009	$ Change from December 31, 2009	$ Change from June 30, 2009
Common equity	$ 836,955	686,238	692,046	150,717	144,909
Accumulated other comprehensive gain (loss)	8,793	(348)	(2,382)	9,141	11,175
Total stockholders equity	845,748	685,890	689,664	159,858	156,084
Goodwill and core deposit intangible, net	(158,575)	(160,196)	(157,736)	1,621	(839)
Tangible stockholders equity	$ 687,173	525,694	531,928	161,479	155,245
Stockholders equity to total assets	13.44%	11.08%	12.23%		
Tangible stockholders equity to total tangible assets	11.20%	8.72%	9.71%		
Book value per common share	$ 11.76	11.13	11.21	0.63	0.55
Tangible book value per common share	$ 9.56	8.53	8.65	1.03	0.91
Market price per share at end of year	$ 14.67	13.72	14.77	0.95	(0.10)

Total stockholders equity and book value per share increased $156 million and $0.55 per share, respectively, from June 30, 2009, such increases largely the result of the $146 million in net proceeds from the Company s March equity offering of 10.291 million shares. Tangible stockholders equity has increased $155 million, or 29 percent, since June 30, 2009, with tangible stockholders equity to tangible assets at 11.20 percent and 9.71 percent as of June 30, 2010 and June 30, 2009, respectively. Accumulated other comprehensive income (loss), representing net unrealized gains or losses (net of tax) on investment securities, increased $9.1 million since December 31, 2009 and $11.2 million from June 30, 2009.

On June 30, 2010, the board of directors declared a cash dividend of $0.13 per share, payable July 22, 2010 to shareholders of record on July 13, 2010. Future cash dividends will depend on a variety of factors, including net income, capital, asset quality and general economic conditions.

Additional Management s Discussion and Analysis

Loan Portfolio

The following tables summarize selected information by regulatory classification on the Company s loan portfolio:

(Dollars in thousands)	Loans Receivable, Gross by Bank Balance 6/30/10	Balance 12/31/09	Balance 6/30/09	% Change from 12/31/09	% Change from 6/30/09
Glacier	$ 893,809	942,254	965,399	-5%	-7%
Mountain West	916,582	957,451	989,371	-4%	-7%
First Security	577,795	566,713	581,908	2%	-1%
1st Bank	283,825	296,913	314,755	-4%	-10%
Western	316,893	323,375	349,150	-2%	-9%
Big Sky	266,540	270,970	285,515	-2%	-7%
Valley	194,521	187,283	195,662	4%	-1%
First National	152,970	153,058		0%	n/m
Citizens	168,406	166,049	169,507	1%	-1%
First Bank-MT	116,920	117,017	125,184	0%	-7%
San Juans	147,721	149,162	152,308	-1%	-3%
Eliminations	(3,813)			n/m	n/m
Total	$ 4,032,169	4,130,245	4,128,759	-2%	-2%

(Dollars in thousands)	Land, Lot and Other Construction Loans by Bank Balance 6/30/10	Balance 12/31/09	Balance 6/30/09	% Change from 12/31/09	% Change from 6/30/09
Glacier	$ 150,723	165,734	196,140	-9%	-23%
Mountain West	190,060	217,078	254,625	-12%	-25%
First Security	78,218	71,404	83,013	10%	-6%
1st Bank	30,800	36,888	41,784	-17%	-26%
Western	31,056	32,045	38,554	-3%	-19%
Big Sky	64,739	71,365	74,240	-9%	-13%
Valley	13,622	14,704	17,140	-7%	-21%
First National	13,184	10,247		29%	n/m
Citizens	13,034	13,263	22,145	-2%	-41%
First Bank-MT	808	1,010	5,208	-20%	-84%
San Juans	32,286	39,621	33,923	-19%	-5%
Total	$ 618,530	673,359	766,772	-8%	-19%

	Land, Lot and Other Construction Loans by Bank, by Type at 6/30/10					
(Dollars in thousands)	Land Development	Consumer Land or Lot	Unimproved Land	Developed Lots for Operative Builders	Commercial Developed Lot	Other Construction
Glacier	$ 62,805	30,739	30,565	9,198	17,416	

Mountain West	49,542	68,580	20,511	25,500	8,775	17,152
First Security	28,358	7,079	24,114	4,685	502	13,480
1st Bank	8,130	11,636	4,007	221	2,536	4,270
Western	15,669	6,129	4,805	587	2,022	1,844
Big Sky	21,563	17,856	10,115	1,192	2,546	11,467
Valley	2,273	5,582	1,225	106	3,310	1,126
First National	2,464	3,622	1,469	578	2,159	2,892
Citizens	2,934	2,517	2,602	50	660	4,271
First Bank-MT		57	751			
San Juans	4,125	17,033	2,216		8,211	701
Total	$ 197,863	170,830	102,380	42,117	48,137	57,203

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(Dollars in thousands)	Residential Construction Loans by Bank, by Type Balance 6/30/10	Balance 12/31/09	Balance 6/30/09	% Change from 12/31/09	% Change from 6/30/09	Custom & Owner Occupied 6/30/10	Pre-Sold & Spec 6/30/10
Glacier	$ 45,722	57,183	79,887	-20%	-43%	$ 8,799	36,923
Mountain West	23,997	57,437	80,356	-58%	-70%	6,614	17,383
First Security	14,600	19,664	17,991	-26%	-19%	5,911	8,689
1st Bank	12,272	17,633	23,080	-30%	-47%	8,419	3,853
Western	1,795	2,245	3,399	-20%	-47%	1,136	659
Big Sky	16,875	20,679	31,421	-18%	-46%	790	16,085
Valley	5,595	5,170	5,267	8%	6%	4,369	1,226
First National	2,607	2,612		0%	n/m	1,290	1,317
Citizens	10,994	13,211	17,106	-17%	-36%	5,247	5,747
First Bank-MT	178	234		-24%	n/m	178	
San Juans	7,095	13,811	12,898	-49%	-45%	6,286	809
Total	$ 141,730	209,879	271,405	-32%	-48%	$ 49,039	92,691

(Dollars in thousands)	Single Family Residential Loans by Bank, by Type Balance 6/30/10	Balance 12/31/09	Balance 6/30/09	% Change from 12/31/09	% Change from 6/30/09	1st Lien 6/30/10	Junior Lien 6/30/10
Glacier	$ 187,625	204,789	201,281	-8%	-7%	$ 165,262	22,363
Mountain West	296,102	278,158	282,957	6%	5%	255,884	40,218
First Security	86,963	82,141	86,958	6%	0%	73,355	13,608
1st Bank	59,292	65,555	65,365	-10%	-9%	54,750	4,542
Western	47,532	50,502	59,511	-6%	-20%	45,525	2,007
Big Sky	32,216	33,308	32,473	-3%	-1%	28,272	3,944
Valley	66,055	66,644	71,680	-1%	-8%	54,529	11,526
First National	15,080	19,239		-22%	n/m	11,530	3,550
Citizens	20,039	20,937	18,096	-4%	11%	17,851	2,188
First Bank-MT	9,818	10,003	11,231	-2%	-13%	8,515	1,303
San Juans	30,153	22,811	25,574	32%	18%	28,804	1,349
Total	$ 850,875	854,087	855,126	0%	0%	$ 744,277	106,598

(Dollars in thousands)	Commercial Real Estate Loans by Bank, by Type Balance 6/30/10	Balance 12/31/09	Balance 6/30/09	% Change from 12/31/09	% Change from 6/30/09	Owner Occupied 6/30/10	Non-Owner Occupied 6/30/10
Glacier	$ 230,976	232,552	221,505	-1%	4%	$ 115,525	115,451
Mountain West	222,414	230,383	199,589	-3%	11%	147,120	75,294
First Security	221,257	224,425	208,907	-1%	6%	146,676	74,581
1st Bank	64,158	64,008	69,999	0%	-8%	46,997	17,161

Western	105,377	107,173	103,434	-2%	2%	54,219	51,158
Big Sky	86,114	82,303	80,069	5%	8%	55,483	30,631
Valley	51,239	48,144	47,291	6%	8%	33,950	17,289
First National	28,808	26,703		8%	n/m	22,713	6,095
Citizens	58,507	55,660	53,425	5%	10%	44,609	13,898
First Bank-MT	17,254	18,827	17,057	-8%	1%	11,276	5,978
San Juans	52,423	47,838	55,952	10%	-6%	28,321	24,102
Total	$ 1,138,527	1,138,016	1,057,228	0%	8%	$ 706,889	431,638

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	Consumer Loans by Bank, by Type			% Change	% Change	Home Equity Line of Credit	Other Consumer
(Dollars in thousands)	Balance 6/30/10	Balance 12/31/09	Balance 6/30/09	from 12/31/09	from 6/30/09	6/30/10	6/30/10
Glacier	$ 158,088	162,723	161,048	-3%	-2%	$ 142,223	15,865
Mountain West	72,284	71,702	71,042	1%	2%	62,744	9,540
First Security	77,140	78,345	80,574	-2%	-4%	50,333	26,807
1st Bank	41,985	46,455	46,583	-10%	-10%	16,322	25,663
Western	46,001	48,946	50,384	-6%	-9%	31,970	14,031
Big Sky	28,475	28,903	28,882	-1%	-1%	25,191	3,284
Valley	24,445	24,625	25,798	-1%	-5%	15,248	9,197
First National	26,263	27,320		-4%	n/m	16,772	9,491
Citizens	30,613	29,253	28,958	5%	6%	24,113	6,500
First Bank-MT	7,834	7,650	5,920	2%	32%	3,847	3,987
San Juans	14,463	14,189	14,618	2%	-1%	13,215	1,248
Total	$ 527,591	540,111	513,807	-2%	3%	$ 401,978	125,613

n/m not measurable

Allowance for Loan and Lease Losses

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 loan 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 community bank subsidiaries operate, changes in collateral values, delinquencies, non-performing assets and net charge-offs. Although the Company and 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 ALLL evaluation is well documented and approved by each bank subsidiary s Board of Directors and reviewed by the parent company 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 company s Board of Directors, the internal audit department, independent credit reviewer and state and federal bank regulatory agencies.

At the end of each quarter, each of the community bank subsidiaries 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. Each of the Bank s ALLL is considered adequate to absorb losses from any segment of its loan and lease portfolio.

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.

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The Company s model of eleven 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 further problem credits will not arise and additional loan losses incurred, particularly in periods of rapid economic downturns.

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 Banks 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 Company considers the ALLL balance of $141.7 million adequate to cover inherent losses in the loan and lease portfolios as of June 30, 2010. 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 loan losses. See additional risk factors in Part II, ITEM 1A. Risk Factors.

The following table summarizes the allocation of the ALLL:

	June 30, 2010		December 31, 2009		June 30, 2009	
(Unaudited - Dollars in thousands)	Allowance for Loan and Lease Losses	Percent of Loans in Category	Allowance for Loan and Lease Losses	Percent of Loans in Category	Allowance for Loan and Lease Losses	Percent of Loans in Category
Residential real estate	$ 12,400	19.0%	13,496	19.6%	8,790	20.3%
Commercial real estate	64,466	46.6%	66,791	45.9%	45,632	47.0%
Other commercial	41,884	17.1%	39,558	17.5%	26,871	15.7%
Consumer and other loans	22,915	17.3%	23,082	17.0%	16,081	17.0%
Totals	$ 141,665	100.0%	142,927	100.0%	97,374	100.0%

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The following tables summarize the ALLL experience at the dates indicated, including breakouts by regulatory and bank subsidiary classification:

(Unaudited - Dollars in thousands)	Six Months ended June 30, 2010	Year ended December 31, 2009	Six Months ended June 30, 2009
Balance at beginning of period	$ 142,927	76,739	76,739
Charge-offs			
Residential real estate	(8,864)	(18,854)	(4,881)
Commercial loans	(28,935)	(35,077)	(14,002)
Consumer and other loans	(3,785)	(6,965)	(2,363)
Total charge-offs	(41,584)	(60,896)	(21,246)
Recoveries			
Residential real estate	333	423 &nbs	