

FIRST INTERSTATE BANCSYSTEM INC

Form 10-Q

November 01, 2006

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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, 2006**

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 8,159,942 shares of common stock outstanding on September 30, 2006.

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

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Certification Pursuant to Section 302

Certification Pursuant to Section 906

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(Unaudited)

	September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	\$ 180,513	207,877
Federal funds sold	21,354	27,607
Interest bearing deposits in banks	5,360	5,493
Total cash and cash equivalents	207,227	240,977
Investment securities:		
Available-for-sale	946,017	916,450
Held-to-maturity (estimated fair values of \$106,088 as of September 30, 2006 and \$104,305 as of December 31, 2005)	104,983	103,451
Total investment securities	1,051,000	1,019,901
Loans	3,288,470	3,034,354
Less allowance for loan losses	46,957	42,450
Net loans	3,241,513	2,991,904
Premises and equipment, net	119,796	120,438
Accrued interest receivable	34,046	26,104
Company-owned life insurance	64,071	62,547
Mortgage servicing rights, net of accumulated amortization and impairment reserve	23,708	22,116
Goodwill	37,380	37,390
Core deposit intangibles, net of accumulated amortization	473	1,204
Net deferred tax asset	6,199	3,285
Other assets	38,546	36,447
Total assets	\$ 4,823,959	4,562,313
Liabilities and Stockholders Equity		
Deposits:		
Noninterest bearing	\$ 869,366	864,128
Interest bearing	2,746,697	2,683,462
Total deposits	3,616,063	3,547,590
Federal funds purchased	63,830	1,500

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Securities sold under repurchase agreements	634,581	518,718
Accrued interest payable	16,408	13,185
Accounts payable and accrued expenses	28,852	28,086
Other borrowed funds	5,941	7,495
Long-term debt	28,564	54,654
Subordinated debenture held by subsidiary trust	41,238	41,238
Total liabilities	4,435,477	4,212,466
Stockholders' equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued or outstanding as of September 30, 2006 or December 31, 2005		
Common stock without par value; authorized 20,000,000 shares; issued and outstanding 8,159,942 shares as of September 30, 2006 and 8,098,933 shares as of December 31, 2005	46,707	43,569
Retained earnings	350,416	314,843
Unearned compensation - restricted stock		(330)
Accumulated other comprehensive loss, net	(8,641)	(8,235)
Total stockholders' equity	388,482	349,847
Total liabilities and stockholders' equity	\$ 4,823,959	4,562,313

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,	
	2006	2005	2006	2005
Interest income:				
Interest and fees on loans	\$64,495	51,801	180,094	141,840
Interest and dividends on investment securities:				
Taxable	10,423	7,693	29,691	21,616
Exempt from Federal taxes	1,106	1,098	3,311	3,286
Interest on Federal funds sold	336	772	1,620	1,829
Interest on deposits in banks	56	59	227	363
Total interest income	76,416	61,423	214,943	168,934
Interest expense:				
Interest on deposits	19,540	12,039	51,655	31,681
Interest on Federal funds purchased	852	1	1,434	23
Interest on securities sold under repurchase agreements	6,705	3,380	17,874	8,401
Interest on other borrowed funds	279	37	662	83
Interest on long-term debt	322	640	1,362	1,954
Interest on subordinated debenture held by subsidiary trust	916	709	2,575	1,970
Total interest expense	28,614	16,806	75,562	44,112
Net interest income	47,802	44,617	139,381	124,822
Provision for loan losses	2,029	1,375	6,360	4,365
Net interest income after provision for loan losses	45,773	43,242	133,021	120,457
Noninterest income:				
Other service charges, commissions and fees	5,724	4,993	16,259	14,713
Service charges on deposit accounts	4,547	4,595	13,004	12,993
Technology services revenues	4,066	3,349	11,638	9,979
Financial services revenues	2,592	2,236	7,857	6,704
Income from origination and sale of loans	2,836	2,675	6,952	6,465
Investment securities gains (losses), net	27	(1,811)	23	(2,941)

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Other income	1,586	1,526	4,824	4,338
Total noninterest income	21,378	17,563	60,557	52,251
Noninterest expense:				
Salaries, wages and employee benefits	22,142	20,453	64,991	59,188
Furniture and equipment	4,050	3,907	12,116	11,908
Occupancy, net	3,264	3,212	9,901	10,143
Mortgage servicing rights amortization	955	1,190	2,934	3,550
Professional fees	851	766	2,246	2,058
Outsourced technology services	877	625	2,132	1,703
Core deposit intangible amortization	244	253	731	760
Other expenses	8,917	6,837	23,160	21,871
Total noninterest expense	41,300	37,243	118,211	111,181
Income before income taxes	25,851	23,562	75,367	61,527
Income tax expense	9,105	8,288	26,350	21,414
Net income	\$ 16,746	15,274	49,017	40,113
Basic earnings per common share	\$ 2.07	1.91	6.05	5.03
Diluted earnings per common share	\$ 2.02	1.88	5.92	4.94

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, 2005	8,098,933	\$43,569	314,843	(330)	(8,235)	349,847
Comprehensive income:						
Net income			49,017			49,017
Unrealized losses on available-for-sale investment securities, net of income tax benefit of \$254					(392)	(392)
Less reclassification adjustment for gains included in net income, net of income tax expense of \$9					(14)	(14)
Other comprehensive income						(406)
Total comprehensive income						48,611
Common stock transactions:						
Common shares retired	(102,543)	(7,495)				(7,495)
Common shares issued	76,140	5,829				5,829
Restricted shares issued	1,000					
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
Stock option tax benefit		1,218				1,218
Stock-based compensation expense:		1,007				1,007

Stock-based compensation expense						
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
Balance at December 31, 2004	7,980,300	\$36,803	275,172	(425)	(3,224)	308,326
Comprehensive income:						
Net income			40,113			40,113
Unrealized losses on available-for-sale investment securities, net of income tax benefit of \$2,600					(4,009)	(4,009)
Less reclassification adjustment for losses included in net income, net of income tax benefit of \$1,157					1,784	1,784
Other comprehensive income						(2,225)
Total comprehensive income						37,888
Common stock transactions:						
Common shares retired	(38,007)	(2,354)				(2,354)
Common shares issued	100,152	6,496				6,496
Restricted shares issued	1,500	87		(87)		
Restricted shares cancelled	(1,000)	(65)		65		
Stock options exercised, net of 10,447 shares tendered in payment of option price and income tax withholding amounts	54,545	2,110				2,110
Stock option tax benefit		517				517
		101		79		180

Restricted stock
remeasurement &
amortization

Cash dividends declared:

Common (\$1.38 per share)			(10,997)			(10,997)
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Balance at September 30,
2005

8,097,490	\$43,695	304,288	(368)	(5,449)	342,166
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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,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 49,017	40,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of joint ventures	83	(418)
Provision for loan losses	6,360	4,365
Depreciation	9,979	10,409
Amortization of core deposit intangibles	731	760
Amortization of mortgage servicing rights	2,934	3,550
Net premium amortization (discount accretion) on investment securities	(5,200)	264
Net (gain) loss on sale of investment securities	(23)	2,941
Net gain on sale of property and equipment	(45)	(12)
Net impairment charges (reversals) on mortgage servicing rights	266	(1,312)
Net increase in cash surrender value of company-owned life insurance	(1,524)	(1,330)
Write-down of property assets pending sale/disposal	81	21
Stock-based compensation expense	1,007	227
Excess tax benefits from stock-based compensation	(1,218)	(517)
Deferred income taxes	(2,650)	194
Changes in operating assets and liabilities:		
Decrease (increase) in loans held for sale	(8,180)	261
Increase in interest receivable	(7,944)	(6,362)
Increase in other assets	(2,829)	(2,101)
Increase in accrued interest payable	3,235	1,969
Increase in accounts payable and accrued expenses	1,984	10,572
Net cash provided by operating activities	46,064	63,594
Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	(11,545)	(9,281)
Available-for-sale	(3,046,742)	(1,056,907)
Proceeds from maturities and paydowns of investment securities:		
Held-to-maturity	9,857	4,934
Available-for-sale	3,011,747	835,670
Proceeds from sales of available-for-sale investment securities	10,132	197,935
Net decrease in cash equivalent mutual funds classified as available-for-sale investment securities	5	177
Purchases and originations of mortgage servicing rights	(4,806)	(5,186)
Extensions of credit to customers, net of repayments	(250,324)	(248,705)
Recoveries of loans charged-off	1,870	1,487

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Proceeds from sales of other real estate	701	2,943
Capital contributions to joint ventures		(2,800)
Net capital expenditures	(9,307)	(6,099)
Sale of banking office, net of cash	(2,547)	
Net cash used in investing activities	(290,959)	(285,832)

(Continued)

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FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands)

(Unaudited)

	For the nine months ended September 30,	
	2006	2005
Cash flows from financing activities:		
Net increase in deposits	71,550	155,434
Net increase in federal funds purchased		