

FIRST INTERSTATE BANCSYSTEM INC

Form 10-Q

May 08, 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 March 31, 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 8,114,891 shares of common stock outstanding on April 30, 2006.

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

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<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 906</u>	



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

(Unaudited)

	March 31, 2006	December 31, 2005
<u>Assets</u>		
Cash and due from banks	\$ 197,400	\$ 207,877
Federal funds sold	37,713	27,607
Interest bearing deposits in banks	11,916	5,493
Total cash and cash equivalents	247,029	240,977
Investment securities:		
Available-for-sale	889,092	916,450
Held-to-maturity (estimated fair values of \$107,409 as of March 31, 2006 and \$104,305 as of December 31, 2005)	106,769	103,451
Total investment securities	995,861	1,019,901
Loans	3,116,927	3,034,354
Less allowance for loan losses	43,633	42,450
Net loans	3,073,294	2,991,904
Premises and equipment, net	120,086	120,438
Accrued interest receivable	27,686	26,104
Company-owned life insurance	63,058	62,547
Mortgage servicing rights, net of accumulated amortization and impairment reserve	22,721	22,116
Goodwill	37,380	37,390
Core deposit intangibles, net of accumulated amortization	960	1,204
Net deferred tax asset	5,823	3,285
Other assets	38,749	36,447
Total assets	\$ 4,632,647	\$ 4,562,313
<u>Liabilities and Stockholders' Equity</u>		
Deposits:		
Noninterest bearing	\$ 834,955	\$ 864,128
Interest bearing	2,677,626	2,683,462
Total deposits	3,512,581	3,547,590
Fed Funds Purchased		1,500
Securities sold under repurchase agreements	618,307	518,718
Accrued interest payable	12,670	13,185
Accounts payable and accrued expenses	33,271	28,086
Other borrowed funds	642	7,495

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Long-term debt	54,291	54,654
Subordinated debenture held by subsidiary trust	41,238	41,238
Total liabilities	4,273,000	4,212,466
Stockholders' equity:		
Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; no shares issued or outstanding as of March 31, 2006 or December 31, 2005		
Common stock without par value; authorized 20,000,000 shares; issued and outstanding 8,107,994 shares as of March 31, 2006 and 8,098,933 shares as of December 31, 2005	42,944	43,569
Retained earnings	326,926	314,843
Unearned compensation - restricted stock		(330)
Accumulated other comprehensive loss, net	(10,223)	(8,235)
Total stockholders' equity	359,647	349,847
Total liabilities and stockholders' equity	\$ 4,632,647	\$ 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 March 31,	
	2006	2005
Interest income:		
Interest and fees on loans	\$ 55,762	\$ 43,412
Interest and dividends on investment securities:		
Taxable	9,168	6,828
Exempt from federal taxes	1,073	1,073
Interest on deposits in banks	96	165
Interest on federal funds sold	870	489
 Total interest income	 66,969	 51,967
 Interest expense:		
Interest on deposits	14,984	9,213
Interest on federal funds purchased	7	
Interest on securities sold under repurchase agreements	5,000	2,159
Interest on other borrowed funds	46	18
Interest on long-term debt	515	644
Interest on subordinated debenture held by subsidiary trust	802	600
 Total interest expense	 21,354	 12,634
 Net interest income	 45,615	 39,333
Provision for loan losses	1,753	1,625
 Net interest income after provision for loan losses	 43,862	 37,708
 Noninterest income:		
Other service charges, commissions and fees	5,233	4,806
Service charges on deposit accounts	4,100	4,059
Technology services revenues	3,667	3,342
Income from origination and sale of loans	1,861	1,779
Financial services revenues	2,488	2,319
Investment securities losses, net		(692)
Other income	1,771	1,336
 Total noninterest income	 19,120	 16,949
 Noninterest expense:		
Salaries, wages and employee benefits	21,342	19,678
Furniture and equipment	3,977	3,987

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Occupancy, net	3,443	3,311
Mortgage servicing rights amortization	943	1,171
Mortgage servicing rights impairment	(170)	(463)
Professional fees	781	624
Outsourced technology services	621	431
Core deposit intangibles amortization	244	253
Other expenses	7,013	7,404
Total noninterest expense	38,194	36,396
Income before income taxes	24,788	18,261
Income tax expense	8,654	6,302
Net income	\$ 16,134	\$ 11,959
Basic earnings per common share	\$ 1.99	\$ 1.50
Diluted earnings per common share	\$ 1.95	\$ 1.48

*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 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			16,134			16,134
Unrealized losses on investment securities, net of income tax benefit of \$1,290					(1,988)	(1,988)
Other comprehensive loss						(1,988)
Total comprehensive income						14,146
Common stock transactions:						
Common shares retired	(45,804)	(3,228)				(3,228)
Common shares issued	5,115	347				347
Stock options exercised, net of 13,366 shares tendered for payment	49,750	1,675				1,675
Stock option tax benefit		661				661
Stock-based compensation:						
Stock-based compensation expense		250				250
Reclassification of unearned compensation - upon adoption of SFAS No. 123R		(330)		330		
Cash dividends declared:						
Common (\$0.50 per share)			(4,051)			(4,051)

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Balance at March 31, 2006	8,107,994	\$42,944	326,926		(10,223)	359,647
Balance at December 31, 2004	7,980,300	\$36,803	275,172	(425)	(3,224)	308,326
Comprehensive income:						
Net income			11,959			11,959
Unrealized losses on investment securities, net of income tax benefit of \$3,982					(6,138)	(6,138)
Less reclassification adjustment for losses included in net income, net of income tax benefit of \$272					420	420
Other comprehensive loss						(5,718)
Total comprehensive income						6,241
Common stock transactions:						
Common shares retired	(16,975)	(1,016)				(1,016)
Common shares issued	6,082	338				338
Restricted shares issued	1,000	56		(56)		
Stock options exercised, net of 8,540 shares tendered for payment	9,679	200				200
Stock option tax benefit		153				153
Restricted stock remeasurement		75				75
Stock-based compensation expense: Deferred compensation restricted stock					(19)	(19)
Cash dividends declared: Common (\$0.42 per share)				(3,347)		(3,347)

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Balance at March 31, 2005	7,980,086	\$36,609	283,784	(500)	(8,942)	310,951
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*See accompanying notes to unaudited consolidated financial statements.*

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

(Unaudited)

	For the three months ended March 31,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 16,134	11,959
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of joint ventures	(198)	(145)
Provision for loan losses	1,753	1,625
Depreciation	3,302	3,527
Amortization of core deposit intangibles	244	253
Amortization of mortgage servicing rights	943	1,171
Net premium amortization (discount accretion) on investment securities	(938)	438
Net loss on sale of investment securities		692
Net loss on sale of property, equipment and other real estate	17	32
Net impairment reversals on mortgage servicing rights	(170)	(463)
Net increase in cash surrender value of company-owned life insurance	(511)	(421)
Stock-based compensation expense related to stock options & restricted stock	250	56
Remeasurement of restricted stock awards		(75)
Excess tax benefits from stock-based compensation	5	
Deferred income taxes	(1,247)	(854)
Changes in operating assets and liabilities:		
Decrease (increase) in loans held for sale	(4,836)	3,900
Increase in accrued interest receivable	(1,584)	(1,540)
Increase in other assets	(2,572)	(443)
Increase (decrease) in accrued interest payable	(503)	1,052
Increase in accounts payable and accrued expenses	5,185	6,662
Net cash provided by operating activities	15,274	27,426
Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	(5,348)	(5,501)
Available-for-sale	(667,704)	(57,525)
Proceeds from maturities and paydowns of investment securities:		
Held-to-maturity	1,970	101
Available-for-sale	692,781	39,517
Proceeds from sales of available-for-sale investment securities		45,057
Net decrease (increase) in cash equivalent mutual funds classified as available-for-sale investment securities		162
Purchases and originations of mortgage servicing rights	(1,382)	(1,359)
Extensions of credit to customers, net of repayments	(79,484)	(35,709)
Recoveries of loans charged-off	531	592
Proceeds from sales of other real estate	389	400
Net capital expenditures	(2,778)	(1,454)

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Sale of banking offices, net of cash	(2,547)	
Net cash used in investing activities	(63,572)	(15,719)
Cash flows from financing activities:		
Net decrease in deposits	(31,932)	(49,293)
Net increase in repurchase agreements	99,589	28,749
Net decrease in other borrowed funds	(8,353)	(3,994)
Borrowings of long-term debt	600	3,500
Repayments of long-term debt	(963)	(5,383)
Net decrease in debt issuance costs	10	10
Proceeds from issuance of common stock	2,022	766
Excess tax benefits from stock-based compensation	656	
Payments to retire common stock	(3,228)	(1,016)
Dividends paid on common stock	(4,051)	(3,347)
Net cash provided by (used in) financing activities	54,350	(30,008)
Net increase (decrease) in cash and cash equivalents	6,052	(18,301)
Cash and cash equivalents at beginning of period	240,977	355,908
Cash and cash equivalents at end of period	\$ 247,029	\$ 337,607

*See accompanying notes to unaudited consolidated financial statements.*

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

*(Dollars in thousands, except share and per share data)*

**(1) Basis of Presentation**