FIRST INTERSTATE BANCSYSTEM INC
Form 10-Q
August 05, 2008

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

þ **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 000-49733**
**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 þ No o

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. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a 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 o No þ

The Registrant had 7,834,206 shares of common stock outstanding on June 30, 2008.

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

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Consolidated Balance Sheets**
*(In thousands, except share data)*
(Unaudited)

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 213,855 | 181,743 |
| Federal funds sold | 49,101 | 60,635 |
| Interest bearing deposits in banks | 1,510 | 6,868 |
| Total cash and cash equivalents | 264,466 | 249,246 |
| Investment securities: | | |
| Available-for-sale | 920,156 | 1,014,280 |
| Held-to-maturity (estimated fair values of $111,287 as of June 30, 2008 and $114,613 as of December 31, 2007) | 112,786 | 114,377 |
| Total investment securities | 1,032,942 | 1,128,657 |
| Loans | 4,570,655 | 3,558,980 |
| Less allowance for loan losses | 72,650 | 52,355 |
| Net loans | 4,498,005 | 3,506,625 |
| Goodwill | 187,297 | 37,380 |
| Premises and equipment, net | 168,511 | 124,041 |
| Company-owned life insurance | 68,261 | 67,076 |
| Accrued interest receivable | 42,231 | 32,215 |
| Mortgage servicing rights, net of accumulated amortization and impairment reserve | 23,626 | 21,715 |
| Core deposit intangible assets, net of accumulated amortization | 13,963 | 257 |
| Net deferred tax asset | 8,294 | 6,741 |
| Other assets | 56,368 | 42,844 |
| Total assets | $ 6,363,964 | 5,216,797 |
| Liabilities and Stockholders Equity | | |
| Deposits: | | |
| Noninterest bearing | $ 991,272 | 836,753 |
| Interest bearing | 3,892,217 | 3,162,648 |
| Total deposits | 4,883,489 | 3,999,401 |
| Federal funds purchased | 108,410 | |

| | | |
|---|---|---|
| Securities sold under repurchase agreements | 472,371 | 604,762 |
| Accrued interest payable | 21,898 | 21,104 |
| Accounts payable and accrued expenses | 32,859 | 30,117 |
| Other borrowed funds | 130,288 | 8,730 |
| Long-term debt | 88,845 | 5,145 |
| Subordinated debentures held by subsidiary trusts | 123,715 | 103,095 |
| Total liabilities | 5,861,875 | 4,772,354 |
| Stockholders equity: | | |
| Nonvoting noncumulative preferred stock without par value; authorized 100,000 shares; issued and outstanding 5,000 shares as of June 30, 2008, no shares issued and outstanding as of December 31, 2007 | 50,000 | |
| Common stock without par value; authorized 20,000,000 shares; issued and outstanding 7,834,206 shares as of June 30, 2008 and 8,006,041 shares as of December 31, 2007 | 114,177 | 29,773 |
| Retained earnings | 340,502 | 416,425 |
| Accumulated other comprehensive loss, net | (2,590) | (1,755) |
| Total stockholders equity | 502,089 | 444,443 |
| Total liabilities and stockholders equity | $ 6,363,964 | 5,216,797 |

*See accompanying notes to unaudited consolidated financial statements.*

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Consolidated Statements of Income**
*(In thousands, except per share data)*
(Unaudited)

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Interest income: | | | | |
| Interest and fees on loans | $75,197 | 67,641 | 152,763 | 132,901 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 11,065 | 9,810 | 22,458 | 21,067 |
| Exempt from Federal taxes | 1,508 | 1,186 | 3,004 | 2,340 |
| Interest on deposits in banks | 37 | 396 | 165 | 502 |
| Interest on Federal funds sold | 261 | 1,801 | 787 | 2,660 |
| Total interest income | 88,068 | 80,834 | 179,177 | 159,470 |
| Interest expense: | | | | |
| Interest on deposits | 24,003 | 25,289 | 51,138 | 47,884 |
| Interest on Federal funds purchased | 491 | 21 | 772 | 64 |
| Interest on securities sold under repurchase agreements | 1,791 | 5,329 | 5,102 | 12,074 |
| Interest on other borrowed funds | 354 | 38 | 426 | 76 |
| Interest on long-term debt | 1,145 | 84 | 2,352 | 269 |
| Interest on subordinated debentures held by subsidiary trusts | 1,913 | 895 | 4,213 | 1,781 |
| Total interest expense | 29,697 | 31,656 | 64,003 | 62,148 |
| Net interest income | 58,371 | 49,178 | 115,174 | 97,322 |
| Provision for loan losses | 5,321 | 1,875 | 7,684 | 3,750 |
| Net interest income after provision for loan losses | 53,050 | 47,303 | 107,490 | 93,572 |
| Noninterest income: | | | | |
| Other service charges, commissions and fees | 7,162 | 5,924 | 14,026 | 11,559 |
| Service charges on deposit accounts | 4,972 | 4,549 | 9,845 | 8,888 |
| Technology services revenues | 4,363 | 4,271 | 8,713 | 8,619 |
| Income from origination and sale of loans | 3,323 | 2,993 | 6,702 | 5,151 |
| Wealth managment revenues | 3,304 | 2,890 | 6,533 | 5,626 |
| Investment securities gains, net | 13 | | 74 | |
| Other income | 2,088 | 1,537 | 5,701 | 4,160 |
| Total noninterest income | 25,225 | 22,164 | 51,594 | 44,003 |
| Noninterest expense: | | | | |
| Salaries, wages and employee benefits | 29,720 | 24,110 | 58,065 | 48,171 |

| | | | | |
|---|---|---|---|---|
| Furniture and equipment | 4,886 | 3,961 | 9,513 | 8,032 |
| Occupancy, net | 3,979 | 3,723 | 8,243 | 7,156 |
| Mortgage servicing rights impairment | (4,297) | (677) | (745) | 116 |
| Mortgage servicing rights amortization | 1,431 | 1,114 | 2,796 | 2,282 |
| Professional fees | 1,270 | 677 | 2,163 | 1,367 |
| Core deposit intangible amortization | 641 | 44 | 1,221 | 88 |
| Outsourced technology services | 841 | 888 | 1,853 | 1,643 |
| Other expenses | 11,190 | 8,604 | 19,707 | 16,501 |
| Total noninterest expense | 49,661 | 42,444 | 102,816 | 85,356 |
| Income before income taxes | 28,614 | 27,023 | 56,268 | 52,219 |
| Income tax expense | 9,988 | 9,398 | 19,566 | 18,098 |
| Net income | 18,626 | 17,625 | 36,702 | 34,121 |
| Preferred stock dividends | 853 | | 1,622 | |
| Net income available to common stockholders | $17,773 | 17,625 | 35,080 | 34,121 |
| Basic earnings per common share | $ 2.27 | 2.16 | 4.45 | 4.17 |
| Diluted earnings per common share | $ 2.22 | 2.11 | 4.36 | 4.08 |

*See accompanying notes to unaudited consolidated financial statements.*

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Consolidated Statements of Changes In Stockholders Equity**
(In thousands, except share and per share data)
(Unaudited)

| | For the six months ended June 30, 2008 | 2007 |
|---|---|---|
| Balance at December 31, 2007 and 2006 | $ 444,443 | 410,375 |
| Cumulative effect of adoption of new accounting principle (see Note 2) | (633) | |
| Comprehensive income: | | |
| Net income | 36,702 | 34,121 |
| Post-retirement liability adjustment, net of income tax benefit of $14 in 2008 | (22) | |
| Unrealized losses on available-for-sale investment securities, net of income tax benefit of $498 in 2008 and $1,307 in 2007 | (768) | (2,014) |
| Less reclassfication adjustments for gains included in net income, net of income tax expense of $29 in 2008 | (45) | |
| Other comprehensive income | (835) | (2,014) |
| Total comprehensive income | 35,867 | 32,107 |
| Preferred stock transactions: | | |
| Preferred shares issued, 5,000 in 2008 | 50,000 | |
| Preferred stock issuance costs | (38) | |
| Common stock transactions: | | |
| Common shares issued, 626 in 2008 and 411 in 2007 | 52 | 37 |
| Common shares retired, 213,381 in 2008 and 107,752 in 2007 | (18,312) | (9,507) |
| Stock options exercised net of shares tendered in payment of option price and income tax withholding amounts, 40,920 in 2008 and 118,604 in 2007 | 1,264 | 4,422 |
| Tax benefits of stock options | 826 | 2,134 |
| Stock-based compensation expense | 574 | 745 |
| Cash dividends declared: | | |
| Common, $1.30 per share in 2008 and $1.67 per share in 2007 | (10,332) | (13,690) |
| Preferred (6.75% stated annual rate) | (1,622) | |
| Balance at June 30, 2008 and 2007 | $ 502,089 | 426,623 |

*See accompanying notes to unaudited consolidated financial statements.*

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**
*(In thousands)*
(Unaudited)

| | For the six months ended June 30, 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 36,702 | 34,121 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Cumulative effect of change in accounting principle | (633) | |
| Equity in undistributed earnings of unconsolidated subsidiaries and joint ventures | (232) | 70 |
| Provision for loan losses | 7,684 | 3,750 |
| Depreciation expense | 7,758 | 6,786 |
| Amortization of mortgage servicing rights | 2,796 | 2,282 |
| Net premium amortization (discount accretion) on investment securities | 441 | (2,345) |
| Net gain on sale of available-for-sale investment securities | (74) | |
| Net gain on sale of mortgage servicing rights | | (1,147) |
| Amortization of core deposit intangibles | 1,221 | 88 |
| Net impairment charges (reversals) on mortgage servicing rights | (745) | 116 |
| Net increase in cash surrender value of company-owned life insurance | (1,185) | (1,106) |
| Stock-based compensation expense | 574 | 745 |
| Excess tax benefits from stock-based compensation | (801) | (2,134) |
| Deferred income taxes | (951) | (1,078) |
| Changes in operating assets and liabilities: | | |
| Increase in loans held for sale | (2,796) | (16,468) |
| Increase in interest receivable | (2,035) | (3,733) |
| Decrease (increase) in other assets | (8,588) | 5,325 |
| Increase (decrease) in accrued interest payable | (1,840) | 417 |
| Decrease in accounts payable and accrued expenses | (3,258) | (9,794) |
| Net cash provided by operating activities | 34,038 | 15,895 |
| Cash flows from investing activities: | | |
| Purchases of investment securities: | | |
| Held-to-maturity | (9,579) | (8,337) |
| Available-for-sale | (153,426) | (1,573,165) |
| Proceeds from maturities and paydowns of investment securities: | | |
| Held-to-maturity | 11,087 | 7,077 |
| Available-for-sale | 341,872 | 1,726,116 |
| Purchases and originations of mortgage servicing rights | (3,962) | (3,142) |
| Proceeds from sale of mortgage servicing rights | | 2,811 |
| Extensions of credit to customers, net of repayments | (292,759) | (169,878) |
| Recoveries of loans charged-off | 1,072 | 1,242 |
| Proceeds from sales of other real estate | 211 | 345 |
| Net capital expenditures | (13,925) | (7,481) |
| Capital contributions to unconsolidated subsidiaires | (620) | |

| | | |
|---|---|---|
| Acquistion of banks & data services company, net of cash and cash equivalents received | (135,706) | |
| Net cash used in investing activities | (255,735) | (24,412) |

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows (continued)**
*(In thousands)*
(Unaudited)

| | For the six months ended June 30, 2008 | 2007 |
|---|---|---|
| Cash flows from financing activities: | | |
| Net increase in deposits | $ 72,161 | 210,877 |
| Net increase in Federal funds purchased | 108,410 | 2,735 |
| Net decrease in repurchase agreements | (137,423) | (243,065) |
| Net increase (decrease) in other borrowed funds | 117,319 | (998) |
| Borrowings of long-term debt | 112,500 | |
| Repayments of long-term debt | (28,800) | (15,728) |
| Proceeds from issuance of subordinated debentures held by subsidiary trusts | 20,620 | |
| Net decrease (increase) in debt issuance costs | (471) | 17 |
| Preferred stock issuance costs | (38) | |
| Proceeds from issuance of common stock | 2,104 | 6,593 |
| Excess tax benefits from stock-based compensation | 801 | 2,134 |
| Purchase and retirement of common stock | (18,312) | (9,507) |
| Dividends paid on common stock | (10,332) | (13,690) |
| Dividends paid on preferred stock | (1,622) | |
| Net cash provided by (used in) financing activities | 236,917 | (60,632) |
| Net increase (decrease) in cash and cash equivalents | 15,220 | (69,149) |
| Cash and cash equivalents at beginning of period | 249,246 | 255,791 |
| Cash and cash equivalents at end of period | $ 264,466 | 186,642 |

*See accompanying notes to unaudited consolidated financial statements.*

**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

## (1) Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements of First Interstate BancSystem, Inc. (the Parent Company or FIBS ) and subsidiaries (the Company ) contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the financial position of the Company at June 30, 2008 and December 31, 2007 and the results of operations and cash flows for each of the three and six month periods ended June 30, 2008 and 2007, in conformity with U.S. generally accepted accounting principles ( GAAP ). The balance sheet information at December 31, 2007 is derived from audited consolidated financial statements. Certain reclassifications, none of which were material, have been made to conform prior year financial statements to the June 30, 2008 presentation.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

## (2) Recent Accounting Pronouncements

**Statement of Financial Accounting Standards.** In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 157, Fair Value Measurements, establishing a framework for measuring fair value and expanding fair value measurement disclosures. SFAS No. 157 also establishes a fair value hierarchy that distinguishes between independent observable inputs and unobservable inputs based on the best information available. When issued, SFAS No. 157 was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position ( FSP ) No. 157-2, Effective Date of FASB Statement No. 157 to allow entities to electively defer the effective date of SFAS No, 157 for nonfinancial assets and liabilities, except for those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. Nonfinancial assets measured at fair value on a nonrecurring basis include nonfinancial assets and liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other nonfinancial long-lived assets measured at fair value for impairment assessment. The Company adopted SFAS No. 157 effective January 1, 2008 for financial assets and liabilities and elected to defer adoption of SFAS No. 157 for nonfinancial assets and liabilities until January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities including an amendment of FASB Statement No. 115, which permits entities to choose to measure financial instruments and certain warranty and insurance contracts at fair value. SFAS No. 159 was effective for the Company on January 1, 2008. The Company did not elect to apply the provisions of SFAS No. 159 to eligible items as of date of adoption. As such, the adoption of SFAS No. 159 did not impact the Company s consolidated financial statements, results of operations or liquidity.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB 51, establishing accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Under the provisions of SFAS No. 160, a noncontrolling interest in a subsidiary is reported as equity in the consolidated financial statements and income attributable to both the parent company and the noncontrolling interest is included in the consolidated statement of income. SFAS No. 160 also established a single method of accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation and required expanded disclosures in the consolidated financial statements. SFAS No. 160 is effective for the Company on January 1, 2009 with earlier adoption prohibited. The provisions of SFAS No. 160 are to be applied prospectively, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. The Company does not expect the adoption of SFAS No. 160 to have a material impact on its consolidated financial statements, results of operations or liquidity.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The Company does not use derivative instruments or engage in hedging activities and does not expect the adoption of SFAS No. 161 to have a material impact on its consolidated financial statements, results of operations or liquidity.

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

**Emerging Issues Task Forc**e. In September 2006, the Emerging Issues Task Force ( EITF ) reached a final consensus on Issue No. 06-4 ( EITF 06-4 ), Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 requires the recognition of a liability and related compensation expense for endorsement split dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. The Company adopted EITF 06-4 effective January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings of $633. Compensation expense for the postretirement aspects of the Company s endorsement split dollar life insurance policies of $17 and $35 for the three and six months ended June 30, 2008, respectively, is included in salaries wages and benefits expense on the accompanying consolidated statements of income.

In June 2007, the EITF reached a final consensus on Issue No. 06-11 ( EITF 06-11 ), Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 requires realized income tax benefits from dividends paid to employees for equity classified nonvested equity shares to be recognized as an increase in additional paid in capital and be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. The provisions of EITF 06-11 are effective for income tax benefits resulting from dividends declared subsequent to January 1, 2008. The adoption of EITF 06-11 did not have a significant impact on the Company s consolidated financial statements, results of operations or liquidity.

**SEC Staff Accounting Bulletin**s. In November 2007, the SEC issued Staff Accounting Bulletin No. 109 ( SAB 109 ), Written Loan Commitments Recorded at Fair Value Through Earnings. SAB 109 supersedes SAB 105, Application of Accounting Principles to Loan Commitments, and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB 109 was effective for derivative loan commitments issued or modified by the Company subsequent to January 1, 2008. The adoption of SAB 109 did not have a significant impact on the Company s consolidated financial statements, results of operations or liquidity.

**(3) Acquisitions**

On January 10, 2008, the Company completed the acquisition of all of the outstanding stock of The First Western Bank Sturgis, Sturgis, South Dakota ( Sturgis ), First Western Bank, Wall, South Dakota ( Wall ), and First Western Data, Inc., a South Dakota corporation ( Data ), from Christen Group, Inc., formerly known as First Western Bancorp, Inc. Consideration for the acquisition of $248,081 consisted of cash of $198,081 and 5,000 shares of newly issued 6.75% Series A noncumulative redeemable preferred stock ( Series A Preferred Stock ) with an aggregate value of $50,000. The acquisition allowed the Company to gain a significant market presence in South Dakota.

The premiums paid over the historical carrying value of net assts at the acquisition date are as follows:

| | Sturgis | Wall | Data | Total |
|---|---|---|---|---|
| Consideration paid | $ 110,838 | 136,827 | 416 | 248,081 |
| Estimated acquisition costs | 62 | 62 | | 124 |
| Total consideration paid for acquistion | 110,900 | 136,889 | 416 | 248,205 |
| Historical net assets carrying value | 36,804 | 45,852 | 416 | 83,072 |
| Premium paid over historical carrying value | $ 74,096 | 91,037 | | 165,133 |

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

The increase (decrease) in net asset values as a result of estimated fair value adjustments are as follows:

| | Sturgis | Wall | Data | Total |
|---|---|---|---|---|
| Intangible assets: | | | | |
| Goodwill | $ 65,195 | 84,722 | | 149,917 |
| Core deposit intangible | 6,262 | 8,665 | | 14,927 |
| Total intangible assets | 71,457 | 93,387 | | 164,844 |
| Premises and equipment | 6,181 | 5,334 | | 11,515 |
| Investments | 191 | 652 | | 843 |
| Loans | (1,349) | (5,021) | | (6,370) |
| Deposits | (745) | (1,191) | | (1,936) |
| Other liabilities | (1,475) | (1,484) | | (2,959) |
| Other assets | (164) | (640) | | (804) |
| | $ 74,096 | 91,037 | | 165,133 |

The premium paid and estimated fair value adjustments have been pushed down to the acquired entities. The preliminary allocation of purchase price is subject to change as fair value estimates are finalized. The estimated fair value of net assets at the acquisition date are summarized as follows:

| | Sturgis | Wall | Data | Total |
|---|---|---|---|---|
| Cash and due from banks | $ 8,925 | 11,004 | 70 | 19,999 |
| Federal funds sold | 29,500 | 13,000 | | 42,500 |
| Investment securities available-for-sale | 44,786 | 51,227 | | 96,013 |
| Loans | 315,828 | 405,052 | | 720,880 |
| Allowance for loan losses | (6,065) | (8,398) | | (14,463) |
| Premises and equipment | 15,121 | 22,740 | | 37,861 |
| Accrued interest receivable | 3,499 | 4,482 | 224 | 8,205 |
| Goodwill | 65,195 | 84,722 | | 149,917 |
| Core deposit intangible | 6,262 | 8,665 | | 14,927 |
| Other assets | 636 | 1,385 | 178 | 2,199 |
| | 483,687 | 593,879 | 472 | 1,078,038 |
| Deposits: | | | | |
| Noninterest bearing | 57,595 | 74,906 | | 132,501 |
| Interest bearing | 309,137 | 370,288 | | 679,425 |
| Total deposits | 366,732 | 445,194 | | 811,926 |
| Securities sold under repurchase agreements | 1,340 | 3,693 | | 5,033 |
| Accrued interest payable | 1,178 | 1,456 | | 2,634 |

| | | | | |
|---|---|---|---|---|
| Accounts payable and accrued expenses | 2,627 | 3,318 | 56 | 6,001 |
| Other borrowed funds | 910 | 3,329 | | 4,239 |
| | 372,787 | 456,990 | 56 | 829,833 |
| Consideration paid | $ 110,900 | 136,889 | 416 | 248,205 |

Goodwill recognized in the transaction totaled $149,917, of which approximately $136,758 is expected to be deductible for income tax purposes. All goodwill was assigned to the Community Banking operating segment.

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

The accompanying consolidated statements of income for the three and six months ended June 30, 2008 include the results of operations of the acquired entities since the date of acquisition. Had the acquisition been completed as of January 1, 2008, the Company s consolidated net income to common stockholders and diluted earnings per common share, on a pro forma basis, would have been $37,109 and $4.41, respectively, for the six months ended June 30, 2008.

**(4) Core Deposit Intangible Assets**

Core deposit intangible assets represent the intangible value of depositor relationships resulting from deposit liabilities assumed. Core deposit intangible assets of $13,963 as of June 30, 2008, are being amortized using an accelerated method over the weighted average useful lives of the related deposits of 9.2 years. Amortization expense related to core deposit intangibles recorded as of June 30, 2008 is expected to total $1,281 for the remainder of 2008, $2,131 in 2009, $1,748 in 2010, $1,446 in 2011 and $1,421 in 2010.

**(5) Financial Instruments with Off-Balance Sheet Risk**

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. 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At June 30, 2008, commitments to extend credit to existing and new borrowers approximated $1,244, which includes $323 on unused credit card lines and $279 with commitment maturities beyond one year.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. At June 30, 2008, the Company had outstanding standby letters of credit of $115. The estimated fair value of the obligation undertaken by the Company in issuing the standby letters of credit is included in other liabilities in the Company s consolidated balance sheet.

**(6) Computation of Earnings per Common Share**

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period presented. Diluted earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares and potential common shares outstanding during the period.

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended June 30, 2008 and 2007.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net income available to common stockholders | $ 17,773 | 17,625 | 35,080 | 34,121 |
| Average outstanding comon shares-basic | 7,845,801 | 8,173,718 | 7,882,820 | 8,180,835 |

| | | | | |
|---|---|---|---|---|
| Add: effect of dilutive stock options | 163,227 | 196,250 | 168,702 | 188,549 |
| Average outstanding common shares-diluted | 8,009,028 | 8,369,968 | 8,051,522 | 8,369,384 |
| Basic earnings per common share | $ 2.27 | 2.16 | 4.45 | 4.17 |
| Diluted earnings per common share | $ 2.22 | 2.11 | 4.36 | 4.08 |

**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

**(7) Supplemental Disclosures to Consolidated Statement of Cash Flows**

The Company paid cash of $63,209 and $61,731 for interest during the six months ended June 30, 2008 and 2007, respectively. The Company paid cash for income taxes of $20,894 and $23,189 during the six months ended June 30, 2008 and 2007, respectively.

The Company transferred accrued liabilities of $38 to common stock in conjunction with the exercise of stock options.

On January 8, 2008, the Company issued 5,000 shares of Series A Preferred Stock with an aggregate value of $50,000. The Series A Preferred stock was issued in partial consideration for the First Western acquisition (See Note 3).

On March 27, 2008, the Company transferred $100,000 from retained earnings to common stock.

**(8) Fair Value Measurements**

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

*Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

*Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

*Investment Securities Available for Sale*. Investment securities available for sale are classified within level 2 of the valuation hierarchy. The Company obtains fair value measurements for investment securities from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. In certain cases, where the pricing service cannot obtain fair values and/or there is limited activity or less transparency around inputs to the valuation, investment securities are classified within level 3 of the valuation hierarchy.

*Mortgage Loans Held For Sale.* Mortgage loans held for sale are required to be measured at the lower of cost or fair value. As of June 30, 2008, the Company had loans held for sale of $28,876. Management obtains quotes or bids on all or part of these loans directly from the purchasing institution. All loans held for sale as of June 30, 2008 were recorded at cost.

*Mortgage Servicing Rights.* Mortgage servicing rights are initially recorded at fair value based on comparable market quotes and are amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights are evaluated quarterly for impairment using an independent valuation service. The valuation service utilizes discounted cash flow modeling techniques, which consider observable data that includes consensus prepayment speeds and the predominant risk characteristics of the underlying loans including loan type, note rate and loan term.

**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

Financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2008 are as follows:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | 6/30/2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment securities available-for-sale | $920,156 | | 920,156 | |
| Mortgage servicing rights | 24,145 | | 24,145 | |

Certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at June 30, 2008.

**(9) Commitments**

In the normal course of business, the Company is involved in various claims and litigation. In the opinion of management, following consultation with legal counsel, the ultimate liability or disposition thereof will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

As of June 30, 2008, the Company had commitments to issue certificates of deposits aggregating $50,000 in brokered transactions. The certificates, issued July 9, 2008, mature October 9, 2008 and bear interest at fixed rates ranging from 2.90% to 2.95%. Placement fees for these transactions are equal to 0.4% to 0.5% of the amount issued.

The Company had commitments under construction contracts of $16,986 as of June 30, 2008.

**(10) Long-Term Debt**

In January 2008, the Company entered into a credit agreement ( Credit Agreement ) with four syndicated banks. As of June 30, 2008, the Company was in violation of two financial performance covenants related to nonperforming assets included in the Credit Agreement. The Company has requested and expects to obtain a waiver of these covenants in the near term. If a waiver is not obtained, the syndicated banks will be entitled to pursue the remedies available under the Credit Agreement including an acceleration of the full amount due thereunder. As of June 30, 2008, the Company had $46 million outstanding under the Credit Agreement. The Company expects similar waivers will be required in future periods.

**(11) Segment Reporting**

The Company has two operating segments, Community Banking and Technology Services. Community Banking encompasses commercial and consumer banking services offered to individuals, businesses and municipalities. Entities acquired in 2008 are included in the Community Banking operating segment. Technology Services encompasses technology services provided to affiliated and non-affiliated financial institutions.

The Other category includes the net funding cost and other expenses of the Parent Company, the operational results of non-bank subsidiaries (except the Company s technology services subsidiary) and intercompany eliminations.

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**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

Selected segment information for the three and six month periods ended June 30, 2008 and 2007 follows:

| | Three Months Ended June 30, 2008 | | | |
|---|---|---|---|---|
| | Community Banking | Technology Services | Other | Total |
| Net interest income (expense) | $61,156 | 17 | (2,802) | 58,371 |
| Provision for loan losses | 5,321 | | | 5,321 |
| Net interest income (expense) after provision | 55,835 | 17 | (2,802) | 53,050 |
| Noninterest income: | | | | |
| External sources | 20,345 | 4,363 | 517 | 25,225 |
| Internal sources | | 3,066 | (3,066) | |
| Total noninterest income | 20,345 | 7,429 | (2,549) | 25,225 |
| Noninterest expense | 42,898 | 6,736 | 27 | 49,661 |
| Income (loss) before income taxes | 33,282 | 710 | (5,378) | 28,614 |
| Income tax expense (benefit) | 11,699 | 287 | (1,998) | 9,988 |
| Net income (loss) | $21,583 | 423 | (3,380) | 18,626 |
| Depreciation and core deposit intangibles amortization | $ 4,441 | | 54 | 4,495 |

| | Three Months Ended June 30, 2007 | | | |
|---|---|---|---|---|
| | Community Banking | Technology Services | Other | Total |
| Net interest income (expense) | $49,858 | 41 | (721) | 49,178 |
| Provision for loan losses | 1,875 | | | 1,875 |
| Net interest income (expense) after provision | 47,983 | 41 | (721) | 47,303 |
| Noninterest income: | | | | |
| External sources | 17,490 | 4,271 | 403 | 22,164 |
| Internal sources | 1 | 3,258 | (3,259) | |
| Total noninterest income | 17,491 | 7,529 | (2,856) | 22,164 |
| Noninterest expense | 36,844 | 6,381 | (781) | 42,444 |
| Income (loss) before income taxes | 28,630 | 1,189 | (2,796) | 27,023 |
| Income tax expense (benefit) | 10,131 | 472 | (1,205) | 9,398 |
| Net income (loss) | $18,499 | 717 | (1,591) | 17,625 |
| | $ 3,549 | | 62 | 3,611 |

Depreciation and core deposit intangibles amortization

**FIRST INTERSTATE BANCSYSTEM, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**
*(In thousands, except share and per share data)*

| | Six Months Ended June 30, 2008 | | | |
|---|---|---|---|---|
| | Community Banking | Technology Services | Other | Total |
| Net interest income (expense) | $121,198 | 48 | (6,072) | 115,174 |
| Provision for loan losses | 7,684 | | | 7,684 |
| Net interest income (expense) after provision | 113,514 | 48 | (6,072) | 107,490 |
| Noninterest income: | | | | |
| External sources | 40,866 | 9,606 | 1,122 | 51,594 |
| Internal sources | 1 | 6,296 | (6,297) | |
| Total noninterest income | 40,867 | 15,902 | (5,175) | 51,594 |
| Noninterest expense | 91,011 | 13,346 | (1,541) | 102,816 |
| Income (loss) before income taxes | 63,370 | 2,604 | (9,706) | 56,268 |
| Income tax expense (benefit) | 22,173 | 1,036 | (3,643) | 19,566 |
| Net income (loss) | $ 41,197 | 1,568 | (6,063) | 36,702 |
| Depreciation and core deposit intangibles amortization | $ 8,834 | | 145 | 8,979 |

| | Six Months Ended June 30, 2007 | | | |
|---|---|---|---|---|
| | Community Banking | Technology Services | Other | Total |
| Net interest income (expense) | $98,658 | 87 | (1,423) | 97,322 |
| Provision for loan losses | 3,750 | | | 3,750 |
| Net interest income (expense) after provision | 94,908 | 87 | (1,423) | 93,572 |
| Noninterest income: | | | | |
| External sources | 34,565 | 8,619 | 819 | 44,003 |
| Internal sources | 1 | 6,488 | (6,489) | |
| Total noninterest income | 34,566 | 15,107 | (5,670) | 44,003 |
| Noninterest expense | 74,560 | 12,565 | (1,769) | 85,356 |
| Income (loss) before income taxes | 54,914 | 2,629 | (5,324) | 52,219 |
| Income tax expense (benefit) | 19,379 | 1,042 | (2,323) | 18,098 |
| Net income (loss) | $35,535 | 1,587 | (3,001) | 34,121 |
| | $ 6,749 | | 125 | 6,874 |

Depreciation and core deposit intangibles amortization

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**Item 2.**
**MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007, including the audited financial statements contained therein, filed with the Securities and Exchange Commission.

When we refer to we, our, and us in this report, we mean First Interstate BancSystem, Inc. and our consolidated subsidiaries, unless the context indicates that we refer only to the parent company, First Interstate BancSystem, Inc. When we refer to Banks in this report, we mean First Interstate Bank, First Western Bank and The First Western Bank Sturgis, our bank subsidiaries.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder, that involve inherent risks and uncertainties. Any statements about our plans, objectives, expectations, strategies, beliefs, or future performance or events constitute forward-looking statements. Such statements are identified as those that include words or phrases such as believes, expects, anticipates, plans, trend, objective, continue or similar expressions or future or conditional verbs such as will, would, sh could, might, may or similar expressions. Forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other important factors that could cause actual results to differ materially from any results, performance or events expressed or implied by such forward-looking statements. All forward-looking statements are qualified in their entirety by reference to the factors discussed in this report and the following risk factors discussed more fully in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007: (i) credit risk; (ii) concentrations of real estate loans; (iii) commercial loan risk; (iv) economic conditions in Montana, Wyoming and South Dakota; (v) adequacy of the allowance for loan losses; (vi) changes in interest rates; (vii) inability to meet liquidity requirements; (viii) inability of our subsidiaries to pay dividends; (ix) failure to meet debt covenants; (x) competition; (xi) environmental remediation and other costs; (xii) breach in information system security; (xiii) failure of technology; (xiv) failure to effectively implement technology-driven products and services; (xv) ineffective internal operational controls; (xvi) difficulties in integrating operations of First Western; (xvii) dependence on our management team; (xviii) the ability to attract and retain qualified employees; (xix) disruption of vital infrastructure and other business interruptions; (xx) Visa indemnification obligations; (xxi) litigation pertaining to fiduciary responsibilities; (xxii) changes in or noncompliance with governmental regulations; (xxiii) capital required to support our bank subsidiaries; and, (xxiv) investment risks affecting holders of common stock.

Because the foregoing factors could cause actual results or outcomes to differ materially from those expressed or implied in any forward-looking statements, undue reliance should not be placed on any forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of future events or developments.

**CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT ACCOUNTING POLICIES**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which we operate. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates.

Our accounting policies are fundamental to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations. The most significant accounting policies we follow are presented in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Our critical accounting estimates are summarized below. Management considers an accounting estimate to be critical if: (1) the accounting estimate requires management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain, and (2) changes in the estimate that are reasonably likely to occur from period to period, or the use of different estimates that management could have reasonably used in the current period, would have a material impact on our consolidated financial statements, results of operations or liquidity.

*Allowance for Loan Losses*

The allowance for loan losses represents management s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of subjective measurements, including management s assessment of the internal risk classifications of loans, changes in the nature of the loan portfolio, industry concentrations and the impact of current local, regional and national economic factors on the quality of the loan portfolio. Changes in these estimates and assumptions are reasonably possible and may have a material impact on our consolidated financial statements, results of operations or liquidity. The allowance for loan losses is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date. Management continuously monitors qualitative and quantitative trends in the loan portfolio, including changes in the levels of past due, internally classified and nonperforming loans. As a result, our historical experience has provided for an adequate allowance for loan losses. Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007 describes the methodology used to determine the allowance for loan losses. A discussion of the factors driving changes in the amount of the allowance for loan losses is included herein under the heading Asset Quality.

*Valuation of Mortgage Servicing Rights*

We recognize as assets the rights to service mortgage loans for others, whether acquired or internally originated. Mortgage servicing rights are initially recorded at fair value and are amortized over the period of estimated servicing income. Mortgage servicing rights are carried on the consolidated balance sheet at the lower of amortized cost or fair value. We utilize the expertise of a third-party consultant to estimate the fair value of our mortgage servicing rights quarterly. In evaluating the mortgage servicing rights, the consultant uses discounted cash flow modeling techniques, which require estimates regarding the amount and timing of expected future cash flows, including assumptions about loan repayment rates, costs to service, as well as interest rate assumptions that contemplate the risk involved. Management believes the valuation techniques and assumptions used by the consultant are reasonable.

Determining the fair value of mortgage servicing rights is considered a critical accounting estimate because of the assets sensitivity to changes in estimates and assumptions used, particularly loan prepayment speeds and discount rates. Changes in these estimates and assumptions are reasonably possible and may have a material impact on our consolidated financial statements, results of operations or liquidity. Notes 1 and 7 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 describe the methodology we use to determine fair value of mortgage servicing rights.

*Goodwill*

The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at the reporting unit level at least annually, or on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. In testing for impairment, the fair value of each reporting unit is estimated based on an analysis of market-based trading and transaction multiples of selected banks in the western and central regions of the United States; and, if required, the estimated fair value is allocated to the assets and liabilities of each reporting unit. Determining the fair value of goodwill is considered a critical accounting estimate because of its sensitivity to market-based trading and transaction multiples. In addition, any allocation of the fair value of goodwill to assets and liabilities requires significant management judgment and the use of subjective measurements. Variability in the market and changes in assumptions or subjective measurements used to allocate fair value are reasonably possible and may have a material impact on our consolidated financial statements, results of operations or liquidity. Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 describes our accounting policy with regard to goodwill.

**EXECUTIVE OVERVIEW**

Our success is highly dependent on economic conditions and market interest rates. Because we operate in Montana, Wyoming and South Dakota, the local economic conditions in each of these areas are particularly important. We did not engage in subprime lending practices and our local economies have not been as severely impacted by the national economic and real estate downturn, subprime mortgage crisis and credit market turmoil as many areas of the United States. As a result, we are not experiencing the financial instability that is challenging other financial institutions around the country.

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Net income available to common shareholders was $17.8 million, or $2.22 per diluted common share, for the quarter ended June 30, 2008. This is an increase of $148 thousand, or less than 1.0%, as compared to $17.6 million, or $2.11 per diluted common share, for the same period in 2007. For the six months ended June 30, 2008, net income available to common shareholders was $35.1 million, or $4.36 per diluted common share, an increase of $959 thousand, or 2.8%, compared to $34.1 million, or $4.08 per diluted share, for the same period in 2007. Our financial performance for the first six months of 2008 includes our acquisition of The First Western Bank Sturgis, Sturgis, South Dakota, First Western Bank, Wall, South Dakota, and First Western Data, Inc. on January 10, 2008. The acquired entities operate eighteen banking offices in twelve western South Dakota communities. As of the date of acquisition, the acquired entities had combined total assets of $918 million, combined total loans of $725 million and combined total deposits of $812 million. Our financial condition and results of operations for the three and six months ended June 30, 2008 include the results of the acquired entities since the date of acquisition.

Net interest income, on a fully taxable equivalent, or FTE, basis, increased $9.5 million, or 18.9%, to $59.7 million for the three months ended June 30, 2008 as compared to $50.2 million for the same period in 2007, and $18.5 million, or 18.6%, to $117.8 million for the six months ended June 30, 2008 as compared to $99.3 million for the same period in 2007. Improvements in FTE net interest income were primarily due to increases in average earning assets combined with a larger spread between rates earned on interest earning assets and rate paid on interest bearing liabilities.

Despite growth in average interest earning assets and an increase in the interest rate spread, our net FTE interest margin decreased 18 basis points to 4.27% for the three months ended June 30, 2008, and 17 basis points to 4.28% for the six months ended June 30, 2008, as compared to the same periods in 2007. These decreases are due, in part, to the deployment of available funding into non-earning assets including premises and equipment, goodwill and core deposit intangible assets recorded as part of the First Western acquisition. In addition, free funding sources comprised a smaller percentage of our total funding base during the three and six months ended June 30, 2008, which further eroded our FTE net interest margin.

During the first half of 2008, we experienced deterioration in credit quality, particularly in real estate development loans to borrowers in two Montana counties. This deterioration resulted in higher levels of nonperforming and internally risk classified loans. Based on our assessment of the adequacy of our allowance for loan losses, we increased our provisions for loan losses by $3.4 million, or 183.8%, to $5.3 million for the three months ended June 30, 2008, and $3.9 million, or 104.9%, to $7.7 million for the six months ended June 30, 2008, as compared to the same periods in 2007.

Exclusive of the results of the acquired First Western entities, noninterest income increased 5.4% for the three months ended June 30, 2008, and 9.6% for the six months ended June 30, 2008, as compared to the same periods in 2007. These increases are primarily due to a $1.6 million non-recurring gain on the mandatory redemption of our class B shares of Visa, Inc. recorded during first quarter 2008; a non-recurring gain of $1.1 million resulting from the release of funds escrowed in conjunction with the December 2006 sale of our interest in iPay Technologies, LLC recorded during first quarter 2008; and, increases in income from (i) the origination and sale of loans; (ii) higher volumes of credit and debit card transactions; (iii) asset management fees; and, (iv) insurance commissions.

Increases in noninterest income were more than offset by increases in noninterest expense. Exclusive of the results of the acquired First Western entities, noninterest expense increased 1.4% for the three months ended June 30, 2008, and 6.2% for the six months ended June 30, 2008, as compared to the same periods in 2007. Significant components of the three and six month period increases include inflationary increases in salaries, wages and benefits expense and group health insurance costs; increases in deposit insurance premiums resulting from the expiration of our one-time premium credit; one-time expenses related to employee recruitment and relocation; and, higher depreciation and maintenance expenses resulting from the addition, replacement and repair of equipment in the ordinary course of business. These increases in other expenses were partially offset by the first quarter 2008 reversal of $625 thousand of previously recorded contingency accruals related to our agreement to indemnify Visa USA for certain litigation losses and the second quarter 2008 reversal of impairment on mortgage servicing rights of $4.3 million.

**RESULTS OF OPERATIONS**

*Net Interest Income.* Net interest income, our largest source of operating income, is derived from interest, dividends and fees received on interest earning assets, less interest expense incurred on interest bearing liabilities. The most significant impact on our net interest income between periods is derived from the interaction of changes in the volume of and rates earned or paid on interest earning assets and interest bearing liabilities (spread). The volume of loans, investment securities and other interest earning assets, compared to the volume of interest bearing deposits and indebtedness, combined with the spread, produces changes in the net interest income between periods. Noninterest bearing sources of funds, such as demand deposits and stockholders equity, also support earning assets. The impact of free funding sources is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. Given the interest free nature of free funding sources, the net interest margin is generally higher than the spread.

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The following table presents, for the periods indicated, condensed average balance sheet information, together with interest income and yields earned on average interest earning assets and interest expense and rates paid on average interest bearing liabilities.

**Average Balance Sheets, Yields and Rates**

*(Dollars in thousands)*

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Interest earning assets: | | | | | | |
| Loans (1) | $4,458,678 | 75,632 | 6.82% | 3,418,976 | 68,015 | 7.98% |
| Investment securities (1) | 1,108,133 | 13,444 | 4.88 | 941,462 | 11,635 | 4.96 |
| Federal funds sold | 44,253 | 261 | 2.37 | 134,183 | 1,801 | 5.38 |
| Interest bearing deposits in banks | 4,944 | 37 | 3.01 | 31,230 | 396 | 5.09 |
| Total interest earning assets | 5,616,008 | 89,374 | 6.40% | 4,525,851 | 81,847 | 7.25% |
| Noninterest earning assets | 676,388 | | | 423,784 | | |
| Total assets | $6,292,396 | | | 4,949,635 | | |
| Interest bearing liabilities: | | | | | | |
| Demand deposits | $1,163,838 | 3,414 | 1.18% | 1,012,485 | 6,257 | 2.48% |
| Savings deposits | 1,121,819 | 4,455 | 1.60 | 949,859 | 6,318 | 2.67 |
| Time deposits | 1,623,799 | 16,134 | 4.00 | 1,088,858 | 12,714 | 4.68 |
| Federal funds purchased | 92,893 | 491 | 2.13 | 1,560 | 21 | 5.40 |
| Borrowings (2) | 585,596 | 2,145 | 1.47 | 538,971 | 5,367 | 3.99 |
| Long-term debt | 90,712 | 1,145 | 5.08 | 6,051 | 84 | 5.57 |
| Subordinated debentures | 123,715 | 1,913 | 6.22 | 41,238 | 895 | 8.71 |
| Total interest bearing liabilities | 4,802,372 | 29,697 | 2.49% | 3,639,022 | 31,656 | 3.49% |
| Noninterest bearing deposits | 924,519 | | | 840,968 | | |
| Other noninterest bearing liabilities | 59,186 | | | 47,785 | | |
| Stockholders equity | 506,319 | | | 421,860 | | |
| Total liabilities and stockholders equity | $6,292,396 | | | 4,949,635 | | |

| | | | | |
|---|---|---|---|---|
| Net FTE interest | $59,677 | | 50,191 | |
| Less FTE adjustments | (1,306) | | (1,013) | |
| Net interest income from consolidated statements of income | $58,371 | | 49,178 | |
| Interest rate spread | | 3.91% | | 3.76% |
| Net FTE yield on interest earning assets (3) | | 4.27% | | 4.45% |

(1) Interest income and average rates for tax exempt loans and securities are presented on a fully-taxable equivalent, or FTE, basis.

(2) Includes interest on securities sold under repurchase agreements and other borrowed funds. Excludes long-term debt.

(3) Net FTE yield on interest earning assets during the period equals (i) the difference between annualized interest income on interest earning assets and annualized interest expense on interest bearing liabilities,

divided by
(ii) average
interest earning
assets for the
period.

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| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Interest earning assets: | | | | | | |
| Loans (1) | $4,352,490 | 153,660 | 7.10% | 3,370,563 | 133,667 | 8.00% |
| Investment securities (1) | 1,112,715 | 27,219 | 4.92 | 1,008,453 | 24,667 | 4.93 |
| Federal funds sold | 57,799 | 787 | 2.74 | 98,801 | 2,660 | 5.43 |
| Interest bearing deposits in banks | 8,558 | 165 | 3.88 | 19,780 | 502 | 5.12 |
| Total interest earning assets | 5,531,562 | 181,831 | 6.61% | 4,497,597 | 161,496 | 7.24% |
| Noninterest earning assets | 647,240 | | | 419,386 | | |
| Total assets | $6,178,802 | | | 4,916,983 | | |
| Interest bearing liabilities: | | | | | | |
| Demand deposits | $1,148,412 | 7,878 | 1.38% | 989,159 | 11,969 | 2.44% |
| Savings deposits | 1,103,884 | 9,988 | 1.82 | 887,430 | 11,176 | 2.54 |
| Time deposits | 1,593,425 | 33,272 | 4.20 | 1,078,098 | 24,739 | 4.63 |
| Federal funds purchased | 65,617 | 772 | 2.37 | 2,505 | 64 | 5.15 |
| Borrowings (2) | 579,667 | 5,528 | 1.92 | 603,559 | 12,150 | 4.06 |
| Long-term debt | 88,758 | 2,352 | 5.33 | 13,007 | 269 | 4.17 |
| Subordinated debentures | 122,939 | 4,213 | 6.89 | 41,238 | 1,781 | 8.71 |
| Total interest bearing liabilities | 4,702,702 | 64,003 | 2.74% | 3,614,996 | 62,148 | 3.47% |
| Noninterest bearing deposits | 921,731 | | | 832,306 | | |
| Other noninterest bearing liabilities | 58,576 | | | 51,500 | | |
| Stockholders equity | 495,793 | | | 418,181 | | |
| Total liabilities and stockholders equity | $6,178,802 | | | 4,916,983 | | |
| Net FTE interest | | $117,828 | | | 99,348 | |
| Less FTE adjustments | | (2,654) | | | (2,026) | |
| | | $115,174 | | | 97,322 | |

| | | |
|---|---|---|
| Net interest income from consolidated statements of income | | |
| Interest rate spread | 3.87% | 3.77% |
| Net FTE yield on interest earning assets (3) | 4.28% | 4.45% |

(1) Interest income and average rates for tax exempt loans and securities are presented on a fully-taxable equivalent, or FTE, basis.

(2) Includes interest on securities sold under repurchase agreements and other borrowed funds. Excludes long-term debt.

(3) Net FTE yield on interest earning assets during the period equals (i) the difference between annualized interest income on interest earning assets and annualized interest expense on interest bearing liabilities, divided by (ii) average interest earning assets for the

period.

Net interest income, on a fully taxable equivalent, or FTE, basis, increased $9.5 million, or 18.9%, to $59.7 million for the three months ended June 30, 2008 as compared to $50.2 million for the same period in 2007, and $18.5 million, or 18.6%, to $117.8 million for the six months ended June 30, 2008 as compared to $99.3 million for the same period in 2007. Improvements in FTE net interest income are primarily due to increases in average earning assets combined with an increase in the spread between rates earned on interest earning assets and rate paid on interest bearing liabilities. Growth in average earning assets and average interest bearing liabilities is primarily due to the First Western acquisition.

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Despite growth in average interest earning assets and an increase in the interest rate spread, our net FTE interest margin decreased 18 basis points to 4.27% for the three months ended June 30, 2008, from 4.45% during the same period in the prior year, and 17 basis points to 4.28% for the six months ended June 30, 2008, from 4.45% during the same period in 2007. These decreases are due, in part, to the deployment of available funding into nonearning assets including premises and equipment, goodwill and core deposit intangible assets recorded as part of the First Western acquisition. In addition, free funding sources comprised a smaller percentage of our total funding base during the first six months of 2008, which further eroded our FTE net interest margin.

The table below sets forth, for the periods indicated, a summary of the changes in interest income and interest expense resulting from estimated changes in average asset and liability balances (volume) and estimated changes in average interest rates (rate). Changes which are not due solely to volume or rate have been allocated to these categories based on the respective percent changes in average volume and average rate as they compare to each other.

**Analysis of Interest Changes Due To Volume and Rates**

*(Dollars in thousands)*

| | Three Months Ended June 30, 2008 Compared with 2007 | | | Six Months Ended June 30, 2008 Compared with 2007 | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest earning assets: | | | | | | |
| Loans (1) | $20,683 | (13,066) | 7,617 | 38,941 | (18,948) | 19,993 |
| Investment securities (1) | 2,060 | (251) | 1,809 | 2,550 | 2 | 2,552 |
| Interest bearing deposits in banks | (333) | (26) | (359) | (285) | (52) | (337) |
| Federal funds sold | (1,207) | (333) | (1,540) | (1,105) | (768) | (1,873) |
| Total change | 21,203 | (13,676) | 7,527 | 40,101 | (19,766) | 20,335 |
| Interest bearing liabilites: | | | | | | |
| Demand deposits | 935 | (3,778) | (2,843) | 1,927 | (6,018) | (4,091) |
| Savings deposits | 1,144 | (3,007) | (1,863) | 2,726 | (3,914) | (1,188) |
| Time deposits | 6,246 | (2,826) | 3,420 | 11,825 | (3,292) | 8,533 |
| Federal funds purchased | 1,229 | (759) | 470 | 1,612 | (904) | 708 |
| Borrowings (2) | 464 | (3,686) | (3,222) | (481) | (6,141) | (6,622) |
| Long-term debt | 1,175 | (114) | 1,061 | 1,567 | 516 | 2,083 |
| Subordinated debentures | 1,790 | (772) | 1,018 | 1,755 | 677 | 2,432 |
| Total change | 12,983 | (14,942) | (1,959) | 20,931 | (19,076) | 1,855 |
| Increase in FTE net interest income | $ 8,220 | 1,266 | 9,486 | 19,170 | (690) | 18,480 |

(1) Interest income and average rates for tax

exempt loans and securities are presented on a FTE basis.

(2) Includes interest on securities sold under repurchase agreements and other borrowed funds.

*Provision for Loan Losses.* The provision for loan losses creates an allowance for loan losses known and inherent in the loan portfolio at each balance sheet date. We perform a quarterly assessment of the risks inherent in our loan portfolio, as well as a detailed review of each significant asset with identified weaknesses. Based on this analysis, we record a provision for loan losses in order to maintain the allowance for loan losses at appropriate levels. Fluctuations in the provision for loan losses result from management s assessment of the adequacy of the allowance for loan losses. Ultimate loan losses may vary from current estimates. For additional information concerning the provision for loan losses, see Critical Accounting Estimates and Significant Accounting Policies above.

The provision for loan losses increased $3.4 million, or 183.8%, to $5.3 million for the three months ended June 30, 2008, as compared to $1.9 million for the same period in 2007. The provision for loan losses increased $3.9 million, or 104.9%, to $7.7 million for the six months ended June 30, 2008, as compared to $3.8 million for the same period in 2007. Approximately $208 thousand of the three-month increase and $348 thousand of the six-month increase is attributable to the First Western entities acquired. Remaining increases in the provision for loan losses are due to deterioration in credit quality resulting in higher levels of internally risk rated loans, particularly real estate development loans in two Montana counties. For additional information regarding nonperforming assets, see Nonperforming Assets included herein.

*Noninterest Income.* Our principal sources of noninterest income include other service charges, commissions and fees; technology services revenues; service charges on deposit accounts; revenues from financial services; and, income from the origination and sale of loans. Noninterest income increased $3.1 million, or 13.8%, to $25.2 million for the three months ended June 30, 2008, as compared to $22.2 million for the same period in 2007. Noninterest income increased $7.6 million, or 17.3%, to $51.6 million for the six months ended June 30, 2008, as compared to $44.0 million for the same period in 2007. Significant components of the increases are discussed below.

Other service charges, commissions and fees primarily include debit and credit card interchange income, mortgage servicing fees and ATM service charge revenues. Other service charges, commissions and fees increased $1.2 million, or 20.9%, to $7.2 million for the three months ended June 30, 2008, as compared to $5.9 million for the same period in 2007. Other service charges, commissions and fees increased $2.5, or 21.3%, to $14.0 million for the six months ended June 30, 2008, as compared to $11.6 million for the same period in 2007. Approximately $547 thousand of the three month period increase and $924 thousand of the six month period increase is attributable to the acquired First Western entities. The remaining three and six month period increases are primarily due to higher insurance commissions and additional fee income resulting from higher volumes of credit and debit card transactions.

Income from the origination and sale of loans includes origination and processing fees on residential real estate loans held for sale and gains on residential real estate loans sold to third parties. Fluctuations in market interest rates have a significant impact on the level of income generated from the origination and sale of loans. Higher interest rates can reduce the demand for home loans and loans to refinance existing mortgages. Conversely, lower interest rates generally stimulate refinancing and home loan origination. Income from the origination and sale of loans increased $330 thousand, or 11.0%, to $3.3 million for the three months ended June 30, 2008, as compared to $3.0 million for the same period in 2007. Income from the origination and sale of loans increased $1.6 million, or 30.1%, to $6.5 million for the six months ended June 30, 2008, as compared to $5.2 million for the same period in 2007. Approximately $62 thousand of the three month period increase and $94 thousand of the six month period increase is attributable to the acquired First Western entities.

Wealth management revenues are comprised principally of fees earned for management of trust assets and investment services revenues. Wealth management revenues increased $414 thousand, or 14.3%, to $3.3 million for the three months ended June 30, 2008, as compared to $2.9 million for the same period in 2007. Wealth management revenues increased $907 thousand, or 16.1%, to $6.5 million for the six months ended June 30, 2008, as compared to $5.6 million for the same period in 2007. Approximately $151 thousand of the three month period increase and $316 thousand of the six month period increase is attributable to the acquired First Western entities. The remaining three and six month period increases are primarily due to higher asset management fees, the result of growth in assets under management.

Other income primarily includes company-owned life insurance revenues, check printing income, agency stock dividends and gains on sales of assets other than investment securities. Other income increased $551 thousand, or 35.8%, to $2.1 million for the three months ended June 30, 2008, as compared to $1.5 million for the same period in 2007. Other income increased $1.5 million, or 37.0%, to $5.7 million for the six months ended June 30, 2008, as compared to $4.2 million for the same period in 2007. Approximately $118 thousand of the three month period increase and $276 thousand of the six month period increase is attributable to the acquired First Western entities. The remaining six month period increase is due to a one-time gain of $1.6 million resulting from the mandatory redemption of our class B shares of Visa, Inc. recorded during first quarter 2008. The net gain was split between our community banking and technology services operating segments. In addition, during first quarter 2008 we recorded a non-recurring gain of $1.1 million resulting from the release of funds escrowed in conjunction with the December 2006 sale of our interest in iPay Technologies, LLC. Increases in other income during the first six months of 2008, as compared to the same period in the prior year, were partially offset by a one-time gain of $1.1 million on the sale of mortgage servicing rights recorded during first quarter 2007.

*Noninterest Expense.* Noninterest expense increased $7.2 million, or 17.0%, to $49.7 million for the three months ended June 30, 2008, as compared to $42.4 million for the same period in 2007. Noninterest expense increased $17.5 million, or 20.5%, to $102.8 million for the six months ended June 30, 2008, as compared to $85.4 million for the same period in 2007. Significant components of the increases are discussed below.

Salaries, wages and employee benefits expense increased $5.6 million, or 23.3%, to $29.7 million for the three months ended June 30, 2008, as compared to $24.1 million for the same period in 2007. Salaries, wages and employee benefits expense increased $9.9 million, or 20.5%, to $58.1 million for the six months ended June 30, 2008, as compared to $48.2 million for the same period in 2007. Approximately $3.3 million of the increases and $6.0 million of the six month period increase is directly attributable to the acquired First Western entities. The remaining increase is primarily due to higher group health insurance costs and inflationary wage increases.

Furniture and equipment expense increased $925 thousand, or 23.4%, to $4.9 million for the three months ended June 30, 2008, as compared to $4.0 million for the same period in 2007. Furniture and equipment expense increased $1.5 million, or 18.4%, to $9.5 million for the six months ended June 30, 2008, as compared to $8.0 million for the same period in 2007. Approximately $286 thousand of the three month period increase and $580 thousand of the six month period increase is directly attributable the acquired First Western entities. The remaining three and six month period increases are primarily due to higher depreciation and maintenance expenses resulting from the addition, replacement and repair of equipment in the ordinary course of business.

Occupancy expense increased $256 thousand, or 6.9%, to $4.0 million for the three months ended June 30, 2008, as compared to $3.7 million for the same period in 2007. Exclusive of the expenses of the acquired First Western entities, occupancy expense for the three months ended June 30, 2008, decreased $172 thousand, or 4.6%, from the same period in the prior year. Occupancy expense increased $1.1 million, or 15.2%, to $8.2 million for the six months ended June 30, 2008, as compared to $7.2 million for the same period in 2007. Exclusive of the expenses of the acquired First Western entities, occupancy expense for the six months ended June 30, 2008, increased $246 thousand, or 3.4%, from the same period in the prior year.

Mortgage servicing rights are evaluated quarterly for impairment by discounting the expected future cash flows, taking into consideration the estimated level of prepayments based on current industry expectations and the predominant risk characteristics of the underlying loans. Impairment adjustments are recorded through a valuation allowance. The valuation allowance is adjusted for changes in impairment through a charge to current period earnings. During the three months ended June 30, 2008, we reversed previously recorded impairment of $4.3 million, as compared to $677 thousand during the same period in 2007. During the six months ended June 30, 2008, we reversed previously recorded impairment of $745 thousand, as compared to recording additional impairment charges of $116 thousand during the same period in 2007.

Other expenses primarily include advertising and public relations costs; office supply, postage, freight, telephone and travel expenses; donations expense; director fees; and, other losses. Other expenses increased $2.6 million or 30.1%, to $11.2 million for the three months ended June 30, 2008, as compared to $8.6 million for the same period in 2007. Exclusive of the expenses of the acquired First Western entities, other expenses increased $1.0 million, or 11.6%, for the three months ended June 30, 2008, as compared to the same period in the prior year. Significant components of the increase include (1) increases in Federal Deposit Insurance Corporation, or FDIC, deposit insurance premiums of $509 thousand resulting from the expiration of our one-time historical assessment credit established by the FDIC and used to offset insurance assessments during 2007 and first quarter 2008; (2) expenses related to employee recruitment and relocation of $450 thousand; and, (3) nonrecurring fraud losses of $237 thousand.

Other expenses increased $3.2 million or 19.4%, to $19.7 million for the six months ended June 30, 2008, as compared to $16.5 million for the same period in 2007. Exclusive of the expenses of the acquired First Western entities, other expenses increased $323 thousand, or 2.0%, for the six months ended June 30, 2008, as compared to the same period in the prior year primarily due to increases in FDIC insurance premiums of $569 thousand, expense related to employee recruitment and relocation costs of $450 thousand and nonrecurring fraud losses of $237 thousand. These increases in other expenses were partially offset by the first quarter 2008 reversal of $625 thousand of previously recorded contingency accruals related to our agreement to indemnify Visa USA for certain litigation losses. For additional information regarding our indemnification agreement with Visa USA, see Risk Factors Operational Risks included in our Annual Report on Form 10-K for the year ended December 31, 2007.

*Income Tax Expense.* Our effective federal income tax rate was 30.4% for the six months ended June 30, 2008, and 30.9% for the six months ended June 30, 2007. State income tax applies primarily to pretax earnings generated within Montana, Colorado, Idaho, Oregon and South Dakota. Our effective state tax rate was 4.4% for the six months ended June 30, 2008, and 3.8% for the six months ended June 30, 2007. Changes in effective federal and state income tax rates are primarily fluctuations in tax exempt interest income as a percentage of total income.

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## OPERATING SEGMENT RESULTS

The following table summarizes net income (loss) for each of our operating segments.

**Operating Segment Results**
*(Dollars in thousands)*

| | Net Income (Loss) Three Months Ended June 30, | | Net Income (Loss) Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Community banking | $21,583 | 18,499 | 41,197 | 35,535 |
| Technology services | 423 | 717 | 1,568 | 1,587 |
| Other | (3,380) | (1,591) | (6,063) | (3,001) |
| Total | 18,626 | 17,625 | 36,702 | 34,121 |

Our principal operating segment is community banking, which encompasses commercial and consumer banking services offered to individuals, businesses, municipalities and other entities. The community banking operating segment includes results of the acquired First Western entities since the date of acquisition. The community banking segment represented over 90% of our combined revenues and income for the three and six months ended June 30, 2008 and 2007, and of our consolidated assets as of June 30, 2008 and December 31, 2007. Components of the changes in community banking net income for the three and six months ended June 30, 2008 as compared to the same period in 2007 are discussed above.

The technology services operating segment encompasses services provided through i_Tech to affiliated and non-affiliated customers including core application data processing; ATM and debit card processing; item proof, capture and imaging; wide area network services; and, system support. Technology services net income decreased $294 thousand, or 41.0%, to $423 thousand for the three months ended June 30, 2008, as compared to $717 thousand for the same period in the prior year primarily due to equipment repair, maintenance and replacement expenses.

Technology services net income decreased $19 thousand, or 1.2%, to $1.6 million for the six months ended June 30, 2008, as compared to the same period in the prior year. During first quarter 2008, technology services recorded a one-time gain of $894 thousand from the mandatory redemption of our class B shares of Visa, Inc. This one-time gain was offset by equipment repair, maintenance and replacement expenses and the payment of severance amounts to certain item processing and data center personnel.

Other includes the net funding cost and other expenses of the parent holding company, the operational results of consolidated nonbank subsidiaries (except i_Tech) and intercompany eliminations. Other net losses increased $1.8 million, or 112.4%, to $3.4 million for the three months ended June 30, 2008, as compared to $1.6 million the same period in 2007. Other net losses increased $3.1 million, or 102.0%, to $6.1 million for the six months ended June 30, 2008, as compared to $3.0 for the same period in 2007. The three and six month period increases in net losses are due to higher interest expense resulting from additional debt obtained to fund the First Western acquisition. Net interest expense increased $2.1 million for the three months ended June 30, 2008, as compared to the same period in 2007, and $4.6 million for the six months ended June 30, 2008, as compared to the same period in 2007. The six month period increase in net interest expense was partially offset by decreases in share-based compensation expense and appreciation on deferred officer compensation amounts.

## FINANCIAL CONDITION

Total assets increased $1,147 million, or 22.0%, to $6,364 million as of June 30, 2008, from $5,217 million as of December 31, 2007, primarily due to the First Western acquisition on January 10, 2008. As of the date of acquisition, the acquired entities had combined total assets of $918 million, combined total loans of $725 million, combined premises and equipment of $38 million and combined total deposits of $812 million. In addition, in connection with the acquisition we recorded goodwill of $150 million and core deposit intangibles of $15 million.

*Loans.* Our loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities we serve. The following table presents the composite of our loan portfolio as of the dates indicated:

**Loan Portfolio**

*(Dollars in thousands)*

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Real estate loans: | | |
| Residential | $ 742,660 | $ 419,001 |
| Agricultural | 172,921 | 142,256 |
| Commercial | 1,256,103 | 1,018,831 |
| Construction | 711,199 | 664,272 |
| Mortgage loans originated for sale | 28,876 | 26,080 |
| Total real estate loans | 2,911,759 | 2,270,440 |
| Consumer: | | |
| Indirect consumer loans | 383,860 | 373,457 |
| Credit card loans | 72,929 | 68,136 |
| Other consumer loans | 207,813 | 166,409 |
| Total consumer loans | 664,602 | 608,002 |
| Commercial | 797,225 | 593,669 |
| Agricultural | 154,541 | 81,890 |
| Other loans, including overdrafts | 42,528 | 4,979 |
| Total loans | $4,570,655 | $3,558,980 |

Total loans increased $1,011 million, or 28.4%, to $4,570 million as of June 30, 2008 from $3,559 million as of December 31, 2007. Approximately $733 million of the increase is attributable to the First Western entities acquired. Excluding loans of the acquired entities, total loans increased $279 million, or 7.8%, with the most significant growth occurring in commercial, commercial real estate and residential real estate loans. Management attributes our loan growth to continued demand for housing, growth in many of our existing market areas and an increase in overall borrowing activity.

*Investment Securities.* We manage our investment portfolio to obtain the highest yield possible, while meeting our risk tolerance and liquidity guidelines and satisfying the pledging requirements for deposits of state and political subdivisions and securities sold under repurchase agreements. Investment securities decreased $96 million, or 8.5%, to $1,033 million as of June 30, 2008 from $1,129 million as of December 31, 2007. Excluding investment securities of the acquired entities, our investment securities decreased $178 million, or 15.8%. During the first six months of 2008, proceeds from investment security maturities, calls and principal paydowns were used to fund loan growth.

We evaluate our investment portfolio quarterly for other-than-temporary declines in the market value of individual investment securities. This evaluation includes monitoring credit ratings; market, industry and corporate news; volatility in market prices; and, determining whether the market value of a security has been below its cost for an extended period of time. As of June 30, 2008, we had investment securities with fair values of $79 million that had been in a continuous loss position more than twelve months. Gross unrealized losses on these securities totaled $4 million as of June 30, 2008, and were primarily attributable to changes in interest rates. No impairment losses were recorded during the three and six months ended June 30, 2008 or 2007.

*Other Assets.* Other assets increased $14 million, or 31.6%, to $56 million as of June 30, 2008, as compared to $43 million as of December 31, 2007. Significant components of the increase include the purchase of an additional $7 million of Federal Reserve Bank stock upon acceptance of the First Western banks as Federal Reserve member banks and a $2 million increase in other real estate owned due to foreclosure on the collateral underlying the real estate development loans of one commercial borrower during second quarter 2008.

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*Deposits.* Our deposits consist of noninterest bearing and interest bearing demand, savings, individual retirement and time deposit accounts. The following table summarizes our deposits as of the dates indicated:

**Deposits**

*(Dollars in thousands)*

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Noninterest bearing demand | $ 991,272 | $ 836,753 |
| Interest bearing: | | |
| Demand | 1,152,202 | 1,019,208 |
| Savings | 1,135,788 | 992,571 |
| Time, $100 and over | 683,761 | 464,560 |
| Time, other | 920,466 | 686,309 |
| Total interest bearing | 3,892,217 | 3,162,648 |
| Total deposits | $4,883,489 | $3,999,401 |

Total deposits increased $884 million, or 22.1%, to $4,883 million as of June 30, 2008 from $3,999 million as of December 31, 2007. Approximately $775 million of this increase is attributable to the First Western entities acquired. Excluding deposits of the acquired entities, total deposits increased $109 million, or 2.7%, with the majority of the increase occurring in time deposits of $100 thousand or more.

*Federal Funds Purchase*d. In addition to deposits, we use federal funds purchased as a source of funds to meet the daily cash flow needs of our customers, maintain required reserves with the Federal Reserve Bank and fund growth in earning assets. Federal funds purchased were $108 million as of June 30, 2008. We had no federal funds purchased as of December 31, 2007.

*Repurchase Agreements.* In addition to deposits and federal funds purchased, we use repurchase agreements with commercial depositors as an additional source of funds. Under repurchase agreements, deposit balances are invested in short-term U.S. government agency securities overnight and are then repurchased the following day. All outstanding repurchase agreements are due in one day. Repurchase agreements decreased $132 million, or 21.9%, to $472 million as of June 30, 2008 from $605 million as of December 31, 2007, primarily due to fluctuations in the liquidity needs of our customers.

*Other Borrowed Funds.* Other borrowed funds increased $122 million to $130 million as of June 30, 2008 from $9 million as of December 31, 2007 primarily due to two short-term borrowings from the Federal Home Loan Bank of Seattle. On June 26, 2008, we borrowed $100 million on a note maturing August 25, 2008 bearing interest at a rate of 2.77%. In addition, on June 30, 2008, we borrowed $20 million overnight at an interest rate of 2.85%. Proceeds from these borrowings were used to fund growth in earning assets.

*Long Term Debt*. Long term debt increased $84 million to $89 million as of June 30, 2008 from $5 million as of December 31, 2007, due to debt financing for the First Western acquisition. For additional information regarding acquisition financing, see Notes to Consolidated Financial Statements Subsequent Events, included in our Annual Report on Form 10-K for the year ended December 31, 2007. In addition, on February 28, 2008 we entered into a subordinated credit agreement and borrowed $15 million on a variable rate unsecured subordinated term loan maturing February 28, 2018. Interest on the subordinated term loan is payable quarterly and principal is due at maturity. The interest rate on the subordinated term loan was 4.65% as of June 30, 2008.

*Subordinated Debentures Held by Subsidiary Trusts.* Subordinated debentures held by subsidiary trusts increased $21 million, or 20.0%, to $124 million as of June 30, 2008, from $103 million as of December 31, 2007. In connection with the First Western acquisition, on January 8, 2008 we issued an aggregate of $20 million of 30-year floating rate mandatorily redeemable capital trust preferred securities to third-party investors and used the proceeds to purchase 30-year junior subordinated deferrable interest debentures issued by our parent company. For additional information regarding the Subordinated Debentures, see Notes to Consolidated Financial Statements Subsequent Events, included in our Annual Report on Form 10-K for the year ended December 31, 2007.

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## ASSET QUALITY

*Nonperforming Assets.* Nonperforming assets include loans past due 90 days or more and still accruing interest, nonaccrual loans, loans renegotiated in troubled debt restructurings and other real estate owned, or OREO.

Nonperforming assets increased $59 million, or 166.6%, to $95 million as of June 30, 2008, as compared to $36 million as of December 31, 2007. Approximately $20 million of the increase is attributable to the acquired First Western entities. The following table sets forth information regarding nonperforming assets as of the dates indicated:

**Nonperforming Assets**

*(Dollars in thousands)*

| | June 30, 2008 | March 31, 2008 | December 31, 2007 | September 30, 2007 | June 30, 2007 |
|---|---|---|---|---|---|
| Nonperforming loans: | | | | | |
| Nonaccrual loans | $71,100 | 50,984 | 31,552 | 29,185 | 18,888 |
| Accruing loans past due 90 days or more | 20,276 | 6,036 | 2,171 | 4,720 | 10,379 |
| Restructured loans | 1,027 | 1,027 | 1,027 | 1,034 | 1,044 |
| Total non-performing loans | 92,403 | 58,047 | 34,750 | 34,939 | 30,311 |
| OREO | 2,705 | 874 | 928 | 631 | 578 |
| Total nonperforming assets | $95,108 | 58,921 | 35,678 | 35,570 | 30,889 |
| Nonperforming assets to total loans and OREO | 2.08% | 1.34% | 1.00% | 1.01% | 0.87% |

Nonaccrual loans increased $40 million, or 125.3%, to $71 million as of June 30, 2008, as compared to $32 million as of December 31, 2007. Approximately $28 million of the increase is attributable to nonaccrual loans of the acquired First Western entities. The remaining increase is primarily due to the loans of one commercial real estate borrower placed on nonaccrual during second quarter 2008.

Accruing loans past due 90 days or more increased $18 million to $20 million as of June 30, 2008, as compared to $2 million as of December 31, 2007. Approximately $655 thousand of the increase is attributable to the acquired First Western entities. The remaining increase is primarily due to the loans of five commercial real estate borrowers that were past due 90 days and still accruing interest as of June 30, 2008, all of which are believed to be adequately collateralized and/or in the process of renewal.

Other real estate owned increased $2 million to $3 million as of June 30, 2008, as compared to $928 thousand as of December 31, 2007. This increase was due to the second quarter 2008 foreclosure on the collateral underlying the real estate development loans of one commercial borrower during second quarter 2008.

There can be no assurance that we have identified all of our potential nonperforming loans. Furthermore, we cannot predict the extent to which economic conditions in our market areas may worsen or the full impact such conditions may have on our loan portfolio. Accordingly, there can be no assurances that other loans will not become 90 days or more past due, be placed on nonaccrual, be renegotiated or become OREO in the future.

*Allowance for Loan Losses.* In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

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The following table sets forth information regarding our allowance for loan losses as of and for the periods indicated.

**Allowance for Loan Losses**

*(Dollars in thousands)*

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | June 30, 2008 | March 31, 2008 | December 31, 2007 | September 30, 2007 | June 30, 2007 |
| Balance at beginning of period | $ 68,415 | 52,355 | 51,452 | 50,308 | 48,621 |
| Allowance of acquired banking offices | | 14,463 | | | |
| Provision charged to operating expense | 5,321 | 2,363 | 2,125 | 1,875 | 1,875 |
| Less loans charged off | (1,627) | (1,297) | (1,857) | (1,216) | (990) |
| Add back recoveries of loans previously charged off | 541 | 531 | 635 | 485 | 802 |
| Net loans charged-off | (1,086) | (766) | (1,222) | (731) | (188) |
| Balance at end of period | $ 72,650 | 68,415 | 52,355 | 51,452 | 50,308 |
| Period end loans | $4,570,655 | 4,384,346 | 3,558,980 | 3,528,108 | 3,494,146 |
| Average loans | 4,458,678 | 4,246,302 | 3,534,939 | 3,523,170 | 3,418,976 |
| Annualized net loans charged off to average loans | 0.09% | 0.07% | 0.08% | 0.06% | 0.05% |
| Allowance to period end loans | 1.59% | 1.56% | 1.47% | 1.46% | 1.44% |

Although we believe that we have established our allowance for loan losses in accordance with accounting principles generally accepted in the United States and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times, future provisions will be subject to on-going evaluations of the risks in the loan portfolio. If the economy declines or asset quality deteriorates, material additional provisions could be required.

**CONTRACTUAL OBLIGATIONS**

Contractual obligations as of June 30, 2008 are summarized in the following table:

**Contractual Obligations**

*(Dollars in thousands)*

| | Payments Due | | | | |
|---|---|---|---|---|---|
| | Within One Year | One Year to Three Years | Three Years to Five Years | After Five Years | Total |
| | $3,279,262 | | | | 3,279,262 |

| | | | | | |
|---|---|---|---|---|---|
| Deposits without a stated maturity | | | | | |
| Time deposits | 1,391,309 | 152,453 | 60,449 | 16 | 1,604,227 |
| Securities sold under repurchase agreements | 472,371 | | | | 472,371 |
| Other borrowed funds(1) | 130,288 | | | | 130,288 |
| Long-term debt obligations (2) | 11,572 | 15,379 | 25,001 | 35,000 | 86,952 |
| Capital lease obligations | 30 | 69 | 80 | 1,714 | 1,893 |
| Operating lease obligations | 4,105 | 8,046 | 5,742 | 10,548 | 28,441 |
| Purchase obligations (3) | 16,986 | | | | 16,986 |
| Subordinated debentures held by subsidiary trusts (4) | | | | 123,715 | 123,715 |
| Other contractual obligations (5) | 50,000 | | | | 50,000 |
| Total contractual obligations | $5,355,923 | 175,947 | 91,272 | 170,993 | 5,794,135 |

(1) Included in other borrowed funds are tax deposits made by customers pending subsequent withdrawal by the federal government, and short-term borrowings from the FHLB maturing within 60 days and bearing a weighted average interest rate of 2.77%. For additional information regarding other borrowed funds, see Other Borrowed Funds included herein.

(2) Long-term debt consists of a note payable to FHLB maturing March 5, 2010 and bearing

interest at a fixed rate of 3.01%; variable rate term notes maturing January 10, 2013; a variable rate revolving line of credit maturing January 10, 2011; subordinated debt maturing January 19, 2018 and bearing interest at 6.81%; and, subordinated variable rate debt maturing February 28, 2018 . For additional information concerning long-term debt, see Long-term Debt included herein and Notes to Consolidated Financial Statements Long Term Debt and Other Borrowed Funds and Notes to Consolidated Financial Statements Subsequent Events included in our Annual Report on Form 10-K for the year ended December 31, 2007.

(3) Purchase obligations relate solely to obligation under construction contracts to build or renovate banking offices.

(4) The subordinated debentures are unsecured, with various interest rates and maturities from March 26, 2033 through April 1, 2038. Interest distributions are payable quarterly; however, we may defer interest payments at any time for a period not exceeding 20 consecutive quarters. For additional information concerning the subordinated debentures, see Notes to Consolidated Financial Statements Subordinated Debentures held by Subsidiary Trusts Notes to Consolidated Financial Statements Subsequent Events included

in our Annual Report on Form 10-K for the year ended December 31, 2007.

(5) Other contractual obligations relate solely to commitments to issue certificates of deposits maturing October 9, 2008 at interest rates ranging from 2.90% to 2.95%. For additional information regarding these commitments, see Notes to Unaudited Consolidated Financial Statements Commitments included in Item 1 of this report.

**CAPITAL RESOURCES AND LIQUIDITY MANAGEMENT**

*Capital Resources.* Stockholders equity is influenced primarily by earnings, dividends, sales and redemptions of common stock and changes in the unrealized holding gains or losses, net of taxes, on available-for-sale investment securities. Stockholders equity increased $58 million, or 13.0%, to $502 million as of June 30, 2008 from $444 million as of December 31, 2007, primarily due to the issuance of 5,000 shares of 6.75% Series A noncumulative redeemable preferred stock, or Series A Stock, with an aggregate value of $50 million. The Series A Stock was issued in partial consideration for the First Western acquisition. For additional information regarding the issuance of Series A Stock, see Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Management, included in our Annual Report on Form 10-K for the year ended December 31, 2007. The remaining increase is primarily due to the retention of earnings. We paid aggregate cash dividends of $10.3 million to common stockholders and $1.6 million to preferred stockholders during the six months ended June 30, 2008. As of June 30, 2008 and December 31, 2007, we exceeded the well-capitalized requirements established by the federal banking agencies.

In recent years, we have experienced significant growth in earning assets through a combination of organic loan and deposit growth in our existing market areas and expansion into new market areas through acquisition. To support this growth and preserve our well-capitalized status with the federal banking agencies, management is evaluating sources of additional capital including, among other things, the issuance of common stock through our annual stock offering to employees and directors.

In conjunction with the First Western acquisition in January 2008, we borrowed $59 million pursuant to a syndicated credit agreement and $20 million pursuant to a subordinated credit agreement. These agreements contain various covenants and restrictions that are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Long-Term Debt, included in our Annual Report on Form 10-K for the year ended December 31, 2007.

As of June 30, 2008, we were in violation of two financial performance covenants related to nonperforming assets, as set forth in the syndicated credit agreement. We have requested a waiver of these covenants and expect to obtain the waiver in the near term. If we are not able to obtain a waiver, we will be in default and our creditors will be entitled to pursue their remedies under the syndicated credit agreement including the possibility of an acceleration of the full amount due thereunder. As of June 30, 2008, we had $46 million outstanding under the syndicated credit agreement. Management expects we will require similar waivers in future periods.

*Liquidity.* Liquidity is our ability to meet current and future cash flow needs on a timely basis and at a reasonable cost. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders. Our liquidity position is supported by management of liquid assets and liabilities. Liquid assets include cash, interest bearing deposits in banks, federal funds sold, available-for-sale investment securities and maturing or prepaying balances in our held-to-maturity investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and borrowings. We do not engage in derivatives or hedging activities to support our liquidity position.

Our short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits.

Other sources of liquidity are available should they be needed. These sources include the drawing of additional funds on our revolving term loan, the sale of loans, the ability to acquire additional national market, non-core deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities and the issuance of preferred or common securities. The Banks also can borrow through the Federal Reserve s discount window. We do not engage in derivatives or hedging activities to support our liquidity position.

As a holding company, we are a corporation separate and apart from our subsidiary banks and, therefore, we provide for our own liquidity. Our main sources of funding include management fees and dividends declared and paid by our subsidiaries and access to capital markets. There are statutory, regulatory and debt covenant limitations that affect the ability of our subsidiary banks to pay dividends to us. Management believes that such limitations will not impact our ability to meet our ongoing short-term cash obligations.

**ASSET LIABILITY MANAGEMENT**

The goal of asset liability management is the prudent control of market risk, liquidity and capital. Asset liability management is governed by policies, goals and objectives adopted and reviewed by each subsidiary bank s board of directors. The board delegates its responsibility for development of asset liability management strategies to achieve these goals and objectives to the Asset Liability Committee, or ALCO, which is comprised of members of senior management.

We target a mix of interest earning assets and interest bearing liabilities such that no more than 5.0% of the net interest margin will be at risk over a one-year period should short-term interest rates shift up or down 2.0%. As of June 30, 2008, our income simulation model predicted net interest income would decrease $1.6 million, or 0.7%, assuming a 2.0% increase in short-term market interest rates and 1.0% increase in long-term interest rates. As of June 30, 2008, our income simulation model predicted net interest income would increase $134 thousand, or 0.1%, assuming a 1.0% decrease in short-term market interest rates and 0.5% decrease in long-term interest rates. Both scenarios predict that our funding sources will reprice faster than our interest earning assets. The preceding interest rate sensitivity analysis does not represent a forecast and should not be relied upon as being indicative of expected operating results.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

See Note 2 Recent Accounting Pronouncements in the accompanying Notes to Unaudited Consolidated Financial Statements included in this report for details of recently issued accounting pronouncements and their expected impact on our financial statements.

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## Item 3.
## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following table provides information about our market sensitive financial instruments, categorized by expected maturity, principal repayment or repricing and fair value at June 30, 2008. The table constitutes a forward-looking statement. For a description of our policies for managing risks associated with changing interest rates, see Management s Discussion and Analysis of Financial Condition and Results of Operations Asset Liability Management included herein .

**Market Sensitive Financial Instruments Maturities**

*(Dollars in thousands)*

| | Expected Maturity, Principal Repayment or Repricing | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter | Total |
| *Interest-sensitive assets:* | | | | | | | |
| Cash and short-term investments | $ 264,466 | | | | | | 264,466 |
| Net loans | 2,994,518 | 569,862 | 382,751 | 222,199 | 197,805 | 148,620 | 4,515,755 |
| Securities available for sale | 256,601 | 97,608 | 33,710 | 78,037 | 63,552 | 390,648 | 920,156 |
| Securities held to maturity | 11,220 | 13,697 | 11,137 | 8,369 | 5,783 | 61,081 | 111,287 |
| Accrued interest receivable | 42,231 | | | | | | 42,231 |
| Mortgage servicing rights | 3,033 | 3,041 | 2,721 | 2,304 | 1,970 | 11,076 | 24,145 |
| Total interest-sensitive assets | $3,572,069 | 684,208 | 430,319 | 310,908 | 269,110 | 611,426 | 5,878,040 |
| *Interest sensitive liabilities:* | | | | | | | |
| Deposits, excluding time | $1,634,168 | 352,520 | 352,520 | 940,053 | | | 3,279,261 |
| Time deposits | 1,404,843 | 118,805 | 34,457 | 22,871 | 31,116 | 14 | 1,612,106 |
| Repurchase agreements | 472,371 | | | | | | 472,371 |
| Accrued interest payable | 21,898 | | | | | | 21,898 |
| Other borrowed funds | 130,288 | | | | | | 130,288 |
| Long-term debt | 11,827 | 8,398 | 7,298 | 7,287 | 17,991 | 37,453 | 90,254 |
| Subordinated debentures held by subsidiary trusts | | | | | | 123,715 | 123,715 |
| | $3,675,395 | 479,723 | 394,275 | 970,211 | 49,107 | 161,182 | 5,729,893 |

Total interest-sensitive liabilities

## Item 4T.
## CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. As of June 30, 2008, an evaluation was performed, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2008, were effective in ensuring that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods required by the SEC s rules and forms.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal controls over financial reporting for the quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, such controls.

### Limitations on Controls and Procedures

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, any system of disclosure controls and procedures or internal control over financial reporting may not be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

## PART II.
## OTHER INFORMATION

### Item 1. Legal Proceedings

There have been no material changes in legal proceedings as described in our Annual Report on Form 10-K for the year ended December 31, 2007.

### Item 1A. Risk Factors

There have been no material changes in risk factors described in our Annual Report on Form 10-K for the year-ended December 31, 2007.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) There were no unregistered sales of equity securities during the three months ended June 30, 2008.
(b) Not applicable.
(c) The following table provides information with respect to purchases made by or on behalf of us or any affiliated purchases (as defined in Rule 10b-18(a)(3) under the Exchange Act), of our common stock during the three months ended June 30, 2008.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Shares Purchased as Part of Publicly Announced Plans or Programs (1) | of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 2008 | 35,127 | $83.50 | 0 | Not Applicable |
| May 2008 | 32,632 | 84.02 | 0 | Not Applicable |
| June 2008 | 2,284 | 84.75 | 0 | Not Applicable |
| Total | 70,043 | $83.79 | 0 | Not Applicable |

(1) Our common stock is not actively traded, and there is no established trading market for the stock. There is only one class of

common stock. As of June 30, 2008, approximately 90% of our common stock was subject to contractual transfer restrictions set forth in shareholder agreements. We have a right of first refusal to repurchase the restricted stock. Additionally, under certain conditions we may call restricted stock held by our officers, directors and employees. We have no obligation to purchase restricted or unrestricted stock, but have historically purchased such stock. All purchases indicated in the table above were effected pursuant to private transactions.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

(a) The Annual Meeting of Shareholders of First Interstate BancSystem, Inc. was held on May 9, 2008.

(b) Seven directors were elected to serve three year terms. Steven J. Corning, Charles E. Hart, James W. Haugh, Randall I. Scott, Thomas W. Scott, Michael J. Sullivan and Martin A. White were elected as directors with terms expiring in 2011. The following directors remained in office: Elouise C. Cobell, Richard A. Dorn, Lyle R. Knight, James R. Scott, Julie A. Scott and Jonathan R. Scott with terms expiring in 2009; and, David H. Crum, William B. Ebzery, Charles M. Heyneman, Terry W. Payne and Sandra A. Scott Suzor with terms expiring in 2010.
(c) The following matters were submitted to a vote of security holders at the Annual Meeting of Shareholders:

| Matter | For | Withheld/ Against | Not Voted |
|---|---|---|---|
| Election of Directors | | | |
| Steven J. Corning | 7,279,362 | 56,866 | |
| Charles E. Hart | 7,279,362 | 56,866 | |
| James W. Haugh | 7,279,362 | 56,866 | |
| Randall I. Scott | 7,279,362 | 56,866 | |
| Thomas W. Scott | 7,279,362 | 56,866 | |
| Michael J. Sullivan | 7,279,362 | 56,866 | |
| Martin A. White | 7,279,362 | 56,866 | |

**Item 5. Other Information**

Not applicable or required.

**Item 6. Exhibits**

| | |
|---|---|
| 2.1(1) | Stock Purchase Agreement dated as of September 18, 2007, by and between First Interstate BancSystem, Inc. and First Western Bancorp., Inc. |
| 2.2(2) | First Amendment to Stock Purchase Agreement dated as of January 10, 2008, between First Interstate BancSystem, Inc. and Christen Group, Inc. formerly known as First Western Bancorp., Inc. |
| 3.1(3) | Restated Articles of Incorporation dated February 27, 1986 |
| 3.2(4) | Articles of Amendment to Restated Articles of Incorporation dated September 26, 1996 |
| 3.3(4) | Articles of Amendment to Restated Articles of Incorporation dated September 26, 1996 |
| 3.4(5) | Articles of Amendment to Restated Articles of Incorporation dated October 7, 1997 |
| 3.5(18) | Articles of Amendment to Restated Articles of Incorporation dated January 9, 2008. |
| 3.6(6) | Restated Bylaws of First Interstate BancSystem, Inc. dated July 29, 2004 |
| 4.1(7) | Specimen of common stock certificate of First Interstate BancSystem, Inc. |
| 4.2(18) | Specimen of Series A preferred stock certificate of First Interstate BancSystem, Inc. |
| 4.3(3) | Shareholder s Agreement for non-Scott family members |
| 4.4(8) | Shareholder s Agreement for non-Scott family members dated August 24, 2001 |

| | |
|---|---|
| 4.5(9) | Shareholder s Agreement for non-Scott family members dated August 19, 2002 |
| 4.6(10) | First Interstate Stockholders Agreements with Scott family members dated January 11, 1999 |
| 4.7(10) | Specimen of Charity Shareholder s Agreement with Charitable Shareholders |
| 10.1(2) | Credit Agreement dated as of January 10, 2008, among First Interstate BancSystem, Inc., as Borrower; Various Lenders; and Wells Fargo Bank, National Association, as Administrative Agent. |
| 10.2(2) | Security Agreement dated as of January 10, 2008, between First Interstate BancSystem, Inc. and Wells Fargo Bank, National Association, as Administrative Agent. |
| 10.3(2) | Credit Agreement Re: Subordinated Term Note dated as of January 10, 2008, between First Interstate BancSystem, Inc. and First Midwest Bank. |
| 10.4(3) | Lease Agreement Between Billings 401 Joint Venture and First Interstate Bank Montana and addendum thereto |
| 10.5(3) | Stock Option and Stock Appreciation Rights Plan of First Interstate BancSystem, Inc., as amended |
| 10.6(11) | 2001 Stock Option Plan |
| 10.7(12) | Employee Stock Purchase Plan of First Interstate BancSystem, Inc., as amended and restated effective April 30, 2003 |

| | |
|---|---|
| 10.8(13) | Trademark License Agreements between Wells Fargo & Company and First Interstate BancSystem, Inc. |
| 10.9(14) | Employment Agreement between First Interstate BancSystem, Inc. and Lyle R. Knight |
| 10.10 (14) | First Interstate BancSystem, Inc. Executive Non-Qualified Deferred Compensation Plan dated November 20, 1998 |
| 10.11(15) | First Interstate BancSystem s Deferred Compensation Plan dated December 6, 2000 |
| 10.12(8) | First Interstate BancSystem, Inc. 2004 Restricted Stock Award Plan |
| 10.13(16) | Form of First Interstate BancSystem, Inc. Restricted Stock Award Agreement |
| 10.14(16) | Form of First Interstate BancSystem, Inc. Restricted Stock Award Notice of Restricted Stock Award |
| 10.15(17) | First Interstate BancSystem, Inc. 2006 Equity Compensation Plan |
| 31.1 | Certification of Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer |
| 31.2 | Certification of Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer |
| 32 | Certification of Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Management contract or compensatory plan or arrangement.

(1) Incorporated by reference to the Registrant s Form 8-K dated September 18, 2007.

(2) Incorporated by reference to the Registrant s Form 8-K dated January 10, 2008.

(3) Incorporated by reference to the

Registrant s Registration Statement on Form S 1, No. 33-84540.

(4) Incorporated by reference to the Registrant s Form 8-K dated October 1, 1996.

(5) Incorporated by reference to the Registrant s Registration Statement on Form S 1, No. 333-37847.

(6) Incorporated by reference to Registrant s Post-Effective Amendment No. 4 to Registration Statement of Form S-8, No. 333-76825.

(7) Incorporated by reference to the Registrant s Registration Statement on Form S 1, No. 333-3250.

(8) Incorporated by reference to the Registrant s Post-Effective Amendment No. 1 to Registration Statement on Form S-8, No. 333-76825.

(9)

Incorporated by reference to the Registrant s Post-Effective Amendment No. 2 to Registration Statement on Form S-8, No. 333-76825.

(10) Incorporated by reference to the Registrant s Registration Statement on Form S 8, No. 333-76825.

(11) Incorporated by reference to the Registrant s Registration Statement on Form S 8, No. 333-106495.

(12) Incorporated by reference to the Registrant s Post-Effective Amendment No. 3 to Registration Statement on Form S-8, No. 333-76825.

(13) Incorporated by reference to the Registrant s Registration Statement on Form S 1, No. 333-25633.

(14) Incorporated by reference to the Registrant s Form 10-K for the fiscal year ended

December 31, 1999.

(15) Incorporated by reference to the Registrant s Form 10-K for the fiscal year ended December 31, 2002.

(16) Incorporated by reference to Registrant s Quarterly Report on Form 10 Q for the quarter ended March 31, 2004.

(17) Incorporated by reference to the Registrant s Proxy Statement on Schedule 14A related to the Registrant s Annual Meeting of Shareholders to be held May 5, 2006.

(18) Incorporated by reference to the Registrant s Form 10-K for the fiscal year ended December 31, 2007.

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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.

FIRST INTERSTATE BANCSYSTEM, INC.

| | |
|---|---|
| Date August 4, 2008 | /s/ LYLE R. KNIGHT<br>Lyle R. Knight<br>President and Chief Executive Officer |
| Date August 4, 2008 | /s/ TERRILL R. MOORE<br>Terrill R. Moore<br>Executive Vice President and<br>Chief Financial Officer |

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