

FRANKLIN FINANCIAL SERVICES CORP /PA/
Form 10-Q
August 08, 2006

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, 2006

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 3,353,525 outstanding shares of the Registrant's common stock as of June 30, 2006.

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Part I FINANCIAL INFORMATION

Item 1 Financial Statements

Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	June 30 2006 (unaudited)	December 31 2005
Assets		
Cash and due from banks	\$ 15,763	\$ 19,706
Fed funds sold	5,200	4,000
Interest bearing deposits in other banks	110	1,032
Total cash and cash equivalents	21,073	24,738
Investment securities available for sale	169,257	164,060
Restricted stock	2,869	3,184
Loans held for sale	4,102	1,328
Loans	432,785	397,190
Allowance for loan losses	(5,568)	(5,402)
Net Loans	427,217	391,788
Premises and equipment, net	9,478	8,897
Bank owned life insurance	12,044	11,814
Other assets	16,246	15,548
Total Assets	\$ 662,286	\$ 621,357
Liabilities		
Deposits		
Demand (non-interest bearing)	\$ 77,709	\$ 77,354
Savings and Interest checking	287,950	254,722
Time	123,984	124,723
Total Deposits	489,643	456,799
Securities sold under agreements to repurchase	71,016	52,069
Short term borrowings	600	4,000
Long term debt	39,898	48,546
Other liabilities	4,136	4,273
Total Liabilities	605,293	565,687
Shareholders equity		
Common stock \$1 par value per share, 15,000 shares authorized with 3,806 shares issued and 3,353 shares and 3,352 shares outstanding at June 30, 2006 and December 31, 2005, respectively	3,806	3,806
Capital stock without par value, 5,000 shares authorized with no shares issued or outstanding		

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Additional paid in capital	20,016	19,907
Retained earnings	40,362	38,638
Accumulated other comprehensive income	316	801
Treasury stock, 453 shares and 454 shares at cost at June 30, 2006 and December 31, 2005, respectively	(7,507)	(7,482)
Total shareholders' equity	56,993	55,670
Total Liabilities and Shareholders' Equity	\$ 662,286	\$ 621,357

The accompanying notes are an integral part of these financial statements

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	
	2006	2005	2006	2005
Interest Income				
Loans	\$ 7,138	\$ 5,616	\$ 13,747	\$ 10,663
Interest and dividends on investments:				
Taxable interest	1,287	1,032	2,484	1,998
Tax exempt interest	513	442	978	885
Dividend income	77	65	145	133
Federal funds sold	143	52	195	94
Deposits and obligations of other banks	12	5	20	7
Total interest income	9,170	7,212	17,569	13,780
Interest Expense				
Deposits	3,059	1,739	5,717	3,285
Securities sold under agreements to repurchase	777	322	1,319	537
Short term borrowings	1	9	27	53
Long term debt	540	710	1,148	1,423
Total interest expense	4,377	2,780	8,211	5,298
Net interest income	4,793	4,432	9,358	8,482
Provision for loan losses	60	80	240	186
Net interest income after provision for loan losses	4,733	4,352	9,118	8,296
Noninterest Income				
Investment and trust services fees	818	726	1,615	1,412
Service charges and fees	954	802	1,793	1,531
Mortgage banking activities	163	12	218	180
Increase in cash surrender value of life insurance	115	114	230	237
Equity method investments	62	(88)	(14)	(508)
Securities gains, net		64	95	219
Total noninterest income	2,112	1,630	3,937	3,071
Noninterest Expense				
Salaries and benefits	2,169	2,075	4,454	4,459
Net occupancy expense	297	292	605	587
Furniture and equipment expense	167	179	344	368
Advertising	308	303	543	455
Legal & professional fees	225	235	479	432
Data processing	264	276	609	492
Pennsylvania bank shares tax	124	120	247	241
Other	745	732	1,485	1,403
Total noninterest expense	4,299	4,212	8,766	8,437
Income before Federal income taxes	2,546	1,770	4,289	2,930
Federal income tax expense	668	317	922	87
Net income	\$ 1,878	\$ 1,453	\$ 3,367	\$ 2,843
Per share data				
Basic earnings per share	\$ 0.56	\$ 0.43	\$ 1.00	\$ 0.84
Diluted earnings per share	\$ 0.56	\$ 0.43	\$ 1.00	\$ 0.84

Cash dividends declared	\$	0.25	\$	0.24	\$	0.49	\$	0.47
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The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Shareholders' Equity

for the six months ended June 30, 2006 and 2005

(unaudited)

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2004	\$ 3,806	\$ 19,864	\$ 35,723	\$ 2,175	\$ (6,925)	\$ 54,643
Comprehensive income:						
Net income			2,843			2,843
Unrealized loss on securities, net of reclassification adjustments				(673)		(673)
Unrealized loss on hedging activities, net of reclassification adjustments				(32)		(32)
Total Comprehensive income						2,138
Cash dividends declared, \$.47 per share			(1,584)			(1,584)
Acquisition of 5,000 shares of treasury stock					(134)	(134)
Common stock issued under stock option plans		23			69	92
Balance at June 30, 2005	\$ 3,806	\$ 19,887	\$ 36,982	\$ 1,470	\$ (6,990)	\$ 55,155
Balance at December 31, 2005	\$ 3,806	\$ 19,907	\$ 38,638	\$ 801	\$ (7,482)	\$ 55,670
Comprehensive income:						
Net income			3,367			3,367
Unrealized loss on securities, net of reclassification adjustments				(559)		(559)
Unrealized gain on hedging activities, net of reclassification adjustments				74		74
Total Comprehensive income						2,882
Cash dividends declared, \$.49 per share			(1,643)			(1,643)
Acquisition of 6,592 shares of treasury stock					(166)	(166)
Common stock issued under stock option plans		70			141	211
Stock option compensation		39				39
Balance at June 30, 2006	\$ 3,806	\$ 20,016	\$ 40,362	\$ 316	\$ (7,507)	\$ 56,993

Consolidated Statements of Cash Flows

(unaudited)

(Amounts in thousands)	For the Six Months Ended June 30	
	2006	2005
Cash flows from operating activities		
Net income	\$ 3,367	\$ 2,843
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	537	574
Net amortization of investment securities	3	214
Stock option compensation expense	39	
Amortization and write down of mortgage servicing rights	50	130
Provision for loan losses	240	186
Securities gains, net	(95)	(219)
Loans originated for sale	(13,053)	(28,642)
Proceeds from sale of loans	10,383	34,638
Gain on sales of loans	(104)	(167)
Loss on sale or disposal of premises and equipment	5	57
Increase in cash surrender value of life insurance	(230)	(237)
Increase in interest receivable and other assets	(670)	(61)
Increase (decrease) in interest payable and other liabilities	198	(68)
Other, net	27	50
Net cash provided by operating activities	697	9,298
Cash flows from investing activities		
Proceeds from sales of investment securities available for sale	537	643
Proceeds from maturities of investment securities available for sale	20,131	22,080
Net decrease in restricted stock		