

Guaranty Bancorp  
Form 10-Q  
August 08, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2008**

**OR**

**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 Number: 000-51556**

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# GUARANTY BANCORP

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction  
of incorporation or organization)

**41-2150446**

(I.R.S. Employer Identification Number)

**1331 Seventeenth St., Suite 300**

**Denver, CO**

(Address of principal executive offices)

**80202**

(Zip Code)

**303-293-5563**

(Registrant's telephone number, including area code)

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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, as amended during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer  (Do not check if smaller reporting company)

Smaller reporting Company

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

As of July 31, 2008, there were 52,599,865 shares of the registrant's common stock outstanding, including 1,612,141 shares of unvested stock grants and excluding 69,275 shares to be issued under its deferred compensation plan.

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**Forward-Looking Statements and Factors that Could Affect Future Results**



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Certain statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in our future filings with the SEC, in press releases, and in oral and written statements made by or with our approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "targeted", "continue", "remain", "will", "should", "may" and other similar expressions are intended to identify statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local, regional, national and international economic conditions and the impact they may have on us and our customers, and our assessment of that impact on our estimates including, but not limited to the allowance for loan losses and goodwill.
- Changes in the level of nonperforming assets and charge-offs.
- The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board.
- Inflation and interest rate, securities market and monetary fluctuations.
- Political instability, acts of war or terrorism and natural disasters.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by customers.
- Revenues are lower than expected.
- Changes in consumer spending, borrowings and savings habits.
- Changes in the financial performance and/or condition of our borrowers.

- Credit quality deterioration, which could cause an increase in the provision for loan losses.
- Technological changes.
- Acquisitions of acquired businesses and greater than expected costs or difficulties related to the integration of acquired businesses.
- The ability to increase market share and control expenses.
- Changes in the competitive environment among financial or bank holding companies and other financial service providers.
- The effect of changes in laws and regulations with which we and our subsidiaries must comply.
- Changes in the securities markets.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.
- Changes in our organization, compensation and benefit plans.
- The costs and effects of legal and regulatory developments, including the resolution of legal proceedings or regulatory or other governmental inquiries, the results of regulatory examinations or reviews, and the necessity of regulatory approval for dividend payments from the subsidiary bank to the Company.

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- Our success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. We do not intend to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.



Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. Unaudited Consolidated Financial Statements****GUARANTY BANCORP AND SUBSIDIARIES****Unaudited Consolidated Balance Sheets**

	June 30, 2008	December 31, 2007
	(Dollars in thousands, except per share data)	
<b>Assets</b>		
Cash and due from banks	\$ 44,175	\$ 51,611
Federal funds sold	11,672	745
Cash and cash equivalents	55,847	52,356
Securities available for sale, at fair value	112,118	118,964
Securities held to maturity (fair value of \$13,580 and \$14,916 at June 30, 2008 and December 31, 2007)	13,772	14,889
Bank stocks, at cost	32,713	32,464
Total investments	158,603	166,317
Loans, net of unearned discount	1,789,155	1,781,647
Less allowance for loan losses	(26,506)	(25,711)
Net loans	1,762,649	1,755,936
Loans, held for sale		492
Premises and equipment, net	65,087	69,981
Other real estate owned and foreclosed assets	1,910	3,517
Goodwill	250,748	250,748
Other intangible assets, net	29,179	32,933
Other assets	34,536	39,384
Total assets	\$ 2,358,559	\$ 2,371,664
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 515,646	\$ 515,299
Interest-bearing demand	673,611	732,156
Savings	71,474	71,944
Time	446,300	480,108
Total deposits	1,707,031	1,799,507
Securities sold under agreements to repurchase and federal fund purchases	21,442	23,617
Borrowings	147,117	63,715
Subordinated debentures	41,239	41,239
Interest payable and other liabilities	17,803	24,932
Total liabilities	1,934,632	1,953,010
<b>Stockholders equity:</b>		
Common stock \$.001 par value; 100,000,000 shares authorized, 64,534,950 shares issued, 52,736,269 shares outstanding at June 30, 2008 (includes 1,689,608 shares of unvested restricted stock and 69,275 shares to be issued); 64,378,450 shares issued,	65	64

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52,616,991 shares outstanding at December 31, 2007 (includes 1,651,345 shares of unvested restricted stock and 60,507 of shares to be issued).

Additional paid-in capital	619,188	617,611
Shares to be issued for deferred compensation obligations	613	573
Accumulated deficit	(89,997)	(95,196)
Accumulated other comprehensive loss	(2,894)	(1,472)
Treasury Stock, at cost, 10,989,743 and 10,983,653, respectively	(103,048)	(102,926)
Total stockholders' equity	423,927	418,654
Total liabilities and stockholders' equity	\$ 2,358,559	\$ 2,371,664

See Notes to Unaudited Consolidated Financial Statements.

Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Unaudited Consolidated Statements of Income**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in thousands, except per share data)			
<b>Interest income:</b>				
Loans, including fees	\$ 28,107	\$ 39,087	\$ 59,147	\$ 78,825
<b>Investment securities:</b>				
Taxable	779	608	1,463	1,229
Tax-exempt	877	1,336	1,770	2,748
Dividends	435	459	905	934
Federal funds sold and other	18	213	334	327
Total interest income	30,216	41,703	63,619	84,063
<b>Interest expense:</b>				
Deposits	7,411	13,738	17,206	27,084
Federal funds purchased and repurchase agreements	145	448	282	749
Borrowings	1,417	592	2,446	1,530
Subordinated debentures	852	938	1,644	1,870
Total interest expense	9,825	15,716	21,578	31,233
Net interest income	20,391	25,987	42,041	52,830
Provision for loan losses	900	12,766	1,775	13,615
Net interest income, after provision for loan losses	19,491	13,221	40,266	39,215
<b>Noninterest income:</b>				
Customer service and other fees	2,528	2,409	4,804	4,852
Gain on sale of securities			138	
Other	604	168	705	292
Total noninterest income	3,132	2,577	5,647	5,144
<b>Noninterest expense:</b>				
Salaries and employee benefits	9,184	10,724	18,904	21,698
Occupancy expense	2,131	2,056	4,132	4,177
Furniture and equipment	1,383	1,231	2,697	2,471
Amortization of intangible assets	1,877	2,195	3,754	4,390
Other general and administrative	5,122	11,416	8,920	15,568
Total noninterest expense	19,697	27,622	38,407	48,304
Income (loss) before income taxes	2,926	(11,824)	7,506	(3,945)
Income tax expense (benefit)	901	(5,030)	2,236	(2,560)
Net income (loss)	\$ 2,025	\$ (6,794)	\$ 5,270	\$ (1,385)
<b>Earnings (loss) per share:</b>				
basic:	\$ 0.04	\$ (0.13)	\$ 0.10	\$ (0.03)
diluted:	0.04	(0.13)	0.10	(0.03)
<b>Weighted average shares outstanding:</b>				
basic	51,004,472	53,425,770	50,996,350	54,105,373
diluted	51,091,042	53,425,770	51,086,578	54,105,373

See Notes to Unaudited Consolidated Financial Statements.

Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Unaudited Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income**

	Common Stock shares Outstanding and to be issued	Common Stock and Additional Paid-in Capital	Shares to be Issued	Treasury Stock	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Totals
(In thousands, except share data)							
Balance, December 31, 2006	57,236,795	\$ 614,553	\$ 775	\$ (69,574)	\$ 42,896	\$ 809	\$ 589,459
Comprehensive income:							
Net loss					(1,385)		(1,385)
Other comprehensive loss						(1,331)	(1,331)
Total comprehensive loss							(2,716)
Stock compensation awards, net of forfeitures	(10,200)						
Earned stock award compensation		1,708					1,708
Repurchase of common stock	(2,422,547)			(20,806)			(20,806)
Deferred compensation	(51,745)		45				45
Common shares issued		250	(258)	8			
Balance, June 30, 2007	54,752,303	\$ 616,511	\$ 562	\$ (90,372)	\$ 41,511	\$ (522)	\$ 567,690
Balance, December 31, 2007	52,616,991	\$ 617,675	\$ 573	\$ (102,926)	\$ (95,196)	\$ (1,472)	\$ 418,654
Adjustment to apply EITF 06-04							
					(71)		(71)
Comprehensive income:							
Net income					5,270		5,270
Other comprehensive loss						(1,422)	(1,422)
Total comprehensive income							3,848
Stock compensation awards, net of forfeitures	129,600						
Earned stock award compensation		1,550					1,550
Repurchase of common stock	(22,645)			(122)			(122)
Deferred compensation	12,323		68				68
Common shares issued		28	(28)				
Balance, June 30, 2008	52,736,269	\$ 619,253	\$ 613	\$ (103,048)	\$ (89,997)	\$ (2,894)	\$ 423,927

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Unaudited Consolidated Statements of Cash Flows**

	Six Months Ended June 30,	
	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 5,270	\$ (1,385)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,054	6,704
Provision for loan losses	1,775	13,615
Stock compensation	1,550	1,708
Gain on sale of securities	(138)	
Loss on sale of real estate owned and assets	4	177
Other real estate owned valuation adjustments	734	158
Write down of premises and equipment	1,191	
Other	120	1,553
Net change in:		
Accrued interest receivable and other assets	6,896	1,706
Accrued interest payable and other liabilities	(5,644)	(6,726)
Net cash provided by operating activities	17,812	17,510
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	15,313	13,140
Proceeds from sales	14,738	
Purchases	(25,299)	(1,909)
Activity in held-to-maturity securities and bank stocks:		
Maturities, prepayments, and calls	1,118	435
Purchases		(1,373)
Loan originations and principal collections, net	(9,206)	46,822
Proceeds from sale of loans held for sale	492	
Proceeds from sales of foreclosed assets	587	480
Proceeds from sales of premises and equipment		584
Additions to premises and equipment	(721)	(675)
Net cash provided (used) by investing activities	(2,978)	57,504
Cash flows from financing activities:		
Net decrease in deposits	(92,476)	(21,693)
Net change in short-term borrowings	(16,331)	(40,082)
Proceeds from issuance of debt	104,772	
Repayment of long-term debt	(5,011)	(1,520)
Net change in federal funds purchased and repurchase agreements	(2,175)	11,922
Repurchase of common stock	(122)	(20,806)
Net cash used by financing activities	(11,343)	(72,179)
Net change in cash and cash equivalents	3,491	2,835
Cash and cash equivalents, beginning of period	52,356	49,620
Cash and cash equivalents, end of period	\$ 55,847	\$ 52,455

See Notes to Unaudited Consolidated Financial Statements.



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**GUARANTY BANCORP AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(1) Organization, Operations and Basis of Presentation**

Guaranty Bancorp (formerly Centennial Bank Holdings, Inc.) is a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended. On May 6, 2008, the stockholders of the Company approved the proposal to change the name of the holding company from Centennial Bank Holdings, Inc. to Guaranty Bancorp. This name change was effective on May 12, 2008.

Our principal business is to serve as a holding company for our subsidiaries. As of June 30, 2008, Guaranty Bancorp has a single bank subsidiary, Guaranty Bank and Trust Company, referred to as Guaranty Bank or the Bank. At December 31, 2007, Guaranty Bancorp's subsidiaries were Guaranty Bank and Centennial Bank of the West, referred to as CBW. CBW was merged into Guaranty Bank on January 1, 2008.

Reference to Bank means Guaranty Bank, and we or Company means Guaranty Bancorp on a consolidated basis with the Banks, if applicable. References to Guaranty Bancorp or to the holding company refer to the parent company on a stand-alone basis.

The Bank is a full-service community bank offering an array of banking products and services to the communities it serves along the Front Range of Colorado, including accepting time and demand deposits and originating commercial loans (including energy loans), real estate loans, Small Business Administration guaranteed loans and consumer loans. The Bank also provides trust services, including personal trust administration, estate settlement, investment management accounts and self-directed IRAs. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of business. There are no significant concentrations of loans to any one industry or customer. The customers ability to repay their loans is dependent on the real estate and general economic conditions of the area, among other factors.

**(a) Basis of Presentation**

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America. All significant intercompany balances and transactions have been eliminated. Our financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The interim operating results are not necessarily indicative of operating results for the full year.

(b) *Use of Estimates*

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and income and expense for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes include the assessment for impairment of certain investment securities, the allowance for loan losses, valuation of other real estate owned, deferred tax assets and liabilities, goodwill and other intangible assets and stock compensation expense. Assumptions and factors are evaluated on an annual basis or whenever events or changes in circumstance indicate that the previous assumptions and factors have changed. The result of the analysis could result in adjustments to the estimates.

(c) *Allowance for Loan Losses*

The allowance for loan losses is reported as a reduction of outstanding loan balances. The allowance for loan losses is a valuation allowance for probable incurred loan losses.

The allowance for loan losses is evaluated on a regular basis by management and based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect borrowers' ability to repay, estimated value of



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**GUARANTY BANCORP AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

In addition to the allowance for loan losses, the Company records a reserve for unfunded commitments. Similar to the allowance for loan losses, the reserve for unfunded commitments is evaluated on a regular basis by management. This reserve is recorded in other liabilities and the provision for unfunded commitments is included in other noninterest expense.

**(d) *Goodwill and Other Intangible Assets***

Goodwill represents the excess of cost over the fair value of the net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are tested for impairment and not amortized. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values.

Goodwill is our only intangible asset with an indefinite life. The annual impairment analysis of goodwill includes identification of reporting units, the determination of the carrying value of each reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of each reporting unit. We have identified one significant reporting unit—banking operations. The Company tests for impairment of goodwill annually as of October 31, or if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit. We determine the fair value of our reporting unit and compare it to its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, we are required to perform a second step to the impairment test to measure the extent of the impairment.

Core deposit intangible assets, referred to as CDI, are recognized apart from goodwill at the time of acquisition based on valuations prepared by independent third parties or other estimates of fair value. In preparing such valuations, variables such as deposit servicing costs, attrition rates, and market discount rates are considered. CDI assets are amortized to expense over their useful lives, which we have estimated to range from 7 years to 15 years.

**(e) *Stock Incentive Plan***

The Company's Amended and Restated 2005 Stock Incentive Plan (the "Plan") provides for up to 2,500,000 grants of stock options, stock awards, stock units awards, performance stock awards, stock appreciation rights, and other equity-based awards to key employees, nonemployee directors, consultants and prospective employees. Through June 30, 2008, the Company has only granted stock awards. The Company accounts for the equity-based compensation using the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*. The Company recognizes expense for services received in a share-based payment transaction as services are received. That cost is

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recognized on a straight-line basis over the period during which an employee or director provides service in exchange for the award. The Company has issued stock awards that vest based on service periods from one to four years, performance conditions, and awards with both service periods and performance conditions. The performance-based share awards expire December 31, 2012. The compensation cost of employee and director services received in exchange for stock awards is based on the grant-date fair value of the award (as determined by quoted market prices). The stock compensation expense recognized reflects estimated forfeitures, adjusted as necessary based on actual forfeitures.

### *(f) Deferred Compensation Plans*

The Company has Deferred Compensation Plans (the Plans ) that allow directors and certain key employees to voluntarily defer compensation. Compensation expense is recorded for the deferred compensation and a related liability is recognized. Participants may elect designated investment options for the notional investment of their deferred compensation. The recorded obligations are adjusted for deemed income or loss related to the investments selected. Participants in certain Plans are given the opportunity to elect to have all or a portion of their deferred compensation earn a rate of return equal to the total return on the Company's common stock. The Plans do not provide for diversification of a participant's assets allocated to Company common stock and assets allocated to Company common stock can only be settled with a fixed number of shares of stock. In accordance with Emerging Issues Task Force Issue 97-14, *Accounting for*

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**GUARANTY BANCORP AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

*Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested*, the deferred compensation obligation associated with Company common stock is classified as a component of stockholders' equity and the related shares are treated as shares to be issued and are included in total shares outstanding for earnings per share and balance sheet purposes only. At June 30, 2008 and December 31, 2007, the total shares outstanding included 69,275 and 60,507 shares, respectively, to be issued. Subsequent changes in the fair value of the common stock are not reflected in earnings or stockholders' equity of the Company. Actual Company stock held by the Company for the satisfaction of obligations of the Plans is classified as treasury stock.

**(g) Income taxes**

Effective January 1, 2007, the Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely to be realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption of FIN 48 on January 1, 2007 had no effect on the Company's financial statements.

The Company and its subsidiaries are subject to U.S. federal income tax and State of Colorado tax. The Company is no longer subject to examination by Federal or state taxing authorities for years before 2004. At June 30, 2008 and December 31, 2007, the Company did not have any unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. The Company recognizes interest related to income tax matters in other interest expense and penalties related to income tax matters in other noninterest expense. At June 30, 2008 and December 31, 2007, the Company does not have any amounts accrued for interest and penalties.

**(h) Earnings per Common Share**

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if potential dilutive common shares had been issued. In accordance with SFAS No. 128 (As Amended), *Earnings per Share*, the Company's obligation to issue shares of stock to participants in its deferred compensation plan has been treated as outstanding shares of stock in the basic earnings per share calculation. Dilutive common shares that may be issued by the Company relate to unvested common share grants subject to a service condition for the six-month periods ended June 30, 2008 and 2007. Outstanding restricted shares with an anti-dilutive impact, which are excluded from the earnings per common share computation, include performance-based shares and service-based shares that are not considered dilutive. For the six-months ended June 30, 2008 and 2007, the anti-dilutive restricted shares excluded from the earnings per common share computation are 1,599,380 and 1,542,088, respectively.

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*Earnings per common share have been computed based on the following:*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Average common shares outstanding	51,004,472	53,425,770	50,996,350	54,105,373
Effective of dilutive unvested stock grants	86,570		90,228	
Average shares outstanding for calculating diluted earnings per common share	51,091,042	53,425,770	51,086,578	54,105,373

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**GUARANTY BANCORP AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

**(i) Recently Issued Accounting Standards**

**Adoption of New Accounting Standards:** In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of FAS 157 on January 1, 2008 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. See Note 8 for further disclosure regarding the implementation of this accounting pronouncement.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard became effective for the Company on January 1, 2008. Upon adoption of this accounting pronouncement on January 1, 2008, the Company did not elect the fair value option for any financial assets or financial liabilities.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit, depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. Upon adoption of this issue on January 1, 2008, the Company recorded a cumulative effect adjustment to reduce beginning retained earnings as of January 1, 2008 by \$71,000.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The adoption of this SAB on January 1, 2008 did not have a material impact on the Company's consolidated financial

position, results of operations or cash flows.

*Newly Issued But Not Yet Effective Accounting Standards:* In December 2007, the FASB issued Statement No. 141R, *Business Combinations (Revised)* ( SFAS 141R ). SFAS 141R replaces the current standard on business combinations and will significantly change the accounting for and reporting of business combinations in consolidated financial statements. This statement requires an entity to measure the business acquired at fair value and to recognize goodwill attributable to any noncontrolling interests (previously referred to as minority interests) rather than just the portion attributable to the acquirer. The statement will also result in fewer exceptions to the principle of measuring assets acquired and liabilities assumed in a business combination at fair value. In addition, the statement will result in payments to third parties for consulting, legal, audit, and similar services associated with an acquisition to be recognized as expenses when incurred rather than capitalized as part of the business combination. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008.

Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133* ( SFAS 161 ). SFAS 161 amends Statement 133 by requiring expanded disclosures about an entity's derivative instruments and hedging activities, but does not change Statement 133's scope or accounting. This statement requires increased qualitative, quantitative, and credit-risk disclosures. SFAS 161 also amends Statement No. 107 to clarify that derivative instruments are subject to Statement 107's concentration-of-credit-risk disclosures. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008. The Company does not expect the adoption of SFAS 161 to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued Statement No. 162 *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP Hierarchy). The Board issued this Statement because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the Board concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB as opposed to auditing literature established by the AICPA and PCAOB. SFAS 162 is effective 60 days following the SEC's approval of the PCAOB's amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ). The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing EPS under the two-class method. The FSP affects entities that accrue cash dividends on share-based payment awards during the awards' service period when the dividends do not need to be returned if the employees forfeit the awards. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. However, the Company does not accrue cash dividends and therefore does not anticipate there to be an impact on the Company's consolidated financial position, results of operations or cash flows.

**(2) Securities**

*The amortized cost and estimated fair value of debt securities are as follows:*

	Amortized cost		Gross unrealized gains		Gross unrealized losses		Fair value
			(In thousands)				
			June 30, 2008				
Securities available for sale:							
U.S. government agencies and government-sponsored entities	\$ 2,493	\$			(44)	\$	2,449

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State and municipal	75,506		735		(4,672)		71,569
Mortgage-backed	37,087		51		(741)		36,397
Marketable equity	1,156						1,156
Other securities	547						547
Securities available-for-sale	\$ 116,789	\$	786	\$	(5,457)	\$	112,118
Securities held to maturity:							
Mortgage-backed	\$ 13,772	\$	16	\$	(208)	\$	13,580

December 31, 2007

Securities available for sale:							
U.S. government agencies and government-sponsored							
entities	\$ 10,453	\$	13	\$	(10)	\$	10,456
State and municipal	79,164		607		(2,895)		76,876
Mortgage-backed	30,132		108		(202)		30,038
Marketable equity	1,047						1,047
Other securities	547						547
Securities available-for-sale	\$ 121,343	\$	728	\$	(3,107)	\$	118,964
Securities held to maturity:							
Mortgage-backed	\$ 14,889	\$	93	\$	(66)	\$	14,916



Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

All individual securities that have been in a continuous unrealized loss position for 12 months or longer at June 30, 2008, have fluctuated in value since their purchase dates as a result of changes in market interest rates. These securities include securities issued by U.S. government agencies and government-sponsored entities that have an AAA credit rating as determined by various rating agencies or state and municipal bonds that have either been rated as investment grade or higher by various rating agencies or have been subject to an annual internal review process by management. This annual review process was updated in the second quarter 2008 for the largest non-rated municipal security in our portfolio. This particular bond had an increase in unrealized loss at June 30, 2008, as compared to December 31, 2007, as the rates on unsecured non-bank qualified securities increased during the period. The unrealized loss on this security comprises nearly 100% of the overall unrealized loss on state and municipal bonds. Based on the second quarter 2008 credit analysis of this particular bond, including a review of the issuer's current financial statements, the related cash flows and interest payments, management concluded that the continuous unrealized loss position on this security was a result of the level of market interest rates and not a result of the underlying issuer's ability to repay. Similarly, management concluded that the continuous unrealized loss position on all other securities was also a result of the level of market interest rates and not a result of the underlying issuers' ability to repay. In addition, we have the ability and intent to hold these securities until their fair value recovers to their cost, which may be maturity. Accordingly, we have not recognized any other-than-temporary impairment in our consolidated statements of income.

**(3) Loans**

*A summary of net loans held for investment by loan type at the dates indicated is as follows:*

	June 30, 2008	December 31, 2007
	(In thousands)	
Loans on real estate:		
Residential and commercial mortgage	\$ 717,533	\$ 713,478
Construction	232,522	235,236
Equity lines of credit	46,778	48,624
Commercial loans	705,309	679,717
Agricultural loans	29,442	39,506
Lease financing	472	4,732
Installment loans to individuals	39,611	40,835
Overdrafts	915	1,329
SBA and other	20,241	21,592
	1,792,823	1,785,049
Less:		
Allowance for loan losses	(26,506)	(25,711)
Unearned discount	(3,668)	(3,402)
Net Loans	\$ 1,762,649	\$ 1,755,936

*A summary of transactions in the allowance for loan losses for the period indicated is as follows:*

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	Quarter Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Balance, beginning of period	\$ 26,048	\$ 27,492	\$ 25,711	\$ 27,899
Provision for loan losses	900	12,766	1,775	13,615
Loans charged off	(673)	(5,473)	(1,416)	(7,165)
Recoveries on loans previously charged-off	231	809	436	1,245
Balance, end of period	\$ 26,506	\$ 35,594	\$ 26,506	\$ 35,594

Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

The following table details key information regarding the Company's impaired loans at the dates indicated:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	(In thousands)	
Impaired loans with a valuation allowance	\$ 22,454	\$ 16,663
Impaired loans without a valuation allowance	7,386	6,665
Total impaired loans	\$ 29,840	\$ 23,328
Valuation allowance related to impaired loans	\$ 6,295	\$ 4,283

	<b>Quarter Ended June 30, 2008</b>		<b>Six Months Ended June 30, 2008</b>		<b>June 30, 2007</b>	
	(In thousands)					
Average of individually impaired loans during period	\$ 25,320	\$ 55,845	\$ 24,689	\$ 48,094		
Interest income recognized during impairment	\$ 30	\$ 360	\$ 47	\$ 725		
Cash-basis interest income recognized	\$ 30	\$ 292	\$ 47	\$ 590		

The gross interest income that would have been recorded in the year-to-date periods ended June 30, 2008 and June 30, 2007, if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period, was \$1,432,000 and \$2,212,000, respectively. At June 30, 2008 and December 31, 2007, nonaccrual loans were \$29,742,000 and \$19,309,000, respectively.

**(4) Goodwill and Other Intangible Assets**

Goodwill and other intangible assets arise from business combinations. Goodwill and other intangible assets deemed to have indefinite lives generated from purchase combinations are tested for impairment no less than annually.

Other intangible assets with definite lives are amortized over their respective estimated useful lives to their estimated residual values. The amortization expense represents the estimated decline in the value of the underlying deposits or loan customers acquired.

The carrying amount of goodwill was \$250,748,000 for the periods ended June 30, 2008 and December 31, 2007.

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The following table presents the gross amounts of core deposit and customer relationship intangibles and the related accumulated amortization at the dates indicated:

	Useful life	June 30, 2008	December 31, 2007
(In thousands)			
Core deposit intangible assets	7 - 15 years	\$ 62,975	\$ 62,975
Accumulated amortization		(33,796)	(30,042)
Net other intangible assets		\$ 29,179	\$ 32,933

Following is the aggregate amortization expense recognized in each period:

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	2008	2007	2008	2007
(In thousands)				
Amortization expense	\$ 1,877	\$ 2,195	\$ 3,754	\$ 4,390

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**GUARANTY BANCORP AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

**(5) Borrowings**

At June 30, 2008, our outstanding borrowings were \$147,117,000 as compared to \$63,715,000 at December 31, 2007. These borrowings at June 30, 2008 consisted of term notes at the Federal Home Loan Bank ( FHLB ). There was also a line of credit at the FHLB at June 30, 2008, but there was no balance outstanding on this line of credit on such date. At December 31, 2007, borrowings consisted of a line of credit and term notes at the Federal Home Loan Bank of \$15,160,000 and \$47,356,000 respectively, and a \$1,199,000 Treasury Tax and Loan note balance.

The total commitment, including balances outstanding, for borrowings at the Federal Home Loan Bank for the term notes and line of credit at June 30, 2008 and December 31, 2007 was \$341.5 million and \$316.2 million, respectively. The interest rate on the line of credit varies with the federal funds rate, and was 2.55% and 5.51% at June 30, 2008 and December 31, 2007, respectively. The term notes have fixed interest rates that range from 2.52% to 6.22%. A blanket pledge and security agreement with the Federal Home Loan Bank, which encompasses certain loans and securities, serves as collateral for these borrowings.

We have a revolving credit agreement with U.S. Bank National Association which contains financial covenants, including maintaining a minimum return on average assets, a maximum nonperforming assets to total loans ratio, a minimum allowance for loan losses to nonperforming loan ratio and regulatory capital ratios that qualify the Company as well-capitalized. As of August 6, 2008, the amount of the line of credit was decreased from \$70 million to \$40 million. As of June 30, 2008, the Company did not have any amount drawn on this line. As of June 30, 2008, the Company is in compliance with all outstanding financial covenants, as amended. The interest rate varies based on a spread over the federal funds rate, with a rate of 3.49% at June 30, 2008. The credit agreement is secured by Guaranty Bank stock.

**(6) Subordinated Debentures and Trust Preferred Securities**

The Company had \$41,239,000 in aggregate principal balances of subordinated debentures outstanding with a weighted average cost of 7.39% and 8.97% at June 30, 2008 and December 31, 2007, respectively. The subordinated debentures were issued in four separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by the Company, which in turn issued \$40 million of trust preferred securities. Generally and with certain limitations, the Company is permitted to call the debentures subsequent to the first five or ten years, as applicable, after issue if certain conditions are met, or at any time upon the occurrence and continuation of certain changes in either the tax treatment or the capital treatment of the trusts, the debentures or the preferred securities. As of June 30, 2008, the Company was in compliance with all covenants of these subordinated debentures.

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These securities are currently included in Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Under this modification, beginning March 31, 2009, the Company will be required to use a more restrictive formula to determine the amount of trust preferred securities that can be included in regulatory Tier I capital. At that time, the Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as stockholders' equity less certain intangibles, including goodwill, core deposit intangibles and customer relationship intangibles, net of any related deferred income tax liability. The regulations currently in effect limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for permitted intangibles.

The Guaranty Capital Trust III trust preferred issuance on June 30, 2003, was callable as of July 7, 2008. The Company did not call this security on July 7, 2008. After July 7, 2008, this issuance is callable on each quarterly interest payment date.

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**GUARANTY BANCORP AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following table summarizes the terms of each subordinated debenture issuance at June 30, 2008 (dollars in thousands):

	Date Issued	Amount	Maturity Date	Call Date*	Fixed or Variable	Rate Adjuster	Current Rate	Next Rate Reset Date
CenBank Trust I	9/7/2000	\$ 10,310	9/7/2030	9/7/2010	Fixed	N/A	10.60%	N/A
CenBank Trust II	2/22/2001	5,155	2/22/2031	2/22/2011	Fixed	N/A	10.20%	N/A
CenBank Trust III	4/8/2004	15,464	4/15/2034	4/15/2009	Variable	LIBOR + 2.65%	5.36%	7/15/2008
Guaranty Capital Trust III	6/30/2003	10,310	7/7/2033	7/7/2008	Variable	LIBOR + 3.10%	5.81%	7/07/2008

\* Call date represents the earliest date the Company can call the debentures.

**(7) Commitments**

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, stand-by letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At the dates indicated, the following commitments were outstanding:

	June 30, 2008	December 31, 2007
	(In thousands)	
Commitments to extend credit	\$ 586,451	\$ 582,988
Standby letters of credit	25,507	33,573
Totals	\$ 611,958	\$ 616,561

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Several of the commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Commitments to extend credit under overdraft protection agreements are commitments for possible future extensions of credit to existing deposit customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and might not be drawn upon to the total extent to which the Company is committed.

Stand-by letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Substantially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

The Company enters into commercial letters of credit on behalf of its customers, which authorize a third party to draw drafts on the Company up to a stipulated amount and with specific terms and conditions. A commercial letter of credit is a conditional commitment on the part of the Company to provide payment on drafts drawn in accordance with the terms of the commercial letter of credit.

### **(8) Fair Value Measurements and Fair Value of Financial Instruments**

Effective January 1, 2008, the Company adopted FASB Statement No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs. SFAS No. 157 establishes a fair value hierarchy



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**GUARANTY BANCORP AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Basis of Fair Value Measurement:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The fair values of securities available for sale are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula along with indicative exit pricing obtained from broker/dealers were used to fair value support certain Level 3 investments. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

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Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following table sets forth the Company's financial assets that were accounted for at fair value and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2008
	(In thousands)			
<b>Assets at June 30, 2008</b>				
Investment securities, available for sale	\$	\$ 112,118	\$	\$ 112,118

The following represent assets and liabilities measured at fair value on a non-recurring basis:

	Significant Unobservable Inputs (Level 3) (In thousands)
<b>Assets at June 30, 2008</b>	
Impaired loans	\$ 22,454

Impaired loans with a valuation allowance based upon fair value of the underlying collateral had a carrying amount of \$22,454,000 at June 30, 2008 as compared to \$14,757,000 at March 31, 2008 and \$16,663,000 at December 31, 2007. The valuation allowance on impaired loans was \$6,295,000 at June 30, 2008 as compared to \$5,368,000 at March 31, 2008 and \$4,283,000 at December 31, 2007. During the three and six-month periods ended June 30, 2008, additional provisions for loan losses of approximately \$0.9 million and \$2.0 million were made for impaired loans, respectively.

**(9) Stock-Based Compensation**

Under the Company's Amended and Restated 2005 Stock Incentive Plan (the "Incentive Plan"), the Company may grant stock-based compensation awards to nonemployee directors, key employees, consultants and prospective employees under the terms described in the Incentive Plan. The allowable stock-based compensation awards include the grant of Options, Restricted Stock Awards, Restricted Stock Unit Awards, Performance Stock Awards, Stock Appreciation Rights and other Equity-Based Awards. The Incentive Plan provides that eligible participants may be granted shares of Company common stock that are subject to forfeiture until the grantee vests in the stock award based on the established conditions, which include service conditions and established performance measures.

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Prior to vesting of the stock awards with a service vesting condition, each grantee shall have the rights of a stockholder with respect to voting of the granted stock. The recipient is not entitled to dividend rights with respect to the shares of granted stock until vesting occurs. Prior to vesting of the stock awards with performance vesting conditions, each grantee shall have the rights of a stockholder with respect to voting of the granted stock. The recipient is not entitled to dividend rights with respect to the shares of granted stock until initial vesting occurs, at which time the dividend rights will exist on vested and unvested shares of granted stock, subject to termination of such rights under the terms of the Incentive Plan.

Other than the stock awards with service and performance-based vesting conditions, no grants have been made under the Incentive Plan. The Incentive Plan authorizes grants of stock-based compensation awards of up to 2,500,000 shares of Company common stock, subject to adjustments provided by the Incentive Plan. As of June 30, 2008 and December 31, 2007, there were 1,689,608 and 1,651,345 shares of unvested stock granted (net of forfeitures and vestings), with 625,044 and 754,644 shares available for grant under the Incentive Plan, respectively.

Table of Contents**GUARANTY BANCORP AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

A summary of the status of our outstanding stock awards and the change during the period is presented in the table below:

	Shares		Weighted Average Fair Value on Award Date
Outstanding at December 31, 2007	1,651,345	\$	10.21
Awarded	156,500		6.21
Forfeited	(26,900)		9.94
Vested	(91,337)		11.12
Outstanding at June 30, 2008	1,689,608	\$	9.80

The Company recognized \$1,550,000 and \$1,708,000 in stock-based compensation expense for services rendered for the six months ended June 30, 2008 and 2007, respectively. The total income tax benefit recognized in the consolidated income statement for share-based compensation arrangements was \$385,153 and \$650,000 for the six months ended June 30, 2008 and 2007, respectively. At June 30, 2008, compensation cost of \$6,101,000 related to nonvested awards not yet recognized is expected to be recognized over a weighted-average period of 1.8 years. During the first six months of 2008, the value of the vested awards was approximately \$479,000. Of the 1,689,608 shares outstanding at June 30, 2008, approximately 1,223,000 shares are expected to vest.

**(10) Capital Ratios**

At June 30, 2008 and December 31, 2007, the Company had leverage ratios of 9.51% and 8.55%, Tier 1 risk-weighted capital ratios of 9.75% and 9.62%, and total risk-weighted capital ratios of 11.01% and 10.87%, respectively.

The Company actively monitors its regulatory capital ratios to ensure that the Company and its bank subsidiary are well capitalized under the applicable regulatory framework.

**(11) Total Comprehensive Income (Loss)**

The following table presents the components of other comprehensive loss and total comprehensive income (loss) for the periods presented:

Three Months Ended June 30,

Six Months Ended June 30,

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	2008	2007	2008	2007
	(In thousands)			
Net income (loss)	\$ 2,025	\$ (6,794)	\$ 5,270	\$ (1,385)
Other comprehensive loss:				
Change in net unrealized gains (losses), net	(518)	(1,940)	(2,154)	(2,147)
Less: Reclassification adjustments for gains included in income			(138)	
Net unrealized holding losses	(518)	(1,940)	(2,292)	(2,147)
Income tax benefit	196	738	870	816
Other comprehensive loss	(322)	(1,202)	(1,422)	(1,331)
Total comprehensive income (loss)	\$ 1,703	\$ (7,996)	\$ 3,848	\$ (2,716)

**(12) Contingencies**

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. Although the ultimate outcome and amount of liability, if any, with respect to these other legal actions to which we are currently a party, cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

This MD&A should be read together with our unaudited Condensed Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and Items 1, 1A, 6, 7, 7A and 8 of our 2007 Annual Report on Form 10-K. Also, please see the disclosure in the Forward-Looking Statements and Factors that Could Affect Future Results section in this report for certain other factors that could cause actual results or future events to differ materially from those anticipated in the forward-looking statements included in this Report or from historical performance.

**Overview**

Guaranty Bancorp is a financial holding company and a bank holding company with the principal business to serve as a holding company to its subsidiaries. Unless the context requires otherwise, the terms Company, us, we, and our refers to Guaranty Bancorp on a consolidated basis.

On May 6, 2008, the stockholders of the Company approved the proposal to change the name of the holding company from Centennial Bank Holdings, Inc. to Guaranty Bancorp. This name change was effective on May 12, 2008.

Through our banking subsidiary, we provide banking and other financial services throughout our targeted Colorado markets to consumers and to small and medium-sized businesses, including the owners and employees of those businesses. These banking products and services include accepting time and demand deposits, originating commercial loans including energy loans, real estate loans, including construction and mortgage loans, Small Business Administration guaranteed loans and consumer loans. We derive our income primarily from interest received on real estate-related loans, commercial loans and leases and consumer loans and, to a lesser extent, from fees on the referral of loans, interest on investment securities and fees received in connection with servicing loan and deposit accounts. Our major operating expenses are the interest we pay on deposits and borrowings and general operating expenses. We rely primarily on locally generated deposits to provide us with funds for making loans.

We are subject to competition from other financial institutions and our operating results, like those of other financial institutions operating exclusively or primarily in Colorado, are significantly influenced by economic conditions in Colorado, including the strength of the real estate market. In addition, both the fiscal and regulatory policies of the federal government and regulatory authorities that govern financial institutions and market interest rates also impact our financial condition, results of operations and cash flows.

As of December 31, 2007, we had two banking subsidiaries. Those subsidiaries were Guaranty Bank and Trust Company and Centennial Bank of the West, which we sometimes refer to as Guaranty Bank and CBW, respectively. On January 1, 2008, CBW was merged into Guaranty Bank.

Table of Contents**Earnings Summary**

Table 1 summarizes certain key financial results for the periods indicated:

**Table 1**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	Change - Favorable (Unfavorable)	2008	2007	Change - Favorable (Unfavorable)
(In thousands, except share data and ratios)						
<b>Results of Operations:</b>						
Interest income	\$ 30,216	\$ 41,703	\$ (11,487)	\$ 63,619	\$ 84,063	\$ (20,444)
Interest expense	9,825	15,716	5,891	21,578	31,233	9,655
Net interest income	20,391	25,987	(5,596)	42,041	52,830	(10,789)
Provision for loan losses	900	12,766	11,866	1,775	13,615	11,840
Net interest income after provision for loan losses	19,491	13,221	6,270	40,266	39,215	1,051
Noninterest income	3,132	2,577	555	5,647	5,144	503
Noninterest expense	19,697	27,622	7,925	38,407	48,304	9,897
Income (loss) before income taxes	2,926	(11,824)	14,750	7,506	(3,945)	11,451
Income tax expense (benefit)	901	(5,030)	(5,931)	2,236	(2,560)	(4,796)
Net income (loss)	\$ 2,025	\$ (6,794)	\$ 8,819	\$ 5,270	\$ (1,385)	\$ 6,655
<b>Share Data:</b>						
Basic earnings (loss) per share	\$ 0.04	\$ (0.13)	\$ 0.17	\$ 0.10	\$ (0.03)	\$ 0.13
Diluted earnings (loss) per share	\$ 0.04	\$ (0.13)	\$ 0.17	\$ 0.10	\$ (0.03)	\$ 0.13
Average shares outstanding	51,004,472	53,425,770	(2,421,298)	50,996,350	54,105,373	(3,109,023)
Diluted average shares outstanding	51,091,042	53,425,770	(2,334,728)	51,086,578	54,105,373	(3,018,795)
<b>Selected Ratios:</b>						
Total risk based capital	11.01%	10.40%	0.61%	11.01%	10.40%	0.61%
Nonperforming assets to total assets	1.35%	1.40%	-0.05%	1.35%	1.40%	-0.05%
Allowance for loan losses to nonperforming loans	88.83%	99.88%	-11.05%	88.83%	99.88%	-11.05%
Allowance for loan losses to loans, net of unearned discount	1.48%	1.88%	-0.40%	1.48%	1.88%	-0.40%

The \$2.0 million second quarter 2008 net income is \$8.8 million higher than the second quarter 2007 net loss primarily due to the after-tax impact of a \$11.9 million decrease in the provision for loan losses and a \$7.9 million decrease in noninterest expense, partially offset by a \$5.6 million decline in net interest income. The decrease in noninterest expense is due mostly to additional charges of \$6.5 million in connection with the settlement of a lawsuit and \$1.0 million related to the merger of our subsidiary banks recorded in the second quarter 2007.



On a year-to-date basis, net income for the first six months of 2008 is \$6.7 million higher than the same period in 2007, due mostly to a \$11.8 million reduction in the provision for loan losses and a \$9.9 million reduction in noninterest expense, partially offset by a decrease in net interest income. The decline in noninterest expense is mostly attributable to additional charges of \$6.5 million in connection with the settlement of a lawsuit and \$1.0 million related to the merger of our subsidiary banks recorded in the second quarter 2007. Additionally, salaries and employee benefit expense decreased by \$2.8 million.

#### **Net Interest Income and Net Interest Margin**

Net interest income, which is our primary source of income, represents the difference between interest earned on assets and interest paid on liabilities. The interest rate spread is the difference between the yield on our interest-bearing assets and liabilities. Net interest margin is net interest income expressed as a percentage of average interest-earning assets.

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The following table summarizes the Company's net interest income and related spread and margin for the current quarter and prior four quarters:

**Table 2**

	June 30, 2008	March 31, 2008	Quarter Ended December 31, 2007	September 30, 2007	June 30, 2007
	(Dollars in thousands)				
Net interest income	\$ 20,391	\$ 21,650	\$ 24,184	\$ 25,236	\$ 25,987
Interest rate spread	3.50%	3.58%	3.77%	3.84%	3.98%
Net interest margin	4.20%	4.42%	4.75%	4.82%	5.00%
Net interest margin, fully tax equivalent	4.28%	4.53%	4.88%	4.97%	5.15%

Second quarter 2008 net interest income of \$20.4 million declined by \$5.6 million from the second quarter 2007. This decrease is a result of a \$4.9 million unfavorable rate variance and a \$0.7 million unfavorable volume variance (see Table 5).

The unfavorable rate variance from the prior year second quarter is primarily attributable to lower yields on earning assets, and in particular loans. The yield on earning assets declined by 180 basis points from 8.02% for the second quarter 2007 to 6.22% for the second quarter 2008. During that same period, the Federal Open Markets Committee (FOMC) of the Federal Reserve Board decreased the target federal funds rate seven times by a total of 325 basis points. Similarly, the prime rate decreased by 325 basis points during this same period. Approximately 66% of the Company's outstanding loan balances are variable rate loans and are tied to indices such as prime, LIBOR or federal funds. As a result of these rate declines, the average yield on loans for the Company decreased by 201 basis points from 8.33% for the quarter ended June 30, 2007 to 6.32% for the same period in 2008. Rates paid on interest-bearing liabilities also declined during this same period by 132 basis points, for a net decrease in the net interest spread of 48 basis points over this same period. Although the net interest spread decreased by 48 basis points, the overall net interest margin declined by 80 basis points. The cause for the larger impact on net interest margin as compared to the interest rate spread is that the benefit from noninterest bearing deposits had a smaller impact in 2008 compared to 2007 due to the lower interest rate environment.

The unfavorable volume variance is mostly attributable to a \$131.3 million decrease in average earning assets for the second quarter 2008 as compared to the same period in 2007. The average balance of loans declined from the prior year by \$94.2 million. Most of this decline is attributable to management's decision to reduce the number of construction loans. The construction loan balance decreased by \$89.5 million from June 30, 2007 to June 30, 2008. Additionally, approximately \$48 million of certain nonperforming and classified loans were sold in October 2007.

The following table summarizes the Company's net interest income and related spread and margin for the year-to-date periods presented:

**Table 3**

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	Six Months Ended	
	June 30, 2008	June 30, 2007
	(Dollars in thousands)	
Net interest income	\$ 42,041	\$ 52,830
Interest rate spread	3.54%	4.07%
Net interest margin	4.31%	5.08%
Net interest margin, fully tax equivalent	4.41%	5.24%

For the six-month period ended June 30, 2008, net interest income decreased by \$10.8 million, or 20.4%, as compared to the same period in 2007. This decrease is due to a \$8.5 million unfavorable rate variance and a \$2.3 million unfavorable volume variance (see Table 5).

The unfavorable rate variance for year-to-date 2008 is mostly due to a decrease in the yield on earning assets. The yield on earning assets decreased by 156 basis points to 6.52% for the six months ended June 30, 2008 from 8.08% for the same period in 2007. During that same period, the Federal Open Markets Committee (FOMC) of the Federal Reserve Board decreased the target federal funds rate seven times by a total of 325 basis points. Similarly,

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the prime rate decreased by 325 basis points during this same period. These rate decreases were partially offset by a 103 basis point decrease in the cost of interest-bearing liabilities. The cost of interest-bearing liabilities was 2.98% for the first six months of 2008 as compared to 4.01% for the same period in 2007.

The unfavorable volume variance is mostly a result of lower average earning assets. Average earning assets decreased by \$136.3 million for the year-to-date 2008 as compared to the same period in 2007. Approximately \$118.1 million of this decrease was mostly due to a decline in construction loans, as well as a sale of a portion of certain nonperforming and classified loans in October 2007. Most of the remainder of the decrease is due to a decrease in the average balance of tax-exempt securities.

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The following table presents, for the periods indicated, average assets, liabilities and stockholders' equity, as well as the net interest income from average interest-earning assets and the resultant annualized yields expressed in percentages. Nonaccrual loans are included in the calculation of average loans while accrued interest thereon is excluded from the computation of yields earned.

**Table 4**

	2008		Quarter Ended June 30,		2007	
	Average	Interest	Average	Average	Interest	Average
	Balance	Income or	Yield or	Balance	Income or	Yield or
		Expense	Cost		Expense	Cost
	(Dollars in thousands)					
<b>ASSETS:</b>						
<b>Interest-earning assets:</b>						
Gross loans, net of unearned fees (1)(2)	\$ 1,788,603	\$ 28,107	6.32%	\$ 1,882,840	\$ 39,087	8.33%
Investment securities(1)						
Taxable	56,151	779	5.58%	50,425	608	4.83%
Tax-exempt	73,552	877	4.80%	108,394	1,336	4.94%
Bank stocks (3)	32,590	435	5.36%	32,000	459	5.75%
Other earning assets	2,738	18	2.67%	11,282	213	7.57%
Total interest-earning assets	1,953,634	30,216	6.22%	2,084,941	41,703	8.02%
<b>Non-earning assets:</b>						
Cash and due from banks	37,456			51,780		
Other assets	359,331			517,916		
<b>Total assets</b>	<b>\$ 2,350,421</b>			<b>\$ 2,654,637</b>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>						
<b>Interest-bearing liabilities:</b>						
<b>Deposits:</b>						
Interest-bearing demand	\$ 153,220	\$ 180	0.47%	\$ 158,872	\$ 265	0.67%
Money market	540,735	2,491	1.85%	623,639	5,904	3.80%
Savings	70,532	98	0.56%	78,050	152	0.78%
Time certificates of deposit	431,511	4,642	4.33%	583,158	7,417	5.10%
Total interest-bearing deposits	1,195,998	7,411	2.49%	1,443,719	13,738	3.82%
<b>Borrowings:</b>						
Repurchase agreements	19,406	98	2.04%	36,459	434	4.76%
Federal funds purchased	7,849	47	2.40%	1,120	14	5.13%
Subordinated debentures	41,239	852	8.31%	41,239	938	9.12%
Borrowings	190,063	1,417	3.00%	39,329	592	6.04%
Total interest-bearing liabilities	1,454,555	9,825	2.72%	1,561,866	15,716	4.04%
<b>Noninterest bearing liabilities:</b>						
Demand deposits	452,315			478,520		
Other liabilities	18,802			32,603		
Total liabilities	1,925,672			2,072,989		
Stockholders' equity	424,749			581,648		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,350,421</b>			<b>\$ 2,654,637</b>		
Net interest income		\$ 20,391			\$ 25,987	

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Net interest margin

4.20%

5.00%

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(1) Yields on loans and securities have not been adjusted to a tax-equivalent basis. Net interest margin on a fully tax-equivalent basis would have been 4.28% and 5.15% for the three months ended June 30, 2008 and June 30, 2007, respectively.

(2) Net loan fees of \$1.0 million and \$1.6 million for the three months ended June 30, 2008 and 2007, respectively, are included in the yield computation.

(3) Includes Bankers Bank of the West stock, Federal Agricultural Mortgage Corporation (Farmer Mac) stock, Federal Reserve Bank stock and Federal Home Loan Bank stock.

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	Average Balance	2008 Interest Income or Expense	Six Months Ended June 30,		2007 Interest Income or Expense	Average Yield or Cost
			Average Yield or Cost (Dollars in thousands)	Average Balance		
<b>ASSETS:</b>						
<b>Interest-earning assets:</b>						
Gross loans, net of unearned fees (1)(2)	\$ 1,778,098	\$ 59,147	6.69%	\$ 1,896,185	\$ 78,825	8.38%
Investment securities(1)						
Taxable	53,480	1,463	5.50%	51,226	1,229	4.84%
Tax-exempt	75,027	1,770	4.75%	110,759	2,748	5.00%
Bank stocks (3)	32,528	905	5.59%	31,925	934	5.90%
Other earning assets	22,267	334	3.02%	7,638	327	8.63%
Total interest-earning assets	1,961,400	63,619	6.52%	2,097,733	84,063	8.08%
<b>Non-earning assets:</b>						
Cash and due from banks	39,157			54,322		
Other assets	362,942			518,931		
<b>Total assets</b>	<b>\$ 2,363,499</b>			<b>\$ 2,670,986</b>		
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	\$ 154,560	\$ 461	0.60%	\$ 159,470	\$ 515	0.65%
Money market	561,136	6,273	2.25%	627,677	11,761	3.78%
Savings	70,855	212	0.60%	81,295	316	0.78%
Time certificates of deposit	450,251	10,260	4.58%	577,576	14,492	5.06%
Total interest-bearing deposits	1,236,802	17,206	2.80%	1,446,018	27,084	3.78%
Borrowings:						
Repurchase agreements	18,110	218	2.42%	30,705	732	4.81%
Federal funds purchased	4,973	64	2.57%	644	17	5.19%
Subordinated debentures	41,239	1,644	8.02%	41,239	1,870	9.14%
Borrowings	155,273	2,446	3.17%	52,843	1,530	5.84%
Total interest-bearing liabilities	1,456,397	21,578	2.98%	1,571,449	31,233	4.01%
Noninterest bearing liabilities:						
Demand deposits	462,564			480,875		
Other liabilities	20,893			33,578		
Total liabilities	1,939,854			2,085,902		
Stockholders equity	423,645			585,084		
<b>Total liabilities and stockholders equity</b>	<b>\$ 2,363,499</b>			<b>\$ 2,670,986</b>		
Net interest income		\$ 42,041			\$ 52,830	
Net interest margin			4.31%			5.08%

(1) Yields on loans and securities have not been adjusted to a tax-equivalent basis. Net interest margin on a fully tax-equivalent basis would have been 4.41% and 5.24% for the six months ended June 30, 2008 and June 30, 2007, respectively.

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(2) Net loan fees of \$1.8 million and \$3.1 million for the six months ended June 30, 2008 and 2007, respectively, are included in the yield computation.

(3) Includes Bankers Bank of the West stock, Federal Agricultural Mortgage Corporation (Farmer Mac) stock, Federal Reserve Bank stock and Federal Home Loan Bank stock.



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The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

**Table 5**

	Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007			Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007		
	Net Change	Rate	Volume (In thousands)	Net Change	Rate	Volume
<b>Interest income:</b>						
Gross loans, net of unearned fees	\$ (10,980)	\$ (9,105)	\$ (1,875)	\$ (19,678)	\$ (15,002)	\$ (4,676)
Investment securities		0	0			
Taxable	171	97	74	234	178	56
Tax-exempt	(459)	(42)	(417)	(978)	(129)	(849)
Bank stocks	(24)	(33)	9	(29)	(47)	18
Other earning assets	(195)	(90)	(105)	7	(4)	11
Total interest income	(11,487)	(9,173)	(2,314)	(20,444)	(15,004)	(5,440)
<b>Interest expense:</b>						
Deposits:						
Interest-bearing demand	(85)	(76)	(9)	(54)	(38)	(16)
Money market	(3,413)	(2,711)	(702)	(5,488)	(4,346)	(1,142)
Savings	(54)	(40)	(14)	(104)	(67)	(37)
Time certificates of deposit	(2,775)	(1,033)	(1,742)	(4,232)	(1,244)	(2,988)
Repurchase agreements	(336)	(185)	(151)	(514)	(281)	(233)
Federal funds purchased	33	(3)	36	47	(3)	50
Subordinated debentures	(86)	(86)	0	(226)	(226)	0
Borrowings	825	(125)	950	916	(282)	1,198
Total interest expense	(5,891)	(4,259)	(1,632)	(9,655)	(6,487)	(3,168)
<b>Net interest income</b>	\$ (5,596)	\$ (4,914)	\$ (682)	\$ (10,789)	\$ (8,517)	\$ (2,272)

**Provision for Loan Losses**

The provision for loan losses represents a charge against earnings. The provision is the amount required to maintain the allowance for loan losses at a level that, in our judgment, is adequate to absorb probable incurred loan losses in the loan portfolio. The provision for loan losses is based on our reserve methodology and reflects our judgments about the adequacy of the allowance for loan losses. In determining the amount of the provision, we consider certain quantitative and qualitative factors including our historical loan loss experience, the volume and type of lending we conduct, the results of our credit review process, the amounts and severity of classified, criticized and nonperforming assets, regulatory policies, general economic conditions, underlying collateral values and other factors regarding collectibility and impairment. The amount of expected loss on our loan portfolio is influenced by the collateral value associated with our loans. Loans with greater collateral value lessen our exposure to loan loss provision.

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In the second quarter 2008, the Company recorded a provision for loan loss of \$0.9 million, compared to \$12.8 million in the second quarter 2007. The lower net charge-offs and level of impaired loans at June 30, 2008 as compared to June 30, 2007, were the primary causes for the lower provision for loan losses in the current quarter.

Net charge offs in the second quarter 2008 were \$0.4 million, as compared to \$4.7 million for the same quarter in 2007. Impaired loans were \$29.8 million at June 30, 2008 as compared to \$55.8 million at June 30, 2007. For a discussion of impaired loans and associated collateral values, see [Balance Sheet Analysis Nonperforming Assets](#) below.

For further discussion of the methodology and factors impacting management's estimate of the allowance for loan losses, see [Balance Sheet Analysis Allowance for Loan Losses](#) below.

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For the six months ended June 30, 2008, the Company recorded a provision for loan loss of \$1.8 million as compared to \$13.6 million in the same period in 2007. This decrease is primarily due to lower charge offs and the level of impaired loans during the first six months of 2008 as compared to the same period in 2007.

**Noninterest Income**

*The following table presents the major categories of noninterest income for the current quarter and prior four quarters:*

**Table 6**

	June 30, 2008	March 31, 2008	Quarter Ended December 31, 2007 (In thousands)	September 30, 2007	June 30, 2007
Noninterest income:					
Customer service and other fees	\$ 2,528	\$ 2,276	\$ 2,267	\$ 2,390	\$ 2,409
Gain on sale of securities		138			
Other	604	101	665	230	168
Total noninterest income	\$ 3,132	\$ 2,515	\$ 2,932	\$ 2,620	\$ 2,577

Noninterest income in the second quarter 2008 increased by \$0.6 million from the second quarter 2007 and by \$0.6 million from the first quarter 2008. The increase from the first quarter 2008 is mostly due to higher fee income, partially offset by the decrease in gain on sale of securities. The \$0.6 million increase in the second quarter 2008 as compared to the same period in 2007 is primarily attributable to a \$0.3 million increase in analysis fees due to a decrease in the earnings credit on compensating balances.

*The following table presents the major categories of noninterest income for the year-to-date periods presented:*

**Table 7**

	June 30, 2008	Six Months Ended June 30, 2007 (In thousands)	June 30, 2007
Noninterest income:			
Customer service and other fees	\$ 4,804		\$ 4,852
Gain on sale of securities		138	
Other		705	292
Total noninterest income	\$ 5,647		\$ 5,144

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Noninterest income for the first six months of 2008 increased by \$0.5 million from the same period in 2007. The increase in noninterest income between the year-to-date period in 2008 and the same period in 2007 is mostly attributable to higher fee income, gain on sale of securities in 2008 and a reduction in losses recorded from disposals of other real estate owned. During 2008, a \$0.1 million gain on sale of securities was realized as management sold approximately \$15 million of available-for-sale securities and purchased approximately \$15 million of new available-for-sale securities in order to improve the overall yield on securities.

Table of Contents**Noninterest Expense**

The following table presents, for the quarters indicated, the major categories of noninterest expense:

**Table 8**

	June 30, 2008	March 31, 2008	Quarter Ended December 31, 2007 (In thousands)	September 30, 2007	June 30, 2007
Noninterest expense:					
Salaries and employee benefits	\$ 9,184	\$ 9,720	\$ 8,442	\$ 9,039	\$ 10,724
Occupancy expense	2,131	2,001	1,781	1,855	2,056
Furniture and equipment	1,383	1,314	1,205	1,188	1,231
Impairment of goodwill			142,210		
Amortization of intangible assets	1,877	1,877	2,132	2,143	2,195
Other general and administrative	5,122	3,798	4,278	3,980	11,416
Total noninterest expense	\$ 19,697	\$ 18,710	\$ 160,048	\$ 18,205	\$ 27,622

The \$8.0 million decrease in noninterest expense for the second quarter 2008 as compared to the same period in 2007 is due to a decline in salary and employee benefit expense, amortization of intangible assets and other general and administrative expense. These categories decreased for the reasons discussed below.

Salary and employee benefits expense decreased by \$1.5 million, or 14.4%, in the second quarter 2008 as compared to the same period in 2007. This decrease is primarily attributable to a 14.4% reduction in full-time equivalent employees at June 30, 2008, as compared to June 30, 2007, as well as a reduction in bonus and incentive expense.

Amortization of intangible assets expense is \$1.9 million in the second quarter 2008, as compared to \$2.2 million in the second quarter 2007, a decrease of \$0.3 million, or 13.6%. This decrease is mostly attributable to the use of accelerated methods to amortize the core deposit intangible asset.

Other general and administrative expense decreased by \$6.3 million, or 55.1%, in the second quarter 2008 as compared to the same period in 2007. This decrease is primarily attributable to a \$6.5 million charge related to the settlement of a lawsuit recorded in the second quarter 2007. Additionally, there was a \$1.0 million charge in the second quarter 2007 related to certain costs of merging our two subsidiary banks. These expense decreases were partially offset by a \$1.3 million charge recorded in the second quarter 2008 related to the decision to close two branch locations.

The following table presents, for the year-to-date periods indicated, the major categories of noninterest expense:

**Table 9**

	Six Months Ended	
	June 30, 2008	June 30, 2007
	(In thousands)	
Noninterest expense:		
Salaries and employee benefits	\$ 18,904	\$ 21,698
Occupancy expense	4,132	4,177
Furniture and equipment	2,697	2,471
Amortization of intangible assets	3,754	4,390
Other general and administrative	8,920	15,568
Total noninterest expense	\$ 38,407	\$ 48,304

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Overall noninterest expense decreased by \$9.9 million, or 20.5%, for the six months ended June 30, 2008 as compared to the same period in 2007. This decrease is mostly attributable to second quarter 2007 charges including a \$6.5 million charge related to the settlement of a lawsuit, as well as a \$1.0 million charge related to the merger of our subsidiaries described above. Further, there was a \$2.8 million, or 12.9% decrease in salaries and employee benefits expense due mostly to a reduction in full-time equivalent employees and reduced commissions and bonus expense. Amortization of intangible assets also decreased by \$0.6 million, or 14.5%, attributable to accelerated amortization methods on core deposit intangibles. Partially offsetting these increases was a \$1.3 million charge in the second quarter 2008 related to the decision to close two branch locations.

In the second quarter 2008, we began a major initiative to align our expenses with the current size of our business. Part of this effort includes the closure of two bank branch locations during the second half of 2008. Our initiative includes the continued focus on and evaluation of a broad array of expense categories, including overall staffing levels and delivery platforms. Through this initiative, we expect to reduce our annual noninterest expense by up to \$6.0 million once fully implemented over the next two to three quarters.

**Income Tax Expense (Benefit)**

The effective tax rate was 30.8% and -42.5% for the three month periods ending June 30, 2008 and 2007, respectively. The primary difference between the expected tax rate and the effective tax rates was tax-exempt income. A tax benefit was recorded in 2007 due to the net loss in the second quarter 2007.

The effective tax rate was 29.8% and -64.9% for the six month periods ending June 30, 2008 and 2007, respectively. The primary difference between the expected tax rate and the effective tax rates was tax-exempt income. A tax benefit was recorded in 2007 due to the net loss for the first six months of 2007.

**BALANCE SHEET ANALYSIS**

*The following sets forth certain key consolidated balance sheet data:*

**Table 10**

	June 30, 2008	March 31, 2008	December 31, 2007 (In thousands)	September 30, 2007	June 30, 2007
Total assets	\$ 2,358,559	\$ 2,345,079	\$ 2,371,664	\$ 2,617,153	\$ 2,640,732
Earning assets	1,959,434	1,932,526	1,949,211	2,041,263	2,085,865
Deposits	1,707,031	1,710,082	1,799,507	1,915,932	1,938,412

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At June 30, 2008, the Company had total assets of \$2.4 billion, or \$13.1 million less than total assets at December 31, 2007, and \$282.2 million less than total assets at June 30, 2007. The relatively small decline in assets from December 31, 2007 is mostly due to a decrease in total investments as certain securities were not replaced when they were called or matured. The overall modest increase in earning assets from December 31, 2007 to June 30, 2008, is due to an increase in loans, net of unearned discount.

The \$282.2 million decrease in assets from June 30, 2007, is partly due to a \$150.2 million decrease in intangible assets due to a goodwill impairment recorded in the fourth quarter 2007 and the amortization of core deposit intangible assets. Most of the remaining decrease in total assets from June 30, 2007, is due to a \$104.3 million decline in loans, net of unearned discount. Approximately \$48 million of this \$104.3 million decline in loans from June 30, 2007 to June 30, 2008 is attributable to the sale of certain impaired and classified loans in October 2007. A significant portion of the remaining decrease in loans is due to the Company's strategy of reducing its concentration of construction loans. Total construction loans declined by \$89.5 million from June 30, 2007 to June 30, 2008 while commercial loans increased by \$52.4 million over the same period.



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The following table sets forth the amount of our loans outstanding at the dates indicated:

**Table 11**

	June 30, 2008	March 31, 2008	December 31, 2007 (In thousands)	September 30, 2007	June 30, 2007
Real estate - Mortgage	\$ 717,533	\$ 723,246	\$ 713,478	\$ 724,528	\$ 742,802
Real estate - Construction	232,522	238,926	235,236	290,591	321,982
Equity lines of credit	46,778	47,659	48,624	49,747	53,676
Commercial	705,309	657,423	679,717	643,702	652,911
Agricultural	29,442	35,003	39,506	43,142	47,891
Consumer	39,611	38,151	40,835	40,868	45,214
Leases receivable and other	21,628	22,205	27,653	30,340	32,829
Total gross loans	1,792,823	1,762,613	1,785,049	1,822,918	1,897,305
Less: allowance for loan losses	(26,506)	(26,048)	(25,711)	(23,979)	(35,594)
Unearned discount	(3,668)	(3,316)	(3,402)	(3,730)	(3,865)
Loans, net of unearned discount	\$ 1,762,649	\$ 1,733,249	\$ 1,755,936	\$ 1,795,209	\$ 1,857,846
Loans held for sale at lower of cost or market	\$	\$	\$ 492	\$ 31,459	\$

**Nonperforming Assets**

Credit risk related to nonperforming assets arises as a result of lending activities. To manage this risk, we employ frequent monitoring procedures and take prompt corrective action when necessary. We employ a risk rating system that identifies the potential risk associated with loans in our loan portfolio. This monitoring and rating system is designed to help management determine current and potential problems so that corrective actions can be taken promptly.

Generally, loans are placed on nonaccrual status when they become 90 days or more past due or at such earlier time as management determines timely recognition of interest to be in doubt. Accrual of interest is discontinued on a loan when we believe, after considering economic and business conditions and analysis of the borrower's financial condition, that the collection of interest is doubtful.

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The following table summarizes the loans for which the accrual of interest has been discontinued, loans with payments more than 90 days past due and still accruing interest, loans that have been restructured, and other real estate owned. For reporting purposes, other real estate owned consists of all real estate, other than bank premises, actually owned or controlled by us, including real estate acquired through foreclosure.

**Table 12**

	June 30, 2008	March 31, 2008	Quarter Ended December 31, 2007 (In thousands)	September 30, 2007	June 30, 2007
Nonaccrual loans and leases, not restructured	\$ 29,742	\$ 20,798	\$ 19,309	\$ 16,831	\$ 35,515
Accruing loans past due 90 days or more	98	1	527	9	122
Other real estate owned	1,910	1,715	3,517	3,401	1,385
Total nonperforming assets	\$ 31,750	\$ 22,514	\$ 23,353	\$ 20,241	\$ 37,022
Nonperforming loans	\$ 29,840	\$ 20,799	\$ 19,836	\$ 16,840	\$ 35,637
Other impaired loans			3,492	510	20,208
Total impaired loans	\$ 29,840	\$ 20,799	\$ 23,328	\$ 17,350	\$ 55,845
Allocated allowance for loan losses	(6,295)	(5,368)	(4,283)	(4,028)	(14,113)
Net investment in impaired loans	\$ 23,545	\$ 15,431	\$ 19,045	\$ 13,322	\$ 41,732
Loans past due 30-89 days	\$ 20,169	\$ 42,682	\$ 28,407	\$ 29,584	\$ 25,456
Loans charged-off	\$ 673	\$ 743	\$ 1,729	\$ 20,079	\$ 5,473
Recoveries	(231)	(205)	(436)	(438)	(809)
Net charge-offs	\$ 442	\$ 538	\$ 1,293	\$ 19,641	\$ 4,664
Provision for loan losses	\$ 900	\$ 875	\$ 3,025	\$ 8,026	\$ 12,766
Allowance for loan losses	\$ 26,506	\$ 26,048	\$ 25,711	\$ 23,979	\$ 35,594
Allowance for loan losses to loans, net of unearned discount	1.48%	1.48%	1.44%	1.32%	1.88%
Allowance for loan losses to nonaccrual loans	89.12%	125.24%	133.16%	142.47%	100.22%
Allowance for loan losses to nonperforming assets	83.48%	115.70%	110.10%	118.47%	96.14%
Allowance for loan losses to nonperforming loans	88.83%	125.24%	129.62%	142.39%	99.88%
Nonperforming assets to loans, net of unearned discount, and other real estate owned	1.77%	1.28%	1.31%	1.11%	1.96%
Annualized net charge-offs to average loans	0.10%	0.12%	0.28%	4.16%	0.99%
Nonaccrual loans to loans, net of unearned discount	1.66%	1.18%	1.08%	0.93%	1.88%

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Loans 30-89 days past due to loans, net of unearned discount	1.13%	2.43%	1.59%	1.63%	1.34%
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Nonperforming assets at June 30, 2008, decreased by \$5.3 million, or 14.2%, from June 30, 2007, and increased by \$9.2 million, or 41.0%, from March 31, 2008. The decrease from June 30, 2007 is mostly due to the sale of certain nonperforming and classified loans on October 31, 2007. Approximately 82% of the \$9.2 million increase in nonperforming assets from March 31, 2008 is due to the addition of one loan relationship to nonperforming status during the second quarter 2008. At June 30, 2008, six loan relationships comprised approximately 67% of total nonperforming loans. Of the \$29.8 million of nonperforming loans at June 30, 2008, approximately fifty percent was secured by residential real estate, including residential land and land development loans.

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**Allowance for Loan Losses**

The allowance for loan losses is maintained at a level that, in our judgment, is adequate to absorb probable incurred losses in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, historical loss experience, and other significant factors affecting loan portfolio collectibility, including the volume and severity of delinquent and classified loans, trends in volume and terms of loans, levels and trends in credit concentrations, effects of changes in underwriting standards, policies, procedures and practices, national and local economic trends and conditions, changes in capabilities and experience of lending management and staff, and other external factors including industry conditions, competition and regulatory requirements.

The ratio of allowance for loan losses to total loans was 1.48% at June 30, 2008, as compared to 1.44% at December 31, 2007 and 1.88% at June 30, 2007.

Our methodology for evaluating the adequacy of the allowance for loan losses has two basic elements: first, the identification of impaired loans and the measurement of an estimated loss for each individual loan identified; second, estimating an allowance for probable incurred losses on other loans. The specific allowance for impaired loans and the remaining allowance are combined to determine the required allowance for loan losses.

For the specific portion of the allowance computation, total impaired loans at June 30, 2008 increased over the amounts at March 31, 2008, which is reflected in a higher specific allowance. However, the specific allowance as a percentage of total impaired loans did decline in the second quarter 2008 based on underlying collateral values of the nonperforming loans.

In estimating the allowance for probable incurred losses on other loans, we group the balance of the loan portfolio into segments that have common characteristics, such as loan type or risk weighting. For each nonspecific allowance portfolio segment, we apply loss factors to calculate the required allowance based upon actual historical loss rates adjusted for qualitative factors affecting loan portfolio collectibility as described above. Loans typically segregated by risk rating are those that have been assigned risk ratings using regulatory definitions of watch, substandard, doubtful and loss. Loans graded as either doubtful or loss are generally partially or fully charged-off. Other loans segregated by risk weighting are evaluated for trends in volume and severity.

The specific allowance for impaired loans and the allowance calculated for probable incurred losses on other loans are combined to determine the required allowance for loan losses. The amount calculated is compared to the actual allowance for loan losses balance at each quarter end and any shortfall is charged to income as an additional provision for loan losses.

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The following table provides a summary of the activity within the allowance for loan losses account for the periods presented:

**Table 13**

	Six Months Ended June 30,	
	2008	2007
	(In thousands)	
Balance, beginning of period	\$ 25,711	\$ 27,899
Loan charge-offs:		
Real estate - Mortgage	767	1,638
Real estate - Construction	258	5,053
Commercial	243	259
Agricultural	18	
Consumer	130	192
Lease receivable and other		23
Total loan charge-offs	1,416	7,165
Recoveries:		
Real estate - mortgage	195	486
Real estate - construction	59	55
Commercial	116	229
Agricultural	7	13
Consumer	59	79
Lease receivable and other		383
Total loan recoveries	436	1,245
Net loan charge-offs	980	5,920
Provision for loan losses	1,775	13,615
Balance, end of period	\$ 26,506	\$ 35,594

Management continues to monitor the allowance for loan losses closely and will adjust the allowance when necessary, based on its analysis, which includes an ongoing evaluation of substandard loans and their collateral positions.

**Securities**

We manage our investment portfolio principally to provide liquidity, balance our overall interest rate risk and to provide collateral for public deposits and customer repurchase agreements.

The carrying value of our portfolio of investment securities at June 30, 2008 and December 31, 2007 was as follows:

**Table 14**

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	June 30, 2008	December 31, 2007	Increase (Decrease)	% Change
(In thousands)				
<b>Securities available-for-sale:</b>				
U.S. Government agencies and government-sponsored entities	\$ 2,449	\$ 10,456	\$ (8,007)	(76.6)%
Obligations of states and political subdivisions	71,569	76,876	(5,307)	(6.9)%
Mortgage backed	36,397	30,038	6,359	21.2%
Marketable equity	1,156	1,047	109	10.4%
Other	547	547	0	0.0%
<b>Total securities available-for-sale</b>	<b>\$ 112,118</b>	<b>\$ 118,964</b>	<b>\$ (6,846)</b>	<b>(5.8)%</b>
<b>Securities held-to-maturity:</b>				
Mortgage-backed	\$ 13,772	\$ 14,889	\$ (1,117)	(7.5)%

The carrying value of our investment securities at June 30, 2008 was \$112.1 million, compared to the December 31, 2007 carrying value of \$119.0 million. The decrease in the level of our investments from December 31, 2007, is primarily due to a decrease in the holdings of U.S. government agencies and government-sponsored entities, as well as municipal bonds. The change in U.S. Government agencies and government-sponsored entities and mortgage-backed securities from December 31, 2007 to June 30, 2008 is a result of a decision to sell certain securities at a \$0.1 million gain and replace them with higher yielding securities in the first quarter 2008. The reduction in municipal bonds is a result of our decision to not repurchase new municipal bonds as these bonds mature or are called in order to reduce our overall concentration of municipal securities.

Table of Contents**Deposits**

The following table sets forth the amounts of our deposits outstanding at the dates indicated:

**Table 15**

	At June 30, 2008		At December 31, 2007	
	Balance	% of Total (Dollars in thousands)	Balance	% of Total
Noninterest bearing deposits	\$ 515,646	30.21%	\$ 515,299	28.64%
Interest bearing demand	149,019	8.73%	160,100	8.90%
Money market	524,592	30.73%	572,056	31.79%
Savings	71,474	4.19%	71,944	4.00%
Time	446,300	26.14%	480,108	26.67%
<b>Total deposits</b>	<b>\$ 1,707,031</b>	<b>100.00%</b>	<b>\$ 1,799,507</b>	<b>100.00%</b>

At the end of the second quarter 2008, deposits were \$1.7 billion as compared to \$1.8 billion at December 31, 2007, reflecting a decrease of \$92.5 million. Approximately \$33.8 million, or 36.5% of this decline, from December 31, 2007, is from a decrease in time deposits due to a strategic decision to mitigate the impact of margin compression. Approximately \$47.5 million, or 51.4% of this decline, from December 31, 2007, is from a decrease in money market deposits.

Average noninterest bearing deposits for the second quarter 2008 were \$452,315,000 compared to the actual balance of \$515,646,000 at June 30, 2008. On the last day of the second quarter 2008, the Bank received a short-term \$62 million noninterest bearing deposit from a single depositor. Average noninterest bearing deposits were 27.4% of average total deposits for the quarter ended June 30, 2008, as compared to 24.9% of average total deposits for the same quarter in 2007.

**Borrowings and Subordinated Debentures**

At June 30, 2008, our outstanding borrowings were \$147,117,000 as compared to \$63,715,000 at December 31, 2007. The increase in borrowings is due to an increase in term notes at the Federal Home Loan Bank ( FHLB ) as part of a strategic funding decision to mitigate the impact of margin compression when the pricing was compared to internet or brokered time deposits.

The borrowings at June 30, 2008 consisted of 18 separate fixed-rate term notes at the FHLB with maturities ranging from 2 to 115 months. Approximately \$122 million of the FHLB term advances at June 30, 2008 have Bermudan conversion options to a variable rate. The initial fixed rate periods range from one to five years and can be prepaid without penalty at or after conversion. There was also a line of credit at the FHLB at June 30, 2008, but there was no balance outstanding on this line of credit on such date. At December 31, 2007, borrowings consisted

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of a line of credit and term notes at the Federal Home Loan Bank of \$15,160,000 and \$47,356,000 respectively, and a \$1,199,000 Treasury Tax and Loan note balance. The Treasury Tax and Loan note option with the Federal Reserve Bank was cancelled due to the dissolution of Centennial Bank of the West during its merger into Guaranty Bank and Trust Company in January 2008. Management determined not to open a new Treasury Tax and Loan note with the Federal Reserve Bank with Guaranty Bank and Trust Company.

The total commitment, including balances outstanding, for borrowings at the Federal Home Loan Bank for the term notes and line of credit at June 30, 2008 and December 31, 2007 was \$341.5 million and \$316.2 million, respectively. The interest rate on the line of credit varies with the federal funds rate, and was 2.55% and 5.51% at June 30, 2008 and December 31, 2007, respectively. The term notes have fixed interest rates that range from 2.52% to 6.22%. A blanket pledge and security agreement with the Federal Home Loan Bank, which encompasses certain loans and securities, serves as collateral for these borrowings.

We have a revolving credit agreement with U.S. Bank National Association which contains financial covenants, including maintaining a minimum return on average assets, a maximum nonperforming assets to total loans ratio, a minimum allowance for loan losses to nonperforming loan ratio, and regulatory capital ratios that qualify the Company as well-capitalized. As of August 6, 2008, the amount of the line of credit was decreased from \$70 million to \$40 million. As of June 30, 2008, the Company did not have any amount drawn on this line. As of June 30, 2008, the Company is in compliance with all outstanding financial covenants, as amended. The interest rate varies based on a spread over the federal funds rate, with a rate of 3.49% at June 30, 2008. The credit



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agreement is secured by Guaranty Bank stock. U.S. Bank performs various commercial banking services for the Company for which they receive usual and customary fees.

At June 30, 2008, we had a \$41,239,000 aggregate principal balance of subordinated debentures outstanding with a weighted average cost of 7.39%. The subordinated debentures were issued in four separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by us, which in turn issued \$40 million of trust preferred securities. Generally and with certain limitations, the Company is permitted to call the debentures subsequent to the first five or ten years, as applicable, after issue if certain conditions are met, or at any time upon the occurrence and continuation of certain changes in either the tax treatment or the capital treatment of the trusts, the debentures or the preferred securities. The Guaranty Capital Trust III issuance of \$10.0 million has a variable rate of LIBOR plus 3.10% and is callable without penalty on July 7, 2008, and every quarter thereafter. Management did not call these debentures on July 7, 2008, but will continue to evaluate whether to call these debentures each quarter.

These securities are currently included in Tier I capital for purposes of determining the Company's Tier I and total risk-based capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Under this modification, beginning March 31, 2009, the Company will be required to use a more restrictive formula to determine the amount of trust preferred securities that can be included in regulatory Tier I capital. At that time, the Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as stockholders' equity less certain intangibles, including goodwill, core deposit intangibles and customer relationship intangibles, net of any related deferred income tax liability. The regulations currently in effect limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for permitted intangibles. The Company expects that its Tier I capital ratios will be at or above the existing well-capitalized levels on March 31, 2009, the first date on which the modified capital regulations must be applied.

**Capital Resources**

Current risk-based regulatory capital standards generally require banks and bank holding companies to maintain a ratio of core or Tier 1 capital (consisting principally of common equity) to risk-weighted assets of at least 4%, a ratio of Tier 1 capital to average total assets (leverage ratio) of at least 4% and a ratio of total capital (which includes Tier 1 capital plus certain forms of subordinated debt, a portion of the allowance for loan losses, and preferred stock) to risk-weighted assets of at least 8%. Risk-weighted assets are calculated by multiplying the balance in each category of assets by a risk factor, which ranges from zero for cash assets and certain government obligations to 100% for high-risk loans, and adding the products together.

For regulatory and debt-covenant purposes, the Company maintains capital above the minimum core standards. The Company maintains capital at a well-capitalized level. Under the regulations adopted by the federal regulatory authorities, a bank is well-capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. Our subsidiary bank is required to maintain similar capital levels under capital adequacy guidelines. At June 30, 2008, our subsidiary bank was well-capitalized.

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The following table provides the current capital ratios of the Company as of the dates presented, along with the regulatory capital requirements:

**Table 16**

	<b>June 30, 2008</b>	<b>December 31, 2007</b>	<b>Minimum Capital Requirement</b>	<b>Minimum Requirement For Well Capitalized Institution</b>
Leverage ratio	9.51%	8.55%	4.00%	5.00%
Tier 1 risk weighted ratio	9.75%	9.62%	4.00%	6.00%
Total risk weighted capital ratio	11.01%	10.87%	8.00%	10.00%

Table of Contents**Contractual Obligations and Off-Balance Sheet Arrangements**

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, stand-by letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

*At June 30, 2008, the following financial instruments were outstanding whose contract amounts represented credit risk:*

**Table 17**

	June 30, 2008	December 31, 2007
	(In thousands)	
Commitments to extend credit	\$ 586,451	\$ 582,988
Standby letters of credit	25,507	33,573
Totals	\$ 611,958	\$ 616,561

**Liquidity**

We believe that our level of liquid assets is sufficient to meet our current and presently anticipated funding needs.

We rely on dividends from our Bank as a primary source of liquidity for the holding company. We plan to continue to utilize the available dividends from the Bank for holding company operations, subject to regulatory and other restrictions. The ability of the Bank to pay dividends or make other capital distributions to us is subject to the regulatory authority of the Federal Reserve Board and the Colorado Division of Banking. Because of the net loss in 2007 as a result of the goodwill impairment charge, the Bank is required to obtain permission from the Federal Reserve Board and the Colorado Division of Banking prior to making any dividend to the holding company. As the net loss in 2007 did not have any impact on the Bank's liquidity, cash flows or regulatory capital, it is expected that permission will be granted if the Bank remains more than well-capitalized and if the payment of dividends is not deemed to be an unsafe or unsound practice. We require liquidity for the payment of interest on the subordinated debentures, for operating expenses, principally salaries and benefits, for repurchases of our common stock, and, if declared by our board of directors, for the payment of dividends to our stockholders.

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The Bank relies on deposits as its principal source of funds and, therefore, must be in a position to service depositors' needs as they arise. Fluctuations in the balances of a few large depositors may cause temporary increases and decreases in liquidity from time to time. We deal with such fluctuations by using existing liquidity sources.

When the level of liquid assets (our primary liquidity) does not meet our liquidity needs, other available sources of liquid assets (our secondary liquidity), including the purchase of federal funds, sales of securities under agreements to repurchase, sales of loans, discount window borrowings from the Federal Reserve Bank, and our lines of credit with the Federal Home Loan Bank of Topeka and U.S. Bank are employed to meet current and presently anticipated funding needs.

### **Application of Critical Accounting Policies and Accounting Estimates**

Management's Discussion and Analysis of financial condition and results of operations discusses the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to customers and suppliers, allowance for loan losses, bad debts, investments, financing operations, long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual

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results may differ from the recorded estimates under different assumptions or conditions. A summary of critical accounting policies and estimates are listed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's 2007 Annual Report Form 10-K for the fiscal year ended December 31, 2007. There have been no changes to these critical accounting policies in 2008.

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**ITEM 3. Quantitative and Qualitative Disclosure about Market Risk**

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. To that end, management actively monitors and manages our interest rate risk exposure. We do not have any market risk sensitive instruments entered into for trading purposes. We manage our interest rate sensitivity by matching the re-pricing opportunities on our earning assets to those on our funding liabilities. We use various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities, which are designed to ensure that exposure to interest rate fluctuations is limited to our guidelines of acceptable levels of risk-taking. Hedging strategies, including the terms and pricing of loans and deposits and managing the deployment of our securities, are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Our Asset Liability Management Committee, or ALCO, addresses interest rate risk. The committee is comprised of members of our senior management. The ALCO monitors interest rate risk by analyzing the potential impact on net interest income and the net portfolio of equity value from potential changes in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. The ALCO manages our balance sheet in part to maintain the potential impact on net portfolio value and net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed on at least a quarterly basis by the ALCO and our board of directors. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value and net interest income in the event of hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within board-approved limits, the board may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

We monitor and evaluate our interest rate risk position on a quarterly basis using net interest income simulation analysis under 100 and 200 basis point change scenarios (see below). Each of these analyses measures different interest rate risk factors inherent in the financial statements.

In 2008, this disclosure alternative was changed from prior year annual and quarterly reports filed by the Company, which used the Gap analysis disclosure method. The static gap analysis looked at the dollar amount of mismatches between assets and liabilities, at certain time periods, whose interest rates are subject to pricing at their contractual maturity date or repricing period. As this Gap analysis looked at contractual dates that assets and liabilities are subject to repricing, it caused the entire balance of interest-bearing NOW accounts, money market accounts and savings accounts to be treated as immediately repricable. As our actual experience with repricing of these liabilities differed from the contractual maturities, management has chosen to disclose the sensitivity analysis alternative, which measures the impact on net interest income of hypothetical changes in interest rates. As discussed above, this tool is used internally by ALCO in monitoring interest rate risk of the Company and thus, the Company has chosen to change this disclosure alternative regarding market risk. Summarized comparable information, under the new disclosure method, is provided for the preceding year.

**Net Interest Income Modeling**

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The Company's primary interest rate risk tool, the Net Interest Income Simulation Analysis, measures interest rate risk and the effect of interest rate changes on net interest income. This analysis incorporates all of the Company's assets and liabilities together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. Through these simulations, management estimates the impact on net interest income of a 100 and 200 basis point upward or downward change of market interest rates over a one year period. Assumptions are made to project rates for new loans and deposits based on historical analysis, management outlook and repricing strategies. Asset prepayments and other market risks are developed from industry estimates of prepayment speeds and other market changes. Since the results of these simulations can be significantly influenced by assumptions utilized, management evaluates the sensitivity of the simulation results to changes in assumptions.

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The following table shows the net interest income increase or decrease over the next twelve months as of June 30, 2008 and 2007:

**Table 18**

**MARKET RISK:**

	Annualized Net Interest Income	
	June 30, 2008	June 30, 2007
	Amount of Change	Amount of Change
	(In thousands)	
<b><u>Rates in Basis Points</u></b>		
200	\$ 7,024	\$ 6,915
100	3,279	3,477
Static		
(100)	(3,518)	(3,461)
(200)	(6,893)	(6,840)

Overall, the company is positioned to have a short-term favorable interest income impact in a rising rate environment and have an adverse interest income impact in the short-term in a falling rate environment.

If rates increase, net interest income is anticipated to increase and similarly, if rates decrease, net interest income is expected to decrease, meaning the Company is asset sensitive. At June 30, 2008, a 200 basis point increase in rates would be anticipated to increase net interest income by \$7.0 million as compared to \$6.9 million at June 30, 2007. The Company is slightly more asset sensitive to an increase or decrease in rates than a year ago.



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**ITEM 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 15d-15(e) under the Securities Exchange Act of 1934). The Company's disclosure controls were designed to provide a reasonable assurance that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, the controls have been designed to provide reasonable assurance of achieving the controls' stated goals. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer, have concluded that the Company's disclosure controls and procedures are effective at June 30, 2008 to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 was (i) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 15d-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. Although the ultimate outcome and amount of liability, if any, with respect to these other legal actions to which we are currently a party cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Table of Contents**ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition and/or operating results.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) None.

(b) None.

(c) The following table provides information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the second quarter 2008.

	Total Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet be Purchased Under the Plans at The End of the Period(1)
April 1 to April 30		\$		1,349,858
May 1 to May 31	5,270	5.99		1,200,000
June 1 to June 30	8,288	4.59		1,200,000
	13,558	\$ 5.13	(2)	1,200,000

(1) In May 2007, we announced the authorization of a stock repurchase program to repurchase up to 2,000,000 shares of our common stock from time to time over a one-year period in the open market or through private transactions in accordance with the applicable regulations of the Securities and Exchange Commission. When this repurchase program lapsed in May 2008, 149,858 shares expired under the repurchase program. In October 2007, we announced the authorization of a new stock repurchase program to repurchase up to 1,200,000 shares of our common stock from time to time over a one-year period in the open market or through private transactions in accordance with applicable regulations of the Securities and Exchange Commission. The company has 1,200,000 shares remaining under this repurchase program.

(2) The difference of 13,558 shares between Total Shares Purchased and Total Number of Shares Purchased as Part of Publicly Announced Plans relates to the net settlement of vested, restricted stock awards.

**ITEM 3. Defaults Upon Senior Securities**

None.

Table of Contents**ITEM 4. Submission of Matters to a Vote of Security Holders**

On May 6, 2008, the Company held its Annual Meeting of Stockholders for which the Board of Directors solicited proxies. At the Annual Meeting, the stockholders voted on the following proposals stated in the Proxy Statement dated March 21, 2008.

The proposals voted on and approved by the stockholders at the Annual Meeting were as follows:

- 1) Election of nine members of the Board of Directors who shall hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified. All nominees for director were elected.

<b>Election of Directors:</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Non-Votes</b>
Edward B. Cordes	45,110,592	1,153,025	384,331	
John M. Eggemeyer, III	45,021,643	1,218,720	407,588	
William R. Farr	43,638,265	2,515,778	493,908	
Stephen D. Joyce	45,241,514	940,125	466,312	
Gail H. Klapper	37,585,358	8,659,038	403,555	
Daniel M. Quinn	45,360,179	859,200	428,572	
Kathleen Smythe	44,895,226	1,324,519	428,206	
Matthew P. Wagner	44,788,069	1,363,456	496,426	
Albert C. Yates	44,980,242	1,286,535	381,174	

- 2) Amendment of the Company's Certificate of Incorporation to change the Company's name to Guaranty Bancorp.

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Non-Votes</b>
45,934,698	178,167	535,086	

- 3) Amendment of the Company's Certificate of Incorporation to allow stockholders to call special meetings of stockholders.

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Non-Votes</b>
39,947,537	812,644	231,283	5,565,487

- 4) Ratification of the appointment of Crowe Chizek and Company LLC as the Company's independent registered public accounting firm for the year ending December 31, 2008.

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For	Against	Abstain	Non-Votes
46,137,589	191,971	318,391	

Additionally, the stockholders voted on a shareholder proposal as stated in the Supplemental Proxy Material dated April 14, 2008. This proposal regarding engaging a professional advisory firm to develop a strategy to enhance shareholder value was voted on and not approved by the stockholders as follows:

For	Against	Abstain	Non-Votes
5,630,039	30,831,711	219,652	8,801,587

### ITEM 5. Other Information

On August 6, 2008, the Company entered into Amendment No. 8 to the Revolving Credit Agreement with U.S. Bank National Association to modify the return on equity covenant, add an asset quality covenant and to reduce the amount available under the line of credit from \$70 million to \$40 million.

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On August 4, 2008, the Company's Compensation, Nominating and Governance Committee approved an amendment and restatement of the Company's Deferred Compensation Plan, to be effective January 1, 2009. Previous amendments to the plan were also approved by the committee in December 2007. The summary of the plan amendments below is subject to, and qualified in its entirety to, the full text of the plan, a copy of which is filed as Exhibit 10.2 hereto and incorporated herein by reference. The plan was amended and restated primarily to conform to the final IRS Code Section 409A regulations and recent IRS guidance. In particular, the definitions of "Change in Control" and "Separation From Service" have been conformed to the definitions prescribed by the 409A regulations. Other amendments include (i) clarification that, for director compensation deferrals, only non-employee directors are eligible, (ii) clarification of the payment of specified date accounts (i.e., In-Service Accounts) at termination of employment, both before and after retirement, (iii) elimination of the funding requirement upon a change in control, (iv) clarification of the ability to assign liabilities in a corporate transaction and (v) elimination of the disability benefit payment, which is now covered in the termination benefit payment prior to retirement.

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**ITEM 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Certification of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Registrant's Form S-1 Registration Statement (No. 333-124855)).
3.2	Certificate of Amendment to Registrant's Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K filed on May 7, 2008.)
3.3	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to Registrant's Form 8-K filed on May 7, 2008).
10.1	Amendment No. 8 to Revolving Credit Agreement, dated August 6, 2008, between U.S. Bank, National Association and the Registrant.
10.2	Amended and Restated Guaranty Bancorp Deferred Compensation Plan, effective January 1, 2009.
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer.



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**SIGNATURES**

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

Date: August 7, 2008

GUARANTY BANCORP

*/s/* PAUL W. TAYLOR  
Paul W. Taylor  
*Executive Vice President and Chief Financial Officer*