

FIRST FINANCIAL BANKSHARES INC

Form 10-Q

May 02, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007
Commission file number 0-7674
FIRST FINANCIAL BANKSHARES, INC.
(Exact name of registrant as Specified in its charter)

Texas

75-0944023

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer
Identification No.)

400 Pine Street, Abilene, Texas 79601
(Address of principal executive offices)

(Zip Code)

(325) 627-7155

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 27, 2007:

Class	Number of Shares Outstanding
Common Stock, \$0.01 par value per share	20,754,812

TABLE OF CONTENTS
PART I
FINANCIAL INFORMATION

Item	Page
Forward-Looking Statement Disclaimer	3
1. Financial Statements	3
2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
3. Quantitative and Qualitative Disclosures About Market Risk	16
4. Controls and Procedures	16
PART II OTHER INFORMATION	
4. Submission of Matters of a Vote of Security Holders	17
6. Exhibits	18
Signatures	19

**CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as anticipate , believe , estimate , expect , intend , predict , project , and similar expressions, as they relate to us or our management, identify forward-looking statements. These forward-looking statements are based on information currently available to our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to those listed in Item 1A- Risk Factors in our Annual Report on Form 10-K and the following:

General economic conditions, including national and local real estate markets;

Legislative and regulatory actions and reforms;

Competition from other financial institutions and financial holding companies;

The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;

Changes in the demand for loans;

Fluctuations in the value of collateral and in the allowance for loan losses;

Inflation, interest rate, market and monetary fluctuations;

Changes in consumer spending, borrowing and savings habits;

Our ability to attract deposits;

Consequences of continued bank mergers and acquisitions in our market area, resulting in fewer but much larger and stronger competitors; and

Acquisitions and integration of acquired businesses.

Such statements reflect the current views of our management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I
FINANCIAL INFORMATION**

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. at March 31, 2007 and 2006 and December 31, 2006, and the consolidated statements of earnings and comprehensive earnings for the three months ended March 31, 2007 and 2006, changes in shareholders' equity for the three months ended March 31, 2007 and the year ended December 31, 2006, and cash flows for the three months ended March 31, 2007 and 2006, follow on pages 4 through 8.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	2007	March 31, 2006 (Unaudited)	December 31, 2006
ASSETS			
Cash and due from banks	\$ 103,831,916	\$ 111,434,103	\$ 127,419,210
Federal funds sold	109,110,000	132,925,000	64,485,000
Cash and cash equivalents	212,941,916	244,359,103	191,904,210
Interest-bearing deposits in banks	6,174,192	5,755,087	1,072,443
Investment securities:			
Securities held-to-maturity (market value of \$26,765,330, \$45,158,962 and \$27,876,959 at March 31, 2007 and 2006 and December 31, 2006, respectively)	25,950,948	44,035,525	26,985,570
Securities available-for-sale, at fair value	1,072,007,617	1,061,780,329	1,102,327,223
Total investment securities	1,097,958,565	1,105,815,854	1,129,312,793
Loans	1,406,866,740	1,254,972,949	1,373,734,620
Less: Allowance for loan losses	(16,457,977)	(15,115,795)	(16,200,804)
Net loans	1,390,408,763	1,239,857,154	1,357,533,816
Bank premises and equipment, net	59,855,025	59,688,760	59,467,923
Intangible assets	66,318,850	67,889,776	66,702,100
Other assets	36,788,633	34,752,507	44,171,229
TOTAL ASSETS	\$ 2,870,445,944	\$ 2,758,118,241	\$ 2,850,164,514
LIABILITIES			
Noninterest-bearing deposits	\$ 657,785,690	\$ 608,160,815	\$ 685,335,743
Interest-bearing deposits	1,768,057,443	1,760,958,337	1,698,688,304
Total deposits	2,425,843,133	2,369,119,152	2,384,024,047
Dividends payable	5,419,649	4,972,372	5,413,848
Short-term borrowings	111,614,119	86,384,293	143,244,347
Other liabilities	19,360,008	17,014,054	16,581,234
Total liabilities	2,562,236,909	2,477,489,871	2,549,263,476

COMMITMENTS AND CONTINGENCIES**SHAREHOLDERS EQUITY**

Common stock \$0.01 par value at March 31, 2007 and December 31, 2006 and \$10.00 at March 31, 2006; authorized 40,000,000 shares; 20,754,796, 20,717,481 and 20,739,127 shares issued at March 31, 2007 and 2006 and December 31, 2006, respectively

	207,548	207,174,810	207,392
Capital surplus	266,643,574	58,793,238	266,271,930
Retained earnings	46,240,191	25,101,205	41,003,600
Treasury stock (shares at cost: 154,190, 148,305 and 153,187 at March 31, 2007 and 2006, and December 31, 2006, respectively)	(2,990,335)	(2,699,856)	(2,911,506)
Deferred compensation	2,990,335	2,699,856	2,911,506
Accumulated other comprehensive income (loss)	(4,882,278)	(10,440,883)	(6,581,884)
Total shareholders equity	308,209,035	280,628,370	300,901,038

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY

	\$ 2,870,445,944	\$ 2,758,118,241	\$ 2,850,164,514
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See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
INTEREST INCOME		
Interest and fees on loans	\$ 27,651,630	\$ 23,443,927
Interest on investment securities:		
Taxable	9,761,440	9,250,286
Exempt from federal income tax	2,896,515	2,526,205
Interest on federal funds sold and interest-bearing deposits in banks	762,566	1,180,486
 Total interest income	 41,072,151	 36,400,904
INTEREST EXPENSE		
Interest-bearing deposits	12,908,392	9,853,689
Other	1,590,898	896,235
 Total interest expense	 14,499,290	 10,749,924
 NET INTEREST INCOME	 26,572,861	 25,650,980
Provision for loan losses	242,076	333,251
 NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	 26,330,785	 25,317,729
NONINTEREST INCOME		
Trust department income	2,099,899	1,847,453
Service charges on deposit accounts	5,139,416	5,287,802
ATM and credit card fees	1,718,401	1,439,509
Real estate mortgage fees	738,352	449,200
Net gain on sale of securities	84,782	
Net gain on sale of student loans	162,905	1,409,501
Net gain on sale of other real estate	12,385	1,068
Other	964,339	1,043,726
 Total noninterest income	 10,920,479	 11,478,259
NONINTEREST EXPENSE		
Salaries and employee benefits	11,439,079	11,388,173
Net occupancy expense	1,408,906	1,475,442
Equipment expense	1,744,726	1,705,468
Printing, stationery and supplies	472,257	498,156
Correspondent bank service charges	325,557	311,504
Amortization of intangible assets	383,250	226,315
Other expenses	5,341,333	4,905,916
 Total noninterest expense	 21,115,108	 20,510,974

EARNINGS BEFORE INCOME TAXES	16,136,156	16,285,014
Income tax expense	4,673,746	4,817,687
NET EARNINGS	\$ 11,462,410	\$ 11,467,327
EARNINGS PER SHARE, BASIC	\$ 0.55	\$ 0.55
EARNINGS PER SHARE, ASSUMING DILUTION	\$ 0.55	\$ 0.55
DIVIDENDS PER SHARE	\$ 0.30	\$ 0.28

See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
NET EARNINGS	\$ 11,462,410	\$ 11,467,327
OTHER ITEMS OF COMPREHENSIVE EARNINGS:		
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	2,699,560	(2,193,178)
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(84,782)	
Total other items of comprehensive earnings (losses)	2,614,778	(2,193,178)
Income tax benefit (expense) related to other items of comprehensive earnings	(915,172)	767,612
COMPREHENSIVE EARNINGS	\$ 13,162,016	\$ 10,041,761

See notes to consolidated financial statements.

**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive Earnings	Total
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	(Losses)	Equity
Shares at December 31,	20,714,401	\$ 207,144,010	\$ 58,712,508	\$ 19,434,606	(145,322)	\$ (2,592,413)	\$ 2,592,413	\$ (9,015,317)	\$ 276,273
Change in par value of common stock (\$10.00)		(206,971,541)	206,971,541						
Earnings				46,029,216					46,029,216
Dividends declared, per share	24,726	34,923	405,793						445,442
Repurchase of common shares				(24,460,222)					(24,460,222)
Provision for income taxes								(113,141)	(113,141)
Change in deferred income taxes (gross) in connection with acquisitions, net of change in valuation								2,546,574	2,546,574
Provision for state and local taxes			24,996						24,996

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net						(7,865)	(319,093)	319,093		
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	20,739,127	\$	207,392	\$ 266,271,930	\$ 41,003,600	(153,187)	\$(2,911,506)	\$ 2,911,506	\$(6,581,884)	\$ 300,900
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limited)	20,754,796	\$ 207,548	\$ 266,643,574	\$ 46,240,191	(154,190)	\$ (2,990,335)	\$ 2,990,335	\$ (4,882,278)	\$ 308,209,335

See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 11,462,410	\$ 11,467,327
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,921,963	1,808,386
Provision for loan losses	242,076	333,251
Premium amortization, net of discount accretion	(124,813)	401,560
Gain on sale of assets	(260,068)	(1,410,569)
Deferred federal income tax expense (benefit)	116,696	(292,774)
Loans originated for resale	(52,097,514)	(48,156,759)
Proceeds from sales of loans held for resale	31,679,401	69,515,572
Decrease in other assets	6,242,955	1,806,908
Increase in other liabilities	2,849,622	5,001,596
 Total adjustments	 (9,429,682)	 29,007,171
 Net cash provided by operating activities	 2,032,728	 40,474,498
 CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in interest-bearing deposits in banks	(5,101,749)	(4,959,660)
Activity in available-for-sale securities:		
Sales	8,984,812	