

FIRST INTERSTATE BANCSYSTEM INC

Form 10-Q

October 29, 2007

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

**Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2007**

OR

**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 000-49733

First Interstate BancSystem, Inc.

(Exact name of registrant as specified in its charter)

Montana

81-0331430

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

401 North 31st Street, Billings, MT

59116-0918

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 406/255-5390

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The Registrant had 8,102,327 shares of common stock outstanding on September 30, 2007.

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
 Quarterly Report on Form 10-Q

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Certification Pursuant to Section 906

Table of Contents**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES****Consolidated Balance Sheets***(Dollars in thousands, except share data)*

(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Cash and due from banks	\$ 160,875	187,555
Federal funds sold	32,961	55,427
Interest bearing deposits in banks	8,419	12,809
 Total cash and cash equivalents	 202,255	 255,791
Investment securities:		
Available-for-sale	880,345	1,012,658
Held-to-maturity (estimated fair values of \$112,226 as of September 30, 2007 and \$112,391 as of December 31, 2006)	112,408	111,940
 Total investment securities	 992,753	 1,124,598
 Loans	 3,528,108	 3,310,363
Less allowance for loan losses	51,452	47,452
 Net loans	 3,476,656	 3,262,911
 Premises and equipment, net	 123,425	 120,280
Accrued interest receivable	38,733	30,913
Company-owned life insurance	66,332	64,705
Mortgage servicing rights, net of accumulated amortization and impairment reserve	22,399	22,644
Goodwill	37,380	37,380
Net deferred tax asset	7,865	8,297
Other assets	43,809	46,615
 Total assets	 \$ 5,011,607	 4,974,134
Liabilities and Stockholders Equity		
Deposits:		
Noninterest bearing	\$ 884,573	888,694
Interest bearing	3,120,737	2,819,817

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Total deposits	4,005,310	3,708,511
Securities sold under repurchase agreements	458,787	731,548
Accrued interest payable	19,993	18,872
Accounts payable and accrued expenses	31,491	36,295
Other borrowed funds	8,164	5,694
Long-term debt	5,509	21,601
Subordinated debenture held by subsidiary trust	41,238	41,238
Total liabilities	4,570,492	4,563,759
Stockholders' equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued or outstanding as of September 30, 2007 or December 31, 2006		
Common stock without par value; authorized 20,000,000 shares; issued and outstanding 8,102,327 shares as of September 30, 2007 and 8,144,788 shares as of December 31, 2006	38,395	45,477
Retained earnings	406,419	372,039
Accumulated other comprehensive loss, net	(3,699)	(7,141)
Total stockholders' equity	441,115	410,375
Total liabilities and stockholders' equity	\$ 5,011,607	4,974,134

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES****Consolidated Statements of Income***(Dollars in thousands, except per share data)*

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Interest income:				
Interest and fees on loans	\$70,798	64,495	203,699	180,094
Interest and dividends on investment securities:				
Taxable	10,653	10,423	31,720	29,691
Exempt from Federal taxes	1,164	1,106	3,504	3,311
Interest on deposits in banks	158	56	660	227
Interest on Federal funds sold	541	336	3,201	1,620
Total interest income	83,314	76,416	242,784	214,943
Interest expense:				
Interest on deposits	26,458	19,540	74,342	51,655
Interest on Federal funds purchased	199	852	263	1,434
Interest on securities sold under repurchase agreements	4,502	6,705	16,576	17,874
Interest on other borrowed funds	42	279	118	662
Interest on long-term debt	79	322	348	1,362
Interest on subordinated debenture held by subsidiary trust	1,191	916	2,972	2,575
Total interest expense	32,471	28,614	94,619	75,562
Net interest income	50,843	47,802	148,165	139,381
Provision for loan losses	1,875	2,029	5,625	6,360
Net interest income after provision for loan losses	48,968	45,773	142,540	133,021
Noninterest income:				
Other service charges, commissions and fees	6,350	5,724	17,909	16,259
Technology services revenues	6,196	4,105	14,815	11,638
Service charges on deposit accounts	4,530	4,547	13,418	13,004
Income from origination and sale of loans	2,984	2,836	8,135	6,952
Financial services revenues	3,098	2,734	8,724	8,284
Investment securities gains, net	6	27	6	23
Other income	2,226	1,803	6,386	5,553
Total noninterest income	25,390	21,776	69,393	61,713

Noninterest expense:				
Salaries, wages and employee benefits	24,366	22,142	72,537	64,991
Furniture and equipment	4,162	4,050	12,194	12,116
Occupancy, net	3,935	3,264	11,091	9,901
Mortgage servicing rights amortization expense	1,059	955	3,341	2,934
Mortgage servicing rights impairment expense	95	654	211	266
Professional fees	1,052	851	2,419	2,246
Outsourced technology services	538	877	2,181	2,132
Other expenses	9,374	8,905	25,963	24,781
Total noninterest expense	44,581	41,698	129,937	119,367
Income before income taxes	29,777	25,851	81,996	75,367
Income tax expense	10,528	9,105	28,626	26,350
Net income	\$19,249	16,746	53,370	49,017
Basic earnings per common share	\$ 2.37	2.07	6.54	6.05
Diluted earnings per common share	\$ 2.32	2.02	6.39	5.92

See accompanying notes to unaudited consolidated financial statements.

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity and Comprehensive Income
(Dollars in thousands, except share and per share data)
(Unaudited)

	Common shares outstanding	Common stock	Retained earnings	Unearned compensation- restricted stock	Accumulated other comprehensive income (loss)	Total stockholders equity
Balance at December 31, 2006	8,144,788	\$ 45,477	372,039		(7,141)	410,375
Comprehensive income:						
Net income			53,370			53,370
Unrealized gains on available-for-sale investment securities, net of income tax expense of \$2,235					3,446	3,446
Less reclassification adjustment for gains included in net income, net of income tax expense of \$2					(4)	(4)
Other comprehensive income						3,442
Total comprehensive income						56,812
Common stock transactions:						
Common shares retired	(188,052)	(16,582)				(16,582)
Common shares issued	17,248	1,497				1,497
Stock options exercised, net of 18,726 shares tendered in payment of option price and income tax withholding amounts	128,343	4,735				4,735
Tax benefits related to stock-based compensation		2,342				2,342
		926				926

Stock-based
compensation expense

Cash dividends declared:

Common (\$2.32 per share)			(18,990)		(18,990)
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Balance at September 30, 2007	8,102,327	\$ 38,395	406,419	(3,699)	441,115
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Balance at December 31, 2005	8,098,933	\$ 43,569	314,843	(330)	(8,235)	349,847
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Comprehensive income:

Net income			49,017		49,017
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Unrealized losses on available-for-sale investment securities, net of income tax benefit of \$254				(392)	(392)
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Less reclassification adjustment for gains included in net income, net of income tax expense of \$9				(14)	(14)
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Other comprehensive income					(406)
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Total comprehensive income					48,611
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Common stock
transactions:

Common shares retired	(102,543)	(7,495)			(7,495)
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Common shares issued	76,140	5,829			5,829
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Restricted shares issued	1,000				
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Stock options exercised, net of 30,326 shares tendered in payment of option price and income tax withholding amounts	86,412	2,909			2,909
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Tax benefits related to stock-based compensation		1,218			1,218
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Stock-based compensation expense:					
Stock-based compensation expense		1,007			1,007
Reclassification of unearned compensation upon adoption of SFAS No. 123R		(330)	330		
Cash dividends declared:					
Common (\$1.66 per share)			(13,444)		(13,444)
Balance at September 30, 2006	8,159,942	\$ 46,707	350,416	(8,641)	388,482

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows***(Dollars in thousands)*

(Unaudited)

	For the nine months ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 53,370	49,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of joint ventures	(26)	83
Provision for loan losses	5,625	6,360
Depreciation	10,488	9,979
Net gain on sale of mortgage servicing rights	(996)	
Amortization of mortgage servicing rights	3,341	2,934
Net discount accretion on investment securities	(2,426)	(5,200)
Net gain on sale of investment securities	(6)	(23)
Net (gain) loss on sale of property and equipment	203	(45)
Net impairment charges on mortgage servicing rights	211	266
Net increase in cash surrender value of company-owned life insurance	(1,627)	(1,524)
Write-down of property pending sale/disposal	16	81
Stock-based compensation expense related to stock options & restricted stock awards	926	1,007
Excess tax benefits from stock-based compensation	(2,272)	(1,218)
Deferred income taxes	(1,805)	(2,650)
Changes in operating assets and liabilities:		
Increase in loans held for sale	(882)	(8,180)
Increase in interest receivable	(7,820)	(7,944)
Decrease (increase) in other assets	2,759	(2,098)
Increase in accrued interest payable	1,121	3,235
Increase (decrease) in accounts payable and accrued expenses	(4,804)	766
Net cash provided by operating activities	55,396	44,846
Cash flows from investing activities:		