

FRANKLIN FINANCIAL SERVICES CORP /PA/
Form 10-Q
November 07, 2007

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 September 30, 2007

OR

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 0-12126

FRANKLIN FINANCIAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

25-1440803
(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, or a non-accelerated filer.

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o

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

There were 3,844,241 outstanding shares of the Registrant's common stock as of October 31, 2007.

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Franklin Financial Services Corporation
Consolidated Balance Sheets
(Amounts in thousands, except per share data)

	September 30 2007 (unaudited)	December 31 2006
Assets		
Cash and due from banks	\$ 16,084	\$ 21,855
Interest bearing deposits in other banks and fed funds sold	251	293
Total cash and cash equivalents	16,335	22,148
Investment securities available for sale	178,779	189,345
Restricted stock	2,921	3,142
Loans held for sale	3,561	2,561
Loans	563,884	528,534
Allowance for loan losses	(7,324)	(6,850)
Net Loans	556,560	521,684
Premises and equipment, net	13,780	13,101
Bank owned life insurance	18,048	17,561
Goodwill	8,520	9,113
Other intangible assets	2,800	3,071
Equity method investments	4,016	4,028
Other assets	15,539	13,579
Total Assets	\$ 820,859	\$ 799,333
Liabilities		
Deposits:		
Demand (non-interest bearing)	\$ 87,425	\$ 87,688
Savings and interest checking	368,478	337,985
Time	160,784	169,622
Total Deposits	616,687	595,295
Securities sold under agreements to repurchase	80,269	78,410
Short term borrowings	7,950	6,700
Long term debt	32,367	38,449
Other liabilities	9,009	8,865
Total Liabilities	746,282	727,719
Shareholders equity		
Common stock \$1 par value per share, 15,000 shares authorized with 4,299 shares issued and 3,844 and 3,838 shares outstanding at September 30, 2007 and December 31, 2006 , respectively	4,299	4,299
Capital stock without par value, 5,000 shares authorized with no shares issued or outstanding		

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Additional paid in capital	32,569	32,251
Retained earnings	46,370	42,649
Accumulated other comprehensive income (loss)	(807)	236
Treasury stock, 455 shares and 461 shares at cost at September 30, 2007 and December 31, 2006, respectively	(7,854)	(7,821)
Total shareholders' equity	74,577	71,614
Total Liabilities and Shareholders' Equity	\$ 820,859	\$ 799,333

The accompanying notes are an integral part of these financial statements

Franklin Financial Services Corporation
Consolidated Statements of Income

(Amounts in thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2007	2006	2007	2006
Interest Income				
Loans, including fees	\$ 10,194	\$ 9,165	\$ 29,698	\$ 22,911
Interest and dividends on investments:				
Taxable interest	1,714	1,459	4,943	3,944
Tax exempt interest	545	509	1,684	1,487
Dividend income	73	85	240	230
Federal funds sold	50	309	307	504
Deposits and obligations of other banks	6	17	26	37
Total interest income	12,582	11,544	36,898	29,113
Interest Expense				
Deposits	4,637	4,234	13,901	9,950
Securities sold under agreements to repurchase	1,026	968	3,042	2,288
Short term borrowings	36		69	27
Long term debt	426	522	1,346	1,669
Total interest expense	6,125	5,724	18,358	13,934
Net interest income	6,457	5,820	18,540	15,179
Provision for loan losses	340		790	240
Net interest income after provision for loan losses	6,117	5,820	17,750	14,939
Noninterest Income				
Investment and trust services fees	1,390	753	3,253	2,367
Loan service charges and fees	223	153	535	490
Mortgage banking activities	71	26	399	244
Deposit service charges and fees	637	582	1,782	1,541
Other service charges and fees	398	277	987	761
Increase in cash surrender value of life insurance	164	166	487	397
Equity method investments	13	85	(12)	71
Other	(17)	62	74	75
Securities gains			284	95
Total noninterest income	2,879	2,104	7,789	6,041
Noninterest Expense				
Salaries and benefits	2,922	2,673	8,472	7,127
Net occupancy expense	433	371	1,253	977
Furniture and equipment expense	242	263	744	608
Advertising	293	272	1,040	816
Legal and professional fees	291	192	813	671
Data processing	334	355	1,035	964
Pennsylvania bank shares tax	170	167	511	415
Intangible Amortization	90	136	271	229
Other	834	817	2,784	2,207
Total noninterest expense	5,609	5,246	16,923	14,014
Income before Federal income taxes	3,387	2,678	8,616	6,966
Federal income tax expense	830	577	1,936	1,498

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Net income	\$	2,557	\$	2,101	\$	6,680	\$	5,468
Per share data								
Basic earnings per share	\$	0.66	\$	0.55	\$	1.74	\$	1.56
Diluted earnings per share	\$	0.66	\$	0.55	\$	1.73	\$	1.55
Cash dividends declared	\$	0.26	\$	0.25	\$	0.77	\$	0.74

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

Franklin Financial Services Corporation
Consolidated Statements of Changes in Shareholders' Equity

for the Nine Months Ended September 30, 2007 and 2006

(unaudited)

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2005	\$ 3,806	\$ 19,907	\$ 38,638	\$ 801	\$ (7,482)	\$ 55,670
Comprehensive income:						
Net income			5,468			5,468
Unrealized gain on securities, net of reclassification adjustments and taxes				281		281
Unrealized gain on hedging activities, net of reclassification adjustments and taxes				53		53
Total Comprehensive income						5,802
Acquisition of Fulton County Bancshares	493	12,069				12,562
Cash dividends declared, \$.74 per share			(2,590)			(2,590)
Acquisition of 24,192 shares of treasury stock					(621)	(621)
Common stock issued under stock option plans		76			325	401
Stock option compensation		127				127
Balance at September 30, 2006	\$ 4,299	\$ 32,179	\$ 41,516	\$ 1,135	\$ (7,778)	\$ 71,351
Balance at December 31, 2006	\$ 4,299	\$ 32,251	\$ 42,649	\$ 236	\$ (7,821)	\$ 71,614
Comprehensive income:						
Net income			6,680			6,680
Unrealized loss on securities, net of reclassification adjustments and taxes				(1,038)		(1,038)
Unrealized loss on hedging activities, net of reclassification adjustments taxes				(5)		(5)
Total Comprehensive income						5,637
Cash dividends declared, \$.77 per share			(2,959)			(2,959)
Common stock issued under stock option plans		25			69	94
Acquisition of 16,770 shares of treasury stock					(434)	(434)
Treasury shares issued to dividend reinvestment plan		188			332	520
Stock option compensation		105				105
Balance at September 30, 2007	\$ 4,299	\$ 32,569	\$ 46,370	\$ (807)	\$ (7,854)	\$ 74,577

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

Franklin Financial Services Corporation

Consolidated Statements of Cash Flows

(unaudited)

(Amounts in thousands)	For the Nine Months Ended September 30	
	2007	2006
Cash flows from operating activities		
Net income	\$ 6,680	\$ 5,468
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	958	738
Net (accretion) amortization of loans and investment securities	(795)	(18)
Stock option compensation expense		