BANCFIRST CORP /OK/
Form 10-Q
November 07, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(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, 2008

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 ¨ Smaller reporting company ¨

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, 2008 there were 15,259,891 shares of the registrant s Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

BANCFIRST CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share data)

	September 30, 2008	September 30, 2007	December 31, 2007
ASSETS			
Cash and due from banks	$ 239,926	$ 134,275	$ 194,103
Interest-bearing deposits with banks	5,735	3,056	2,387
Federal funds sold	200,350	350,000	399,000
Securities (market value: $462,850, $464,539, and $467,921, respectively)	462,595	464,534	467,719
Loans:			
Total loans (net of unearned interest)	2,730,409	2,399,982	2,487,099
Allowance for loan losses	(33,862)	(28,828)	(29,127)
Loans, net	2,696,547	2,371,154	2,457,972
Premises and equipment, net	89,792	87,546	88,110
Other real estate owned	3,276	1,103	1,300
Intangible assets, net	7,425	8,323	8,099
Goodwill	34,327	34,285	34,327
Accrued interest receivable	23,900	26,467	26,093
Other assets	61,645	65,595	63,896
Total assets	$ 3,825,518	$ 3,546,338	$ 3,743,006
LIABILITIES AND STOCKHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	$ 989,581	$ 895,586	$ 966,214
Interest-bearing	2,371,652	2,224,189	2,322,290
Total deposits	3,361,233	3,119,775	3,288,504
Short-term borrowings	15,404	16,332	30,400
Accrued interest payable	6,176	7,600	7,831
Other liabilities	18,253	16,047	16,899
Long-term borrowings		909	606
Junior subordinated debentures	26,804	26,804	26,804
Total liabilities	3,427,870	3,187,467	3,371,044
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: 15,242,061, 15,201,459 and 15,217,230, respectively	15,242	15,201	15,217
Capital surplus	66,458	63,079	63,917

Retained earnings	311,155	277,192	285,879
Accumulated other comprehensive income, net of income tax of $(2,581), $(1,831) and $(3,742), respectively	4,793	3,399	6,949
Total stockholders equity	397,648	358,871	371,962
Total liabilities and stockholders equity	$ 3,825,518	$ 3,546,338	$ 3,743,006

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

BANCFIRST CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
INTEREST INCOME				
Loans, including fees	$ 42,744	$ 48,032	$ 130,415	$ 141,763
Securities:				
Taxable	3,949	4,660	12,639	13,748
Tax-exempt	386	348	1,044	1,053
Federal funds sold	1,898	5,383	7,246	16,247
Interest-bearing deposits with banks	34	28	110	93
Total interest income	49,011	58,451	151,454	172,904
INTEREST EXPENSE				
Deposits	13,164	20,592	44,146	59,089
Short-term borrowings	105	396	413	1,345
Long-term borrowings		3	9	42
Junior subordinated debentures	491	491	1,474	1,648
Total interest expense	13,760	21,482	46,042	62,124
Net interest income	35,251	36,969	105,412	110,780
Provision for loan losses	2,270	2,248	7,589	2,349
Net interest income after provision for loan losses	32,981	34,721	97,823	108,431
NONINTEREST INCOME				
Trust revenue	1,617	1,778	4,481	4,649
Service charges on deposits	8,545	7,568	24,440	21,610
Securities transactions	776	7,723	6,925	8,289
Income from sales of loans	747	684	1,799	1,904
Insurance commissions and premiums	1,924	2,000	5,454	4,942
Insurance recovery		3,139		3,139
Cash management services	2,872	2,398	7,994	6,842
Gain (loss) on sale of other assets	(27)	(33)	2,984	(16)
Other	1,330	1,533	4,278	4,548
Total noninterest income	17,784	26,790	58,355	55,907
NONINTEREST EXPENSE				
Salaries and employee benefits	20,038	19,513	60,593	57,240
Occupancy and fixed assets expense, net	2,324	2,011	6,519	6,136
Depreciation	1,947	1,903	5,605	5,473
Amortization of intangible assets	225	237	674	744
Data processing services	872	730	2,366	2,049
Net (income) expense from other real estate owned	(55)	28	(71)	43
Marketing and business promotion	1,470	2,700	4,320	5,859
Early extinguishment of debt				1,894

Other	7,486	8,045	20,825	20,768
Total noninterest expense	34,307	35,167	100,831	100,206
Income before taxes	16,458	26,344	55,347	64,132
Income tax expense	5,500	9,400	19,058	22,663
Net income	10,958	16,944	36,289	41,469
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities	509	2,832	(6,657)	1,380
Reclassification adjustment for gains included in net income	504	1,551	4,501	1,919
Comprehensive income	$ 11,971	$ 21,327	$ 34,133	$ 44,768
NET INCOME PER COMMON SHARE				
Basic	$ 0.72	$ 1.08	$ 2.39	$ 2.68
Diluted	$ 0.70	$ 1.06	$ 2.33	$ 2.62

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, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
COMMON STOCK				
Issued at beginning of period	$ 15,187	$ 15,725	$ 15,217	$ 15,764
Shares issued	55	16	65	30
Shares acquired and canceled		(540)	(40)	(593)
Issued at end of period	$ 15,242	$ 15,201	$ 15,242	$ 15,201
CAPITAL SURPLUS				
Balance at beginning of period	$ 64,672	$ 62,291	$ 63,917	$ 61,418
Common stock issued	1,786	788	2,541	1,661
Balance at end of period	$ 66,458	$ 63,079	$ 66,458	$ 63,079
RETAINED EARNINGS				
Balance at beginning of period	$ 303,542	$ 287,515	$ 285,879	$ 271,073
Net income	10,958	16,944	36,289	41,469
Dividends on common stock	(3,345)	(3,138)	(9,420)	(8,808)
Common stock acquired and canceled		(24,129)	(1,593)	(26,542)
Balance at end of period	$ 311,155	$ 277,192	$ 311,155	$ 277,192
ACCUMULATED OTHER COMPREHENSIVE INCOME				
Unrealized gains on securities:				
Balance at beginning of period	$ 3,780	$ (984)	$ 6,949	$ 100
Net change	1,013	4,383	(2,156)	3,299
Balance at end of period	$ 4,793	$ 3,399	$ 4,793	$ 3,399
Total stockholders equity	$ 397,648	$ 358,871	$ 397,648	$ 358,871

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

BANCFIRST CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES	$ 43,951	$ 62,768
INVESTING ACTIVITIES		
Net cash and due from banks used for acquisitions and dispositions		(3,991)
Purchases of securities:		
Held for investment	(14,035)	(6,027)
Available for sale	(203,460)	(99,959)
Maturities of securities:		
Held for investment	4,583	5,237
Available for sale	131,069	62,013
Proceeds from sales and calls of securities:		
Held for investment	42	722
Available for sale	89,428	1,184
Net decrease (increase) in federal funds sold	198,650	(15,000)
Purchase of life insurance		(15,000)
Purchases of loans	(35,740)	(2,682)
Proceeds from sales of loans	41,924	42,859
Net other increase in loans	(253,222)	(121,027)
Purchases of premises, equipment and other	(8,311)	(10,266)
Proceeds from the sale of other real estate owned, repossessed assets and other	5,613	2,674
Net cash used in investing activities	(43,459)	(159,263)
FINANCING ACTIVITIES		
Net increase in demand, transaction and savings deposits	34,161	112,424
Net increase in certificates of deposits	38,568	33,046
Net decrease in short-term borrowings	(14,997)	(6,920)
Net decrease in long-term borrowings	(606)	(430)
Prepayment of junior subordinated debentures		(25,000)
Issuance of common stock	2,606	1,298
Acquisition of common stock	(1,633)	(26,741)
Cash dividends paid	(9,420)	(8,808)
Net cash provided by financing activities	48,679	78,869
Net increase (decrease) in cash and due from banks	49,171	(17,626)
Cash and due from banks at the beginning of the period	196,490	154,957
Cash and due from banks at the end of the period	$ 245,661	$ 137,331
SUPPLEMENTAL DISCLOSURE		
Cash paid during the period for interest	$ 47,697	$ 62,512
Cash paid during the period for income taxes	$ 19,759	$ 21,498

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, Council Oak Partners, LLC, Wilcox, Jones & McGrath, Inc., and BancFirst and its subsidiaries (the Company). The operating subsidiaries of BancFirst are Council Oak Investment Corporation, 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. Certain amounts for 2007 have been reclassified to conform to the 2008 presentation.

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, 2007, the date of the most recent annual report.

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.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

FAS No. 162 (FAS 162), The Hierarchy of Generally Accepted Accounting Principles identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The hierarchical guidance provided by FAS 162 is effective for the Company on November 15, 2008 and is not expected to have a significant impact on the Company s financial statements.

FAS No. 161 (FAS 161), Disclosures About Derivative Instruments and Hedging Activities, and Amendment of FASB Statement No. 133 amends FAS 133, Accounting for Derivative Instruments and Hedging Activities, to amend and expand the disclosure requirements of FAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under FAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company s financial statements.

FAS No. 157, Fair Value Measurements defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements (see Note 14 Fair Value Measurements).

In February 2007, the FASB issued FAS No. 159 (FAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115. FAS 159 allows entities to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities that are not otherwise required to be measured at fair value, with changes in fair value recognized in earnings as they occur. FAS 159 also requires entities to report those financial assets and financial liabilities measured at fair value in a manner that separates those reported fair values from the carrying amounts of similar assets and liabilities measured using another measurement attribute on the face of the statement of financial position. Lastly, FAS 159 establishes presentation and disclosure requirements designed to improve comparability between entities that elect different measurement attributes for similar assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted if an entity also early adopts the provisions of FAS 157. The Company has determined that it does not intend to elect to use the fair value option to value financial assets and liabilities in accordance with FAS 159.

In December 2007, the FASB issued FAS No. 141R, Business Combinations (FAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. FAS 141R will become effective for our fiscal year beginning January 1, 2009. The Company will evaluate the effect that the adoption of FAS 141R will have on future acquisitions.

(3) RECENT DEVELOPMENTS: MERGERS, ACQUISITIONS AND DISPOSALS

In November 2006, the Company announced its intent to exercise the optional prepayment terms of its 9.65% Junior Subordinated Debentures. The securities were redeemed effective January 15, 2007 for a redemption price equal to 104.825% of the aggregate $25 million liquidation amount of the trust securities plus all accrued and unpaid interest to the redemption date. As a result of the prepayment, the Company incurred a loss of approximately $1.9 million, or $1.2 million after taxes in the first quarter of 2007. The loss reflects the premium paid and the acceleration of the unamortized issuance costs.

During the first quarter of 2007 the Company entered into an agreement to acquire Armor Assurance Company (Armor), an insurance agency in Muskogee, Oklahoma for cash of approximately $3.3 million and a $372,000 note payable in three equal annual installments. The transaction was consummated in April 2007. Armor had total assets of approximately $364,000. As a result of the acquisition, Armor was merged with the Company s existing property casualty agency, Wilcox & Jones, to form Wilcox, Jones & McGrath, Inc. 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 acquisition forward. The acquisition did not have a material effect on the results of operations of the Company for 2007 or the first nine months of 2008.

In June 2007, the Company entered into an agreement to sell one of its investments held by Council Oak Investment Corporation, a wholly-owned subsidiary of BancFirst, that resulted in a one-time gain of approximately $7.8 million. The transaction was consummated on August 1, 2007 and included in noninterest income securities transactions in the third quarter of 2007. The Company made a $1 million contribution to its charitable foundation with the funds from the gain. This one-time gain, net of related expenses, income taxes and the contribution had a net income effect of approximately $3.9 million.

In July 2007, the Company was awarded and received the $3.1 million bond claim by their fidelity bond carrier for the $3.3 million cash shortfall that was reported in the second quarter of 2005.

In September 2007, the Company completed a modified Dutch Auction self-tender offer and purchased 539,453 shares of its common stock for the maximum offer price of $45.00 per share. Cash on hand was used to pay for the purchase of the stock.

In March 2008, the Company, as a member bank of Visa, recorded a $1.8 million pre-tax gain from the mandatory partial redemption of the Company s Visa shares received in the first quarter initial public offering. The gain was included in gain on sale of other assets.

In April 2008, the Company completed an $80 million sale of securities resulting in a securities pre-tax gain of $6.1 million. The transaction resulted in the sale of $80 million of US Treasury securities and the purchase of Government Sponsored Enterprises (GSE) senior debt securities of similar amounts and maturities. The after-tax impact of these transactions was approximately $3.8 million for the second quarter and $3.3 million for the year.

(4) SECURITIES

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

	September 30, 2008	September 30, 2007	December 31, 2007
Held for investment, at cost (market value; $34,932, $25,734 and $25,472, respectively)	$ 34,677	$ 25,729	$ 25,270
Available for sale, at market value	427,918	438,805	442,449
Total	$ 462,595	$ 464,534	$ 467,719

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

	September 30, 2008	September 30, 2007	December 31, 2007
Contractual maturity of debt securities:			
Within one year	$ 127,664	$ 158,178	$ 174,544
After one year but within five years	291,632	239,461	222,322
After five years	27,830	53,676	56,871
Total debt securities	447,126	451,315	453,737
Equity securities	15,469	13,219	13,982
Total	$ 462,595	$ 464,534	$ 467,719

The Company held 209, 174 and 230 debt securities available for sale that had unrealized gains as of September 30, 2008 and 2007 and December 31, 2007, respectively. These securities had a market value totaling $196.5 million, $222.0 million and $270.6 million, respectively, and unrealized gains totaling $6.0 million, $4.1 million and $8.4 million, respectively. The Company also held 55, 137 and 74 debt securities available for sale that had unrealized losses, respectively. These securities had a market value totaling $217.5 million, $205.1 million and $160.1 million and unrealized losses totaling $1.1 million, $1.7 million and $699,000, 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, 2008		September 30, 2007		December 31, 2007	
	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	$ 536,953	19.67%	$ 479,403	19.98%	$ 493,860	19.86%
Oil & gas production & equipment	77,289	2.83	76,877	3.20	92,759	3.73
Agriculture	76,007	2.79	75,918	3.16	87,035	3.50
State and political subdivisions:						
Taxable	5,635	0.21	5,987	0.25	5,972	0.24
Tax-exempt	8,412	0.31	9,620	0.40	8,937	0.36
Real Estate:						
Construction	249,453	9.14	210,103	8.76	222,820	8.96
Farmland	94,027	3.44	92,082	3.84	95,137	3.82
One to four family residences	537,717	19.69	509,561	21.23	513,969	20.67
Multifamily residential properties	38,670	1.42	18,772	0.78	20,248	0.81
Commercial	761,050	27.87	628,435	26.19	653,066	26.26
Consumer	320,057	11.72	270,589	11.28	270,735	10.89
Other	25,139	0.91	22,635	0.93	22,561	0.90
Total loans	$ 2,730,409	100.00%	$ 2,399,982	100.00%	$ 2,487,099	100.00%
Loans held for sale (included above)	$ 10,872					