BANCFIRST CORP /OK/
Form 10-Q
November 09, 2006

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from ______ to ______

Commission File Number 0-14384

BancFirst Corporation

(Exact name of registrant as specified in charter)

Oklahoma	**73-1221379**
(State or other Jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

101 N. Broadway, Oklahoma City, Oklahoma

73102-8401

(Address of principal executive offices)

(Zip Code)

(405) 270-1086

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicated by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2006 there were 15,747,671 shares of the registrant s Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEET

(Unaudited)

(Dollars in thousands, except per share data)

	September 30,		December 31,
	2006	**2005**	**2005**
ASSETS			
Cash and due from banks	$ 125,601	$ 151,216	$ 188,614
Interest-bearing deposits with banks	15,076	15,741	15,756
Federal funds sold	352,850		86,050
Securities (market value: $422,681, $485,333 and $456,469, Respectively)	422,650	484,837	456,222
Loans:			
Total loans (net of unearned interest)	2,332,838	2,267,082	2,317,426
Allowance for loan losses	(28,988)	(26,866)	(27,517)
Loans, net	2,303,850	2,240,216	2,289,909
Premises and equipment, net	80,236	71,441	72,857
Other real estate owned	2,155	2,232	1,636
Intangible assets, net	7,558	5,597	7,063
Goodwill	32,372	30,046	31,460
Accrued interest receivable	24,733	20,381	21,345
Other assets	57,414	55,790	52,118
Total assets	$ 3,424,495	$ 3,077,497	$ 3,223,030
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	$ 871,475	$ 856,946	$ 895,657
Interest-bearing	2,095,581	1,823,405	1,908,862
Total deposits	2,967,056	2,680,351	2,804,519
Short-term borrowings	37,323	24,523	37,176
Accrued interest payable	6,697	3,903	5,466
Other liabilities	23,292	15,574	16,351
Long-term borrowings	1,965	4,858	4,118
Junior subordinated debentures	51,804	51,804	51,804
Minority interest	1,210	2,252	1,247
Total liabilities	3,089,347	2,783,265	2,920,681
Commitments and contingent liabilities			
Stockholders equity:			
Senior preferred stock, $1.00 par; 10,000,000 shares authorized; none issued			
Cumulative preferred stock, $5.00 par; 900,000 shares authorized; none issued			
Common stock, $1.00 par, 20,000,000 shares authorized; shares issued and outstanding: 15,742,171, 15,630,270 and 15,637,170; respectively	15,742	15,630	15,637

Capital surplus	60,269	56,898	57,264
Retained earnings	260,390	223,388	232,416
Accumulated other comprehensive income, net of income tax (expense) benefit of $(691), $900 and $(1,600), respectively	(1,253)	(1,684)	(2,968)
Total stockholders equity	335,148	294,232	302,349
Total liabilities and stockholders equity	$ 3,424,495	$ 3,077,497	$ 3,223,030

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
INTEREST INCOME				
Loans, including fees	$ 46,450	$ 38,374	$ 132,807	$ 107,653
Securities:				
Taxable	4,311	4,736	13,143	15,512
Tax-exempt	383	333	1,160	985
Federal funds sold	3,659	41	9,103	909
Interest-bearing deposits with banks	118	122	351	357
Total interest income	54,921	43,606	156,564	125,416
INTEREST EXPENSE				
Deposits	16,972	8,997	45,067	23,335
Short-term borrowings	407	397	1,296	820
Long-term borrowings	35	81	134	277
Junior subordinated debentures	1,103	1,103	3,309	3,309
Total interest expense	18,517	10,578	49,806	27,741
Net interest income	36,404	33,028	106,758	97,675
Provision for loan losses	315	873	1,913	2,967
Net interest income after provision for loan losses	36,089	32,155	104,845	94,708
NONINTEREST INCOME				
Trust revenue	1,424	1,248	4,363	3,610
Service charges on deposits	7,299	7,549	21,210	20,679
Securities transactions	246	1	385	82
Income from sales of loans	783	840	1,688	1,653
Insurance commissions and premiums	2,088	1,991	5,343	5,527
Other	3,661	3,257	10,653	9,447
Total noninterest income	15,501	14,886	43,642	40,998
NONINTEREST EXPENSE				
Salaries and employee benefits	17,741	16,757	52,705	48,938
Occupancy and fixed assets expense, net	2,078	1,931	6,080	5,226
Depreciation	1,759	1,669	4,995	4,706
Amortization of intangible assets	253	202	717	606
Data processing services	697	590	1,933	1,818
Net expense (income) from other real estate owned	75	(28)	64	163
Marketing and business promotion	1,411	1,636	4,624	3,253
Other	7,595	10,494	21,609	23,960
Total noninterest expense	31,609	33,251	92,727	88,670

Income before taxes	19,981	13,790	55,760	47,036
Income tax expense	(7,241)	(4,574)	(19,930)	(15,735)
Net income	12,740	9,216	35,830	31,301
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities	3,908	(2,399)	1,965	(4,783)
Reclassification adjustment for (gains) losses included in net income	(160)	(1)	(250)	(53)
Comprehensive income	$ 16,488	$ 6,816	$ 37,545	$ 26,465
NET INCOME PER COMMON SHARE				
Basic	$ 0.81	$ 0.59	$ 2.28	$ 2.01
Diluted	$ 0.79	$ 0.58	$ 2.23	$ 1.96

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
COMMON STOCK				
Issued at beginning of period	$ 15,718	$ 15,602	$ 15,637	$ 15,682
Shares issued	24	28	105	78
Shares acquired and canceled				(130)
Issued at end of period	$ 15,742	$ 15,630	$ 15,742	$ 15,630
CAPITAL SURPLUS				
Balance at beginning of period	$ 59,227	$ 56,246	$ 57,264	$ 55,213
Common stock issued	1,042	652	3,005	1,685
Balance at end of period	$ 60,269	$ 56,898	$ 60,269	$ 56,898
RETAINED EARNINGS				
Balance at beginning of period	$ 250,486	$ 216,654	$ 232,416	$ 203,450
Net income	12,740	9,216	35,830	31,301
Adjustment to basis of Subsidiary		18		18
Dividends on common stock	(2,836)	(2,500)	(7,856)	(6,864)
Common stock acquired and canceled				(4,517)
Balance at end of period	$ 260,390	$ 223,388	$ 260,390	$ 223,388
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gains/(losses) on securities:				
Balance at beginning of period	$ (5,001)	$ 716	$ (2,968)	$ 3,152
Net change	3,748	(2,400)	1,715	(4,836)
Balance at end of period	$ (1,253)	$ (1,684)	$ (1,253)	$ (1,684)
Total stockholders equity	$ 335,148	$ 294,232	$ 335,148	$ 294,232

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2006	2005 (as restated, see note 1)
CASH FLOWS FROM OPERATING ACTIVITIES	$ 34,340	$ 31,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash used in acquisition	(5,074)	
Purchases of securities:		
Held for investment	(12,387)	(4,987)
Available for sale	(80,245)	(10,192)
Maturities of securities:		
Held for investment	14,553	4,698
Available for sale	117,488	74,602
Proceeds from sales and calls of securities:		
Held for investment	2,523	342
Available for sale	426	2,318
Net (increase) decrease in federal funds sold	(261,700)	130,000
Purchases of loans	(26,740)	(32,146)
Proceeds from sales of loans	57,243	67,602
Net other increase in loans	(8,786)	(215,729)
Purchases of premises and equipment	(14,829)	(11,467)
Proceeds from the sale of other real estate owned and repossessed assets	6,099	7,159
Net cash (used) provided by investing activities	(211,429)	12,200
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, transaction and savings deposits	49,002	27,266
Net increase (decrease) in certificates of deposits	71,146	(4,349)
Net increase (decrease) in short-term borrowings	147	(3,184)
Net decrease in long-term borrowings	(2,153)	(2,957)
Issuance of common stock	3,110	1,698
Acquisition of common stock		(4,583)
Cash dividends paid	(7,856)	(6,864)
Net cash provided by financing activities	113,396	7,027
Net (decrease) increase in cash and due from banks	(63,693)	50,750
Cash and due from banks at the beginning of the period	204,370	116,207
Cash and due from banks at the end of the period	$ 140,677	$ 166,957
SUPPLEMENTAL DISCLOSURE		
Cash paid during the period for interest	$ 48,575	$ 27,721
Cash paid during the period for income taxes	$ 15,311	$ 18,451

The accompanying notes are an integral part of these consolidated financial statements.

BANCFIRST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) GENERAL

The accompanying consolidated financial statements include the accounts of BancFirst Corporation, Century Life Assurance Company, Council Oak Partners, LLC, Wilcox & Jones, Inc., First Bartlesville Bank, and BancFirst and its subsidiaries (the Company). The operating subsidiaries of BancFirst are Council Oak Investment Corporation, Citibank Insurance Agency, Inc., BancFirst Agency, Inc., Lenders Collection Corporation, BancFirst Community Development Corporation, and Council Oak Real Estate, Inc. All significant intercompany accounts and transactions have been eliminated. Assets held in a fiduciary or agency capacity are not assets of the Company and, accordingly, are not included in the consolidated financial statements.

The unaudited interim financial statements contained herein reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the financial position and results of operations of the Company for the interim periods presented. All such adjustments are of a normal and recurring nature. There have been no significant changes in the accounting policies of the Company since December 31, 2005, the date of the most recent annual report. Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States inherently involves the use of estimates and assumptions that affect the amounts reported in the financial statements and the related disclosures. These estimates relate principally to the determination of the allowance for loan losses, income taxes and the fair values of financial instruments. Such estimates and assumptions may change over time and actual amounts realized may differ from those reported.

Prior to the issuance of the Company s consolidated financial statements for the year ended December 31, 2005, management determined that the Company s consolidated statements of cash flow for 2004 should be restated to reclassify certain disbursements from Net other increase in loans in Investing Activities to Operating Activities as such amounts relate to cash disbursements of mortgage loans originated for sale. The consolidated statement of cash flow for the nine months ended September 30, 2005 has been restated to reclassify disbursements of $85.7 million and cash receipts of $88.4 million from Net other increase in loans and Proceeds from sales of loans , respectively, in Investing Activities to Operating Activities. The restatement does not affect the net change in cash and due from banks for the nine months ended September 30, 2005 and has no impact on the Company s September 30, 2005 consolidated balance sheet or the consolidated statements of income and related net income per share amounts or on the consolidated statements of stockholders equity or on the Company s liquidity for the period ended September 30, 2005.

In January 2006, the Company approved a two-for-one split of shares of common stock to be issued in the form of a stock dividend. As a result of the stock split, the Company s stockholders received one additional share of the Company s common stock for each share of common stock held of record on February 16, 2006. The additional shares of our common stock were distributed on March 1, 2006. All share and per share amounts in these consolidated financial statements and related notes have been retroactively adjusted to reflect this stock split for all periods presented.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

In March 2004, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) released Issue 03-01, Meaning of Other Than Temporary Impairment, which addressed other-than-temporary impairment for certain debt and equity investments. The recognition and measurement requirements of Issue 03-01, and other disclosure requirements not already implemented, were effective for periods beginning after June 15, 2004. In September 2004, the FASB staff issued FASB Staff Position (FSP) 03-1-a, which delayed the effective date for certain measurement and recognition guidance contained in Issue 03-01. The FSP requires the application of pre-existing other-than-temporary guidance during the period of delay until a final consensus is reached. In July 2005, the FASB decided to retain the accounting for certain debt securities and will not make the changes proposed in FSP 03-1-a but will issue a final FSP codifying the existing accounting guidance rather than changing the accounting. In November 2005, the FASB issued FSP 115-1 and 124-1 which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The FSP amends FASB Statements No. 115 Accounting for Certain Investments in Debt and Equity Securities , and No. 124 Accounting for Certain Investments Held by Not-for-Profit Organizations , and APB Opinion No. 18 the Equity Method of Accounting for Investments in Common Stock and was adopted January 1, 2006. The adoption of Issue 03-01 is not expected to have a material effect on the Company s consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 . This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is expected to increase the relevance and comparability in financial reporting of income taxes because all tax positions accounted for in accordance with Statement 109 will be evaluated for recognition, derecognition and measurement using consistent criteria. Finally, the disclosure provisions of this interpretation will provide more information about the uncertainty in income tax assets and liabilities. This interpretation is effective for fiscal years beginning after December 15, 2006 and earlier adoption is encouraged. The Company is not currently aware of any uncertainty in its accounting for income taxes and as such, the adoption of this interpretation is not expected to have a material effect on the Company s consolidated financial statements.

In September 2006 the FASB issued SFAS No. 157, Fair Value Measurements. The Statement is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Statement 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, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Adoption of SFAS No. 157 is not expected to have a material impact on the Company s results of operations or financial condition.

On September 13, 2006, the Securities and Exchange Commission SEC issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatements present in a company s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company has considered SAB 108 and determined that the adoption of SAB 108 is not expected to have a material effect on the Company s consolidated financial statements.

(3) RECENT DEVELOPMENTS; MERGERS, ACQUISITIONS AND DISPOSALS

In September 2005, the Company organized a Community Development Entity known as BancFirst Community Development Corporation and funded the entity with $1 million of equity. The entity was organized to make certain investments in low to moderate income communities and to apply for an allocation of New Markets Tax Credits designed to assist in the development of communities in accordance with the guidelines established for Community Development Entities. The Company did not receive an allocation of funds for the 2006 year, however the Company intends to apply again for an allocation for 2007.

In December 2005, BancFirst Corporation completed the acquisition of Park State Bank (Park State), Nicoma Park, Oklahoma for cash of approximately $11 million. Park State had total assets of approximately $44 million. As a result of the acquisition, Park State became a wholly-owned subsidiary of BancFirst Corporation and was merged into BancFirst in February 2006. The acquisition was accounted for as a purchase. Accordingly, the effects of the acquisition are included in the Company s consolidated financial statements from the date of the acquisition forward. The acquisition did not have a material effect on the results of operations of the Company for 2005 or for the nine months ended September 30, 2006.

In March 2006, the Company s principal subsidiary, BancFirst, organized an investment company known as Council Oak Real Estate, Inc. and funded the entity with $4.5 million of equity. The entity was organized to make certain investments in real estate.

On June 30, 2006, the Company entered into an agreement to sell its 50% ownership in PremierSource, LLC (PremierSource). The Company decided to sell its interest in PremierSource as the Company has similar product offerings through wholly owned subsidiaries that have proven to be a more effective delivery channel. The Company did not have a controlling interest in PremierSource and accounted for the subsidiary on the equity method of accounting. The sale of PremierSource was completed during August 2006 and the Company had an investment in PremierSource of approximately $274,000 at the time of sale. The Company sold PremierSource for a one-time payment of approximately $163,000 and a three year share of gross revenues collected by PremierSource from current clients of PremierSource that are attributable to referrals from the Company. Such payments will be paid at a rate of 50%, 30%, and 20% for the years-ended June 30, 2007, 2008, and 2009, respectively. The sale of PremierSource, including future revenue sharing payments, and the loss of future earnings from operating PremierSource is not expected to have a significant impact on the results of the Company s operations for 2006 or 2007.

In August 2006, the Company completed the acquisition of First Bartlesville Bank (First Bartlesville), Bartlesville, Oklahoma for cash of approximately $5.6 million. First Bartlesville had total assets of approximately $46.6 million. As a result of the acquisition, First Bartlesville became a wholly-owned subsidiary of BancFirst Corporation and will be merged into BancFirst in December 2006. The acquisition was accounted for as a purchase. Accordingly, the effects of the acquisition are included in the Company s consolidated financial statements from the date of the acquisition forward. The acquisition is not expected to have a material effect on the results of operations of the Company for 2006.

On September 6, 2006, the Company determined to dispose of its 75% ownership in Century Life Assurance Company (Century Life), an insurance agency, and entered into an agreement to sell the stock of the business to American Underwriters Life Insurance Company. The Company decided to sell this subsidiary as the product line was not strategic for the Company and management felt that Century Life would be more efficiently managed by insurance professionals. The effective date of the sale is October 1, 2006 and is expected to be consummated in the fourth quarter of 2006, pending regulatory approval. The Company reported approximately $945,000 of operating income and $111,000 of after-tax net income for the 3rd quarter of 2006 and is expected to report an after-tax gain approximating $400,000 to $600,000 during the 4th quarter of 2006. The resulting gain on the sale and the loss of future earnings from operating Century Life is not expected to have a significant impact on the results of the Company s operations for 2006 or 2007.

(4) SECURITIES

The table below summarizes securities held for investment and securities available for sale **(dollars in thousands)**.

	September 30,		**December 31,**
	2006	**2005**	**2005**
Held for investment at cost (market value; $28,003, $32,596 and $30,781, respectively)	$ 27,972	$ 32,100	$ 30,534
Available for sale, at market value	394,678	452,737	425,688
Total	$ 422,650	$ 484,837	$ 456,222

The table below summarizes the maturity of securities **(dollars in thousands)**.

	September 30, 2006	September 30, 2005	December 31, 2005
Contractual maturity of debt securities:			
Within one year	$ 81,086	$ 163,141	$ 134,704
After one year but within five years	304,280	285,680	270,738
After five years	22,973	21,716	37,283
Total debt securities	408,339	470,537	442,725
Equity securities	14,311	14,300	13,497
Total	$ 422,650	$ 484,837	$ 456,222

The Company held 150 and 151 debt securities available for sale that had unrealized gains as of September 30, 2006 and 2005, respectively. These securities had a market value totaling $88.2 million and $129.7 million, respectively, and unrealized gains totaling $1.4 million and $738,000, respectively. The Company also held 180 and 111 debt securities available for sale that had unrealized losses at September 30, 2006 and 2005, respectively. These securities had a market value totaling $293.1 million and $308.1 million and unrealized losses totaling $5.3 million and $6.4 million, respectively. These unrealized losses occurred due to increases in interest rates and spreads and not as a result of a decline in credit quality. The Company has both the intent and ability to hold these debt securities until the unrealized losses are recovered.

(5) LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a schedule of loans outstanding by category **(dollars in thousands)**:

	September 30, 2006		September 30, 2005		December 31 2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	$ 416,292	17.85%	$ 397,766	17.54%	$ 426,819	18.42%
Oil & gas production & equipment	94,368	4.05	74,069	3.27	87,192	3.76
Agriculture	71,484	3.06	79,641	3.51	88,472	3.82
State and political subdivisions:						
Taxable	2,903	0.12	8,427	0.37	2,919	0.13
Tax-exempt	12,173	0.52	12,225	0.54	11,785	0.51
Real Estate:						
Construction	223,202	9.57	213,696	9.43	215,965	9.32
Farmland	79,948	3.43	82,438	3.64	82,216	3.55
One to four family residences	526,275	22.56	516,431	22.78	512,513	22.11
Multifamily residential properties	11,331	0.49	10,060	0.44	10,640	0.46
Commercial	599,996	25.72	544,120	24.00	568,542	24.53
Consumer	267,426	11.46	286,008	12.62	276,374	11.93
Other	27,440	1.17	42,201	1.86	33,989	1.46
Total loans	2,332,838	100.00%	$ 2,267,082	100.00%	$ 2,317,426	100.00%
Loans held for sale (included above)	$ 11,384		$ 8,056		$ 4,548	

The Company s loans are mostly to customers within Oklahoma and over half of the loans are secured by real estate. Credit risk on loans is managed through limits on amounts loaned to individual borrowers, underwriting standards and