

FRANKLIN FINANCIAL SERVICES CORP /PA/

Form 10-Q

August 11, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(Mark One)

☒ **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

☐ **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 0-12126

FRANKLIN FINANCIAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

25-1440803

(State or other jurisdiction of
incorporation or organization)

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

20 SOUTH MAIN STREET (P.O. BOX 6010), CHAMBERSBURG, PA 17201-0819

(Address of principal executive offices)

717/264-6116

(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 ☒ No ☐

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 ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

There were 3,821,440 outstanding shares of the Registrant's common stock as of July 31, 2008.

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Consolidated Balance Sheets
(Amounts in thousands, except per share data)
(unaudited)

	June 30 2008	December 31 2007
Assets		
Cash and due from banks	\$ 23,237	\$ 17,871
Fed funds sold		7,400
Interest bearing deposits in other banks	146	220
Total cash and cash equivalents	23,383	25,491
Investment securities available for sale	153,858	164,990
Restricted stock	4,883	3,916
Loans held for sale		476
Loans	615,064	571,617
Allowance for loan losses	(7,503)	(7,361)
Net Loans	607,561	564,256
Premises and equipment, net	14,183	13,862
Bank owned life insurance	18,547	18,215
Goodwill	8,520	8,520
Other intangible assets	2,529	2,710
Equity method investment	3,955	4,077
Other assets	14,773	13,858
Total Assets	\$ 852,192	\$ 820,371
Liabilities		
Deposits		
Demand (non-interest bearing)	\$ 90,756	\$ 84,920
Savings and interest checking	336,032	361,243
Time	177,055	160,114
Total Deposits	603,843	606,277
Securities sold under agreements to repurchase	72,669	68,157
Short-term borrowings	17,050	
Long-term debt	72,446	59,714
Other liabilities	8,355	8,581
Total Liabilities	774,363	742,729

Shareholders equity

Common stock \$1 par value per share, 15,000 shares authorized with 4,299 shares issued, and 3,829 shares and 3,845 shares outstanding at June 30, 2008 and December 31, 2007, respectively	4,299	4,299
Capital stock without par value, 5,000 shares authorized with no shares issued or outstanding		
Additional paid in capital	32,799	32,620
Retained earnings	50,474	47,946
Accumulated other comprehensive income (loss)	(1,396)	664
Treasury stock, 470 shares and 454 shares at cost at June 30, 2008 and December 31, 2007, respectively	(8,347)	(7,887)
Total Shareholders' Equity	77,829	77,642
Total Liabilities and Shareholders' Equity	\$ 852,192	\$ 820,371

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

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Consolidated Statements of Income
(Amounts 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				
Loans, including fees	\$ 9,393	\$ 9,958	\$ 19,036	\$ 19,504
Interest and dividends on investments:				
Taxable interest	1,253	1,631	2,618	3,229
Tax exempt interest	524	579	1,087	1,139
Dividend income	69	82	144	167
Federal funds sold	4	205	36	257
Deposits and obligations of other banks	2	9	5	20
Total interest income	11,245	12,464	22,926	24,316
Interest Expense				
Deposits	2,597	4,700	5,452	9,264
Securities sold under agreements to repurchase	350	1,103	958	2,016
Short-term borrowings	49	9	63	33
Long-term debt	786	431	1,477	920
Total interest expense	3,782	6,243	7,950	12,233
Net interest income	7,463	6,221	14,976	12,083
Provision for loan losses	290	300	505	450
Net interest income after provision for loan losses	7,173	5,921	14,471	11,633
Noninterest Income				
Investment and trust services fees	845	868	1,760	1,863
Loan service charges and fees	225	163	402	314
Mortgage banking activities	245	237	136	326
Deposit service charges and fees	633	597	1,226	1,145
Other service charges and fees	314	310	613	589
Increase in cash surrender value of life insurance	166	163	331	323
Equity method investments	44	32	(122)	(25)
Other	(18)	38	3	91
Impairment writedowns on equity securities	(211)	(32)	(432)	(32)
Gains on sale of securities, net		6	329	284
Total noninterest income	2,243	2,382	4,246	4,878

Noninterest Expense

Salaries and benefits	2,982	2,736	6,083	5,551
Net occupancy expense	450	434	909	820
Furniture and equipment expense	210	249	426	503
Advertising	455	478	769	748
Legal and professional fees	276	255	524	522
Data processing	413	323	770	702
Pennsylvania bank shares tax	167	170	337	341
Intangible amortization	90	90	181	181
Other	990	855	1,884	1,914

Total noninterest expense	6,033	5,590	11,883	11,282
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Income before Federal income taxes	3,383	2,713	6,834	5,229
Federal income tax expense	932	654	1,852	1,106

Net income	\$ 2,451	\$ 2,059	\$ 4,982	\$ 4,123
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Per share data

Basic earnings per share	\$ 0.64	\$ 0.54	\$ 1.30	\$ 1.07
Diluted earnings per share	\$ 0.64	\$ 0.53	\$ 1.30	\$ 1.07
Cash dividends declared	\$ 0.27	\$ 0.26	\$ 0.53	\$ 0.51

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

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Consolidated Statements of Changes in Shareholders' Equity
for the Six Months Ended June 30, 2008 and 2007
(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
(Dollars in thousands, except per share data)						
Balance at December 31, 2006	\$ 4,299	\$ 32,251	\$ 42,649	\$ 236	\$ (7,821)	\$ 71,614
Comprehensive income:						
Net income			4,123			4,123
Unrealized loss on securities, net of reclassification adjustments and taxes				(1,368)		(1,368)
Unrealized gain on hedging activities, net of reclassification adjustments and taxes				11		11
Total Comprehensive income						2,766
Cash dividends declared, \$.51 per share			(1,960)			(1,960)
Common stock issued under stock option plans		23			65	88
Acquisition of 3,050 shares of treasury stock					(83)	(83)
Treasury shares issued to dividend reinvestment plan		131			215	346
Stock option compensation		85				85
Balance at June 30, 2007	\$ 4,299	\$ 32,490	\$ 44,812	\$ (1,121)	\$ (7,624)	\$ 72,856
Balance at December 31, 2007	\$ 4,299	\$ 32,620	\$ 47,946	\$ 664	\$ (7,887)	\$ 77,642
Comprehensive income:						
Net income			4,982			4,982
Unrealized loss on securities, net of reclassification adjustments and taxes				(1,983)		(1,983)
Unrealized loss on hedging activities, net of reclassification adjustments and taxes				(77)		(77)
Total Comprehensive income						2,922
Cash dividends declared, \$.53 per share			(2,032)			(2,032)
Cumulative adjustment for change in accounting principle			(422)			(422)
Acquisition of 30,483 shares of treasury stock					(721)	(721)
Treasury shares issued to dividend reinvestment plan		95			261	356
Stock option compensation		84				84
Balance at June 30, 2008	\$ 4,299	\$ 32,799	\$ 50,474	\$ (1,396)	\$ (8,347)	\$ 77,829

The accompanying notes are an integral part of these statements.

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(unaudited)

<i>(Amounts in thousands)</i>	For the Six Months Ended June 30	
	2008	2007
Cash flows from operating activities		
Net income	\$ 4,982	\$ 4,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	649	642
Net accretion of loans and investment securities	(142)	(491)
Stock option compensation expense	84	85
Amortization and net change in mortgage servicing rights valuation	106	(48)
Amortization of intangibles	181	181
Provision for loan losses	505	450
Net losses (gains) on sales of securities and impairment writedowns	103	(252)
Loans originated for sale	(3,040)	(13,181)
Proceeds from sales of loans	3,578	11,335
Gain on sales of loans	(62)	(99)
Loss on sales or disposal of premises and equipment		5
Increase in cash surrender value of life insurance	(331)	(323)
Loss on equity method investments	122	25
Contribution to pension plan	(333)	
Decrease (increase) in interest receivable and other assets	72	(8)
Decrease in interest payable and other liabilities	(489)	(423)
Other, net	(129)	(54)
Net cash provided by operating activities	5,856	1,967
Cash flows from investing activities		
Proceeds from sales of investment securities available for sale	3,266	10,425
Proceeds from maturities of investment securities available for sale	29,153	43,716
Purchase of investment securities available for sale	(24,136)	(54,399)
Net (decrease) increase in restricted stock	(967)	247
Net increase in loans	(44,027)	(31,193)
Proceeds from sale of other real estate owned	207	
Capital expenditures	(923)	(843)
Net cash used in investing activities	(37,427)	(32,047)
Cash flows from financing activities		
Net (decrease) increase in demand deposits, NOW accounts and savings accounts	(19,375)	31,518
Net increase (decrease) in certificates of deposit	16,941	(4,622)
Net increase in short term borrowings	21,562	5,836
Long term debt payments	(3,325)	(5,430)
Long term debt advances	16,057	

Dividends paid	(2,032)	(1,960)
Common stock issued to dividend reinvestment plan	356	346
Common stock issued under stock option plans		88
Purchase of treasury shares	(721)	(83)
Net cash provided by financing activities	29,463	25,693
Decrease in cash and cash equivalents	(2,108)	(4,387)
Cash and cash equivalents as of January 1	25,491	22,148