

FIRST INTERSTATE BANCSYSTEM INC
Form 10-Q/A
May 24, 2001

1

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended March 31, 1997.

OR

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

For the transaction period from _____ to _____

COMMISSION FILE NUMBER 333-3250

First Interstate BancSystem of Montana, Inc.

(Exact name of registrant as specified in its charter)

Montana 81-0331430

(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

PO Box 30918, 401 North 31st Street, Billings, MT 59116-0918

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 406/255-5300

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

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 [X] No []

The Registrant had 1,973,460 shares of common stock and 20,000 shares of preferred stock outstanding on April 30, 1997.

2

FIRST INTERSTATE BANCSYSTEM OF MONTANA, INC.
Quarterly Report on Form 10-Q

Index -----	Page ----
PART I. FINANCIAL INFORMATION	
Restatement Explanatory Note	3
Item 1 - Financial Statements	
Consolidated Balance Sheets March 31,1997 and December 31,1996	4
Consolidated Statements of Income Three months ended March 31, 1997 and 1996	5
Consolidated Statements of Cash Flows Three months ended March 31, 1997 and 1996	6
Notes to Unaudited Consolidated Financial Statements	7
As fully described in "Notes to Unadited Consolidated Financial Statements," the Company has restated its 1997 consolidated financial statements	
Item 2 - Managements' Discussion and Analysis of Financial Condition and Results of Operations	12
PART II. OTHER INFORMATION	
Item 1 - Legal Proceedings	15
Item 2 - Changes in Securities	15
Item 3 - Defaults upon Senior Securities	15
Item 4 - Submission of Matters to a Vote of Security Holders	15
Item 5 - Other Information	15
Item 6 - Exhibits and Reports on Form 8-K	15

2

3

RESTATEMENT EXPLANATORY NOTE

In 2000, the Company determined it was necessary to restate the Company's 2000, 1999, 1998 and 1997 consolidated quarterly financial statements to change the accounting treatment for awards made pursuant to its Nonqualified Stock Option and Stock Appreciation Rights Plan ("Stock Option Plan") from fixed to variable plan accounting.

This Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997 amends and restates the previously filed Form 10-Q in its entirety. In order to preserve the nature and character of the disclosures set forth in the Form 10-Q as originally filed, no attempt has been made in this Amendment No. 1 to modify or update such disclosures except as required to reflect the effects of the restatement and make nonsubstantial revisions to the unaudited consolidated financial statements and the notes to the unaudited consolidated financial statements. For additional information regarding the restatement, see "Notes to Unaudited Consolidated Financial Statements - Restatement" included in Part I, Item 1.

Share and per share data presented have not been restated to give effect of a four-for-one stock split occurring during the fourth quarter of 1997.

3

4

FIRST INTERSTATE BANCSYSTEM OF MONTANA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(Dollars in thousands, except share data)
(Unaudited)

Assets -----	March 31, 1997 ----- (Restated)	December 31, 1996 -----
Cash and due from banks	\$ 131,878	160,962
Federal funds sold	27,695	4,945
Interest bearing deposits in banks	2,033	6,545
Investment securities:		
Available-for-sale	98,709	124,502
Held-to-maturity	286,097	279,069
	-----	-----
	384,806	403,571

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

Loans, net	1,401,668	1,375,479
Less allowance for loan losses	28,393	27,797
	-----	-----
Net loans	1,373,275	1,347,682
Premises and equipment, net	58,722	58,183
Accrued interest receivable	19,250	19,573
Excess of purchase price over equity in net assets of subsidiaries less accumulated amortization of \$7,284 at June 30, 1997 (unaudited) and \$5,971 at December 31, 1996	38,269	39,010
Other real estate owned, net	878	1,546
Deferred tax asset	5,754	4,921
Other assets	15,040	16,899
	-----	-----
Total assets	\$ 2,057,600	2,063,837
	=====	=====
Liabilities and Stockholders' Equity		

Deposits:		
Noninterest bearing	\$ 341,421	385,371
Interest bearing	1,308,035	1,294,053
	-----	-----
Total deposits	1,649,456	1,679,424
Federal funds purchased	24,730	13,450
Securities sold under repurchase agreements	119,731	129,137
Accounts payable and accrued expenses	26,292	18,027
Other borrowed funds	23,898	13,071
Long-term debt	64,259	64,667
	-----	-----
Total liabilities	1,908,366	1,917,776
Stockholders' equity:		
Non-voting noncumulative 8.53% preferred stock without par value; authorized 100,000 shares; issued and outstanding 20,000 shares	20,000	20,000
Common stock without par value; authorized 5,000,000 shares; issued and outstanding 1,972,161 shares at June 30, 1997 (unaudited and 1,978,268 shares at December 31, 1996)	8,826	8,941
Retained earnings	120,227	116,613
Unrealized holding gain on investment securities available-for-sale, net	181	507
	-----	-----
Total stockholders' equity	149,234	146,061
	-----	-----
Total liabilities and stockholders' equity	\$ 2,057,600	2,063,837
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

5

FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES

Consolidated Statements of Income
(Dollars in thousands, except share and per share data)
(Unaudited)

	For the three months ended March 31,	
	1997	1996
	(Restated)	
Interest income:		
Interest and fees on loans	\$ 33,330	21,897
Interest and dividends on investment securities:		
Taxable	5,343	3,451
Exempt from Federal taxes	251	236
Interest on deposits with banks	85	204
Interest on Federal funds sold	152	483
	-----	-----
Total interest income	39,161	26,271
	-----	-----
Interest expense:		
Interest on deposits	13,387	9,808
Interest on Federal funds purchased	318	31
Interest on securities sold under repurchase agreements	1,325	1,129
Interest on other borrowed funds	73	84
Interest on long-term debt	1,289	322
	-----	-----
Total interest expense	16,392	11,374
	-----	-----
Net interest income	22,769	14,897
Provision for loan losses	1,223	491
	-----	-----
Net interest income after provision for loan losses	21,546	14,406
Other operating income:		
Income from fiduciary activities	1,033	862
Service charges on deposit accounts	2,379	1,715
Data processing	1,841	2,041
Other service charges, commissions, and fees	892	624
Net investment securities gains	58	2
Other income	422	301
	-----	-----
Total other operating income	6,625	5,545
	-----	-----
Other operating expenses:		
Salaries and wages	6,987	4,897
Employee benefits	3,159	1,370
Occupancy expense, net	1,600	1,039
Furniture and equipment expenses	1,819	1,290
Other real estate expense (income), net	(134)	(89)
Other expenses	5,435	2,925
	-----	-----

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

Total other operating expenses	18,866	11,432
	-----	-----
Income before income taxes	9,305	8,519
Income tax expense	3,548	3,283
	-----	-----
Net income	\$ 5,757	5,236
	=====	=====
Net income per common share	\$ 2.69	2.68
	=====	=====
Dividends per common share	\$ 0.87	0.71
	=====	=====
Weighted average common shares outstanding	1,985,404	1,953,802
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

5

6

FIRST INTERSTATE BANCSYSTEM OF MONTANA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Dollars in thousands, except per share data)
(Unaudited)

	For the three months ended March 31,	
	1997	1996
	-----	-----
	(Restated)	
Cash flows from operating activities:		
Net income	\$ 5,757	\$ 5,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and other real estate losses	1,223	491
Depreciation and amortization	2,177	1,037
Net premium amortization on investment securities	296	300
Gain on sales of investments	(58)	(2)
Gain on sales of other real estate owned	(185)	(112)
Loss on sales of property and equipment	3	2
Provision for deferred income taxes	(660)	(257)
Increase in interest receivable	323	(75)
Decrease (increase) in other assets	1,859	(155)
Increase in accounts payable and accrued expenses	8,311	2,304
	-----	-----
Net cash provided by operating activities	19,046	8,769

6

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

Cash flows from investing activities:		
Purchases of investment securities:		
Held-to-maturity	(170,215)	(40,310)
Available-for-sale	(442)	(10,119)
Proceeds from maturities and paydowns of investment securities:		
Held-to-maturity	162,989	25,176
Available-for-sale	5,696	3,105
Proceeds from sales of available-for-sale investment securities	20,000	--
Decrease in interest bearing deposits in banks	4,512	4
Extensions of credit to customers, net of repayments	(27,550)	(27,303)
Recoveries of loans charged-off	734	243
Proceeds from sales of other real estate	853	284
Distribution from real estate joint venture	--	150
Capital expenditures, net	(1,978)	(1,787)
	-----	-----
Net cash used in investing activities	(5,401)	(50,557)
	-----	-----
Cash flows from financing activities:		
Net decrease in deposits	(29,968)	(2,793)
Net increase in Federal funds and repurchase agreements	1,874	(15,027)
Net increase in other borrowed funds	10,827	2,149
Proceeds from long-term borrowings	250	424
Repayment of long-term borrowings	(658)	(1,000)
Proceeds from issuance of common stock	352	277
Payments to retire common stock	(513)	(864)
Dividends paid on common stock	(1,722)	(1,385)
Dividends paid on preferred stock	(421)	--
	-----	-----
Net cash provided by (used in) by financing activities	(19,979)	(18,219)
	-----	-----
Net decrease in cash and cash equivalents	(6,334)	(60,007)
Cash and cash equivalents at beginning of period	165,907	165,067
	-----	-----
Cash and cash equivalents at end of period	159,573	105,060
	=====	=====

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$17,140	11,885
Cash paid during the period for taxes	300	60

Noncash Investing and Financing Activities:

The Company transferred loans of \$197 to other real estate owned during the three months ended March 31, 1996. In conjunction with the exercise of stock options, the Company transferred \$46 from accrued liabilities to stockholders' equity during the three months ended March 31, 1997.

See accompanying notes to unaudited consolidated financial statements.

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share data)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited, restated consolidated financial statements contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the consolidated financial position at March 31, 1997 and December 31, 1996, and the results of consolidated operations and cash flows for each of the three month periods ended March 31, 1997 and 1996 in conformity with generally accepted accounting principles. The balance sheet information at December 31, 1996 is derived from audited consolidated financial statements, however, certain reclassifications have been made to conform to the March 31, 1997 presentation. For additional information regarding the restatement, see Note 10.

In June 1996, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 125 requires the Company to recognize as separate assets the rights to service mortgage loans for others, whether the servicing rights are acquired through purchases or loan originations. Servicing rights are initially recorded at fair value based upon the present value of estimated future cash flows. Subsequently, the servicing rights are assessed for impairment, with impairment losses recognized in the statement of income in the period the impairment occurs. For purposes of performing the impairment evaluation, the related portfolio must be stratified on the basis of certain risk characteristics including loan type and note rate. SFAS No. 125 also specifies that financial assets subject to prepayment, including loans that can be contractually prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment, be measured like debt securities available-for-sale or trading securities under SFAS No. 115. The Company adopted the provisions of SFAS No. 125 as of January 1, 1997. The adoption did not have a material effect on the financial position or results of operations of the Company.

(2) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and Federal funds sold for one-day-periods.

(3) Computation of Earnings Per Share

Earnings per common share are computed by dividing net income less preferred stock dividends by the weighted average number of shares of common stock outstanding during the period presented. Stock options outstanding are considered common stock equivalents, and are included in computations of weighted average shares outstanding.

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share data)

(4) Cash Dividends

On April 14, 1997, the Company paid a cash dividend on first quarter earnings of \$0.98 per share to stockholders of record on that date. It has been the Company's practice to pay quarterly dividends based upon earnings. The April 1997 dividend represents 30% of the Company's net income for the quarter ended March 31, 1997 without taking into effect compensation expense related to stock options.

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below:

	For the three months ended March 31,	
	1997	1996
Balance at beginning of period	\$ 27,797	15,171
Provision charged to operating expense	1,223	491
	-----	-----
	29,020	15,662
Deduct:		
Loans charged-off	1,361	663
Recoveries of loans previously charged-off	(734)	(243)
	-----	-----
Net chargeoffs	627	420
	-----	-----
Balance at end of period	\$ 28,393	15,242
	=====	=====

(6) Other Real Estate Owned (OREO)

Other real estate owned consists of the following:

	March 31, 1997	December 31, 1996
Other real estate	\$ 1,344	2,057
Less allowance for OREO losses	466	511
	-----	-----
	\$ 878	1,546
	=====	=====

FIRST INTERSTATE BANK OF MONTANA, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share data)

A summary of transactions in the allowance for OREO losses follows:

	For the three months ended March 31,	
	1997	1996
Balance at beginning of period	\$ 511	554
Provision (reversal) during period	--	--
Losses on disposition	(45)	(6)
Balance at end of period	\$ 466	548
	=====	=====

Changes in the balance of other real estate owned for the three months ended March 31, 1997 and 1996 are summarized as follows:

	Three months ended March 31,	
	1997	1996
Balance at beginning of period	\$ 2,057	1,903
Add transfers from loans	--	197
Less writedowns charged to reserves	(45)	--
Cash proceeds from sales	853	284
Less gains on sales	185	112
Net basis of OREO sold	(668)	(172)
Balances, end of period	\$ 1,344	1,928
	=====	=====

(7) Acquisitions

On February 5, 1997, First Interstate Bank of Montana, N.A. purchased the assets of Mountain Financial, a loan production office located in Eureka, Montana. The total cash purchase price of the assets acquired aggregated \$1,726, of which \$166 was for premises and equipment and the remaining \$1,560 was for loans acquired.

(8) Commitments and Contingencies

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

In the normal course of business, the Company is named or threatened to be named as defendant in various lawsuits, some of which involve claims for substantial amounts of actual and/or punitive damages. With respect to each of these suits it is the opinion of management, following consultation with legal counsel, the suits are without merit or in the event the plaintiff prevails, the ultimate liability or disposition thereof will not have a material adverse effect on the consolidated financial condition or the results of operations.

9

10

FIRST INTERSTATE BANK OF MONTANA, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (Dollars in thousands, except per share data)

During 1985, the Company entered into a partnership agreement with two outside parties for the purpose of purchasing certain land and building with an aggregate cost of approximately \$20,000. The Company is a tenant in the building and owns a 50% undivided interest in the property. Indebtedness of the partnership in the amount of \$10,617 at June 30, 1997 is guaranteed by each of the partners.

The Company is a party to 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 and standby letters of credit. These instruments involve, in varying degrees, elements of credit and interest rate risk in excess of amounts recorded in the consolidated balance sheet.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Most commitments extend for no more than two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various collateral supporting those commitments for which collateral is deemed necessary.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

(9) Accounting Pronouncements Not Yet Adopted

In February 1997, the FASB issued SFAS No. 128, "Earnings per Share," which

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

simplifies the standards for computing earnings per share ("EPS") by replacing the presentation of primary EPS with a presentation of basic EPS on the face of the income statement for all entities with complex capital structures. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of all securities that could share in the earnings of an entity. SFAS No. 128 replaces APB Opinion 15 and is effective for financial statements issued for periods ending after December 15, 1997. The Company does not expect adoption of SFAS No. 128 to have an impact on its EPS disclosures.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information about Capital Structure," which lists required disclosures about capital structure that had been included in a number of previously existing separate statements and opinions. SFAS No. 129 is effective for financial statements for periods ending after December 15, 1997. The Company does not expect adoption of SFAS No. 129 to have a material impact on its capital structure disclosures.

10

11

FIRST INTERSTATE BANK OF MONTANA, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share data)

(10) Restatement

In 2000, the Company determined that fixed plan accounting treatment historically afforded its Stock Option Plan was not consistent with certain elements of the Stock Option Plan's operations and accounting guidance contained in APB Opinion 25 and related interpretations. Accordingly, the Company has restated the accompanying unaudited 1997 consolidated financial statements to reflect variable plan accounting treatment for awards made pursuant to its Stock Option Plan.

The following is a summary of the effect of such restatement on the Company's consolidated financial statements:

	March 31, 1997	
	Originally Reported	Restated
 Consolidated Balance Sheets		
Deferred tax asset	\$ 5,230	5,754
Other assets	15,064	15,040
Total assets	2,061,002	2,061,502
Accounts payable and accrued expenses	29,339	30,194
Common stock	8,476	8,826
Retained earnings	120,932	120,227

	=====	=====
	For the three months ended March 31, 1997	
	-----	-----
	Originally Reported	Restated
	-----	-----
Consolidated Statements of Income		
Employee benefits	\$ 1,996 =====	3,159 =====
Income before income taxes	\$ 10,468	9,305
Income tax expense	4,006 -----	3,548 -----
Net income	\$ 6,462 =====	5,757 =====
Net income per common share	\$ 3.04 =====	2.69 =====

Included in the 1997 restated financial statement amounts are compensation expense of \$1,000 and a reduction in tax expense of \$394 related to periods prior to 1997. The impact on 1997 net income and earnings per share is a decrease to net income of \$606 and a decrease of \$0.32 to earnings per share.

11

12

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands)

- (1) MATERIAL CHANGES IN FINANCIAL CONDITION. Comparison of balance sheet items at March 31, 1997 and December 31, 1996.

General. During the three month period ending March 31, 1997, total assets decreased slightly from \$2,063,837 at December 31, 1996 to \$2,061,502 at March 31, 1997. While total assets reflect only a nominal change, there were some notable shifts in the mix of assets and liabilities between periods. Seasonal declines in deposits and increases in loans and federal funds sold were funded with available cash, proceeds from maturities and paydowns of investments transactions, and other borrowings.

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

Loans. Net loans increased \$25,593 or 1.9% during the first three months of 1997 from \$1,347,682 at December 31, 1996 to \$1,373,275 at March 31, 1997. The Company experienced increased loan volumes attributed to continued strong economic conditions in the communities served by the Company's banking subsidiaries, as well as some seasonal increases, particularly in agricultural lending, following traditional paydowns in the fourth quarter.

Deposits. Total deposits decreased from \$1,679,424 at December 31, 1996 to \$1,649,456 at March 31, 1997. The decrease in deposits is principally related to an expected seasonal cycle in overall deposit growth that has historically occurred during the first half of the year. While non-interest bearing deposits declined \$43,950 or 11.4% from December 31, 1996 to March 31, 1997, modest growth in interest bearing deposits offset a portion of the decrease. Interest bearing deposits increased \$13,982 or 1.1% from \$1,294,053 at December 31, 1996 to \$1,308,035 at March 31, 1997.

Federal Funds Sold. Federal funds sold balances increased \$22,750 to \$27,695 at March 31, 1997 from \$4,945 at December 31, 1996 as the Company's banking subsidiaries funded the cash requirements of correspondent banks facing similar seasonal fluctuations in customer deposits.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses increased \$8,265 from \$18,027 at December 31, 1996 to \$26,292 at March 31, 1997. Approximately \$855 of the increase resulted from the accrual of compensation expense related to outstanding stock options. The remaining increase is due primarily to the timing of federal and state income tax payments.

Other Balance Sheet Accounts. Cash, amounts due from banks, interest bearing deposits and investment securities decreased \$52,361 (in aggregate) and federal funds purchased, securities sold under repurchase agreements and other borrowed funds increased \$11,280 (in aggregate) during the first quarter. These changes provided additional liquidity to fund increases in other earning assets, primarily loans and federal funds sold for one day periods.

(2) MATERIAL CHANGES IN RESULTS OF OPERATIONS. Comparison of three months ended March 31, 1997 and March 31, 1996.

General. On October 1, 1996, the Company acquired all of the outstanding capital stock of First Interstate Bank of Montana, N.A. and First Interstate Bank of Wyoming, N.A. and, on December 18, 1996, acquired all of the outstanding capital stock of Mountain Bank of Whitefish. The acquisitions were accounted for using the purchase method of accounting. Accordingly, the large increases in revenue and expenses for the three month period ended March 31, 1997 compared to the three month period ended March 31, 1996 are due, in a large part, to the acquisitions. The increases in consolidated earnings resulting from the acquisitions are partially offset by higher interest expense resulting from funding of the acquisition.

As a percentage of consolidated averages for the quarter ended March 31, 1997, average interest earning assets and average interest bearing

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

liabilities of the banks acquired were approximately 31% and 32%, respectively. Accordingly, there are material increases in most categories of income and expense for the three month period ended March 31, 1997 when compared to the three months ended March 31, 1996. Significant variances not directly attributable to the acquired banks are explained in the discussions that follow.

Net Income. Net income increased from \$5,236 to \$5,757 for the three month periods ended March 31, 1996 and 1997, respectively, an increase of \$521. While net earnings of the acquired banks aggregated approximately \$1,935 for the quarter ended March 31, 1997, the increases were partially offset by additional interest expense and other indirect costs at the parent company.

Interest Income. Interest income increased from \$26,271 for the three month period ended March 31, 1996 to \$39,161 for the three month period ended March 31, 1997. Adjusted for interest income of the acquired banks, interest income increased approximately \$892 or 3.4% primarily due to internal growth in loan volume. One of the Company's primary objectives is to maintain steady growth in interest income by utilizing systems, procedures, and products designed to manage and promote balance sheet growth, maintain strong interest margins and provide competitive pricing.

Interest Expense. Interest expense increased from \$11,374 to \$16,392 for the three month periods ended March 31, 1996 and 1997, respectively, an increase of \$5,018. Interest expense of the acquired banks and additional interest costs to fund the acquisitions aggregated approximately \$4,600 in 1997. The remaining increase was principally the result of internal growth in deposits.

Adjusted for acquisitions, average interest-bearing deposits for the first quarter of 1997 were up \$50,512 or 5.8% compared to averages for the first three months of 1996.

Provision for Loan Losses. The provision for loan losses increased to \$1,223 from \$491 for the first quarter of 1997 and 1996, respectively. Increases in the provision of \$566 are directly attributable to the acquisitions. The remaining increases are associated with growth in loan volumes and a slight deterioration in agricultural and consumer loans. Management actively monitors the local economies for strengths and diversity and unemployment levels, and evaluates its banking markets for their effects on its loan portfolio. Although nonperforming and problem assets have shown some increase, the fundamental economies within the Company's markets have remained strong. Overall, the increases in the provision for loan loss are reflective of management's evaluation of the risks inherent in the loan portfolio and current economic conditions. Should a significant shift in economic trends and/or increased volumes of problem credits or charge-offs occur, such events would likely require increased loan loss provisions in the future.

Non-Interest Income. Overall, non-interest income increased \$1,080 from \$5,545 to \$6,625 for the three month periods ended March 31, 1996 and 1997, respectively. Exclusive of non-interest income of \$1,369 attributable to the acquisitions, non-interest income declined \$289 or 5.2% in 1997. Decreases in income from fiduciary activities (\$139) and data processing revenues (\$300) as a result of non-recurring accrual adjustments made in January 1996 were partially offset by increases in data processing income resulting from increases in the number of customers and in the volume of transactions processed.

Non-Interest Expenses. Non-interest expenses were \$18,866 and \$11,432 for the three month periods ended March 31, 1997 and 1996, respectively, an

Edgar Filing: FIRST INTERSTATE BANCSYSTEM INC - Form 10-Q/A

increase of \$7,434. Non-interest expenses incurred directly by the acquired banks aggregated approximately \$4,570, however, there were also other indirect increases in non-interest expenses related to the acquisitions recorded by the parent company and other bank subsidiaries particularly in the data division of the parent company and operations divisions of other banking subsidiaries. In addition, during the first quarter of 1997, the Company recorded compensation expense related to stock options of \$1,000 for periods prior to 1997 as a result of restating the financial statements to reflect variable plan accounting for awards made pursuant to the Company's stock option plan. For additional information regarding the restatement, see "Restatement Explanatory Note" included in Part I and "Notes to Unaudited Consolidated Financial Statements-Restatement" included in Part I, Item 1.

13

14

Salaries and benefits expense increased \$3,879 from \$6,267 to \$10,146 for the three month periods ended March 31, 1996 and 1997, respectively. Of the increase, \$2,090 is the direct result of personnel costs related to employees of the acquired banks. In addition, during the first quarter of 1997, the Company recorded compensation expense of \$1,000 for periods prior to 1997 as a result of the restatement discussed above. Approximately \$163 of the remaining increase relates to the March 31, 1997 remeasurement of compensation expense related to outstanding stock options. The remaining increase of approximately \$626, or 10.0%, is primarily due to increases in staffing levels, particularly in the Company's operations center and data division, necessary to support the Company's growth and inflationary increases.

Occupancy, furniture and equipment expenses were \$2,329 and \$3,419 for the three months ended March 31, 1996 and 1997, respectively. Increases of approximately \$399 or 17.1% not directly related to acquisitions are primarily due to increased depreciation on data processing equipment upgrades, and the continuing upgrades and expansion of the Company's micro computer and ATM networks.

Other operating expenses were \$5,384 and \$2,923 for the three months ended March 31, 1997 and 1996, respectively. Exclusive of increases directly related to the acquired banks, other operating expenses increased approximately \$779 or 26.7%. Major components of the increase include additional professional fees primarily due to revision and upgrade of the Company's job evaluation system aggregating approximately \$167, increases in employee retirement accruals of approximately \$70, increases in employee education costs of approximately \$75, and increases in charitable contributions of approximately \$127. Postage, supplies, and telephone expenses also increased approximately \$313 primarily due to additional costs associated with growth in customer base.

A decrease in royalty fee expense of \$89 resulting from termination of the Company's franchise agreement with First Interstate Bancorp in May 1996 partially offset increases in other operating expenses.

Other variances in non-interest expenses for the first quarter of 1997 as compared to the first quarter of 1996 are not individually significant.

PART II. OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

None

ITEM 2 CHANGES IN SECURITIES

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 OTHER INFORMATION

Not applicable or not required

ITEM 6 EXHIBITS AND REPORTS OF FORM 8-K

(a) Exhibits.

27. Financial Data Schedule.

(b) No reports of Form 8-K were filed for the quarter ended March 31, 1997.

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:

FIRST INTERSTATE BANCSYSTEM OF MONTANA, INC.

Date May 16, 2001

/s/ THOMAS W. SCOTT

Thomas W. Scott
Chief Executive Officer

Date May 16, 2001

/s/ TERRILL R. MOORE

Terrill R. Moore
Senior Vice President
and Chief Financial Officer