

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
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FILER

**FIRST FRANKLIN FINANCIAL CORP**

CIK: **38723** | IRS No.: **580521233** | State of Incorporation: **GA** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **002-27985** | Film No.: **94528387**  
SIC: **6141** Personal credit institutions

Business Address  
213 E TUGALO ST  
P O BOX 880  
TOCCOA GA 30577  
4048867571

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 1994

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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Commission File Number 2-27985

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1st Franklin Financial Corporation

A Georgia Corporation

I.R.S. Employer No. 58-0521233

213 East Tugalo Street  
Post Office Box 880  
Toccoa, Georgia 30577  
(706) 886-7571

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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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1994
-----	-----
Common Stock, par value \$100 per share	1,700 Shares

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## PART I. FINANCIAL INFORMATION

### ITEM 1. Financial Statements:

The following financial statements required hereunder are incorporated by reference from the Company's Quarterly Report to Investors for the Three Months Ended March 31, 1994. See Exhibit 20.1

Consolidated Statements of Financial Position:  
March 31, 1994 and December 31, 1993

Consolidated Statements of Income:  
Quarters Ended March 31, 1994 and March 31, 1993

Consolidated Statements of Cash Flows:  
Quarters Ended March 31, 1994 and March 31, 1993

Notes to Consolidated Financial Statements

### ITEM 2. Managements' Discussion and Analysis of Financial Condition and Results of Operations.

The information required hereunder is set forth under "Management's Letter" of the Company's Quarterly Report to Investors for the Three Months Ended March 31, 1994. See Exhibit 20.1

## PART II. OTHER INFORMATION

### ITEM 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits:

20.1 Quarterly Report to Investors for the Three Months Ended March 31, 1994.

#### (b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended March 31, 1994.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

1st FRANKLIN FINANCIAL CORPORATION  
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Registrant

Ben F. Cheek, III  
-----

Chairman of Board

A. Roger Guimond  
-----

Vice President and  
Chief Financial Officer

Date: May 13, 1994

1st FRANKLIN FINANCIAL CORPORATION

INDEX TO EXHIBITS

Exhibit No.		Page No.
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1st  
FRANKLIN  
FINANCIAL  
CORPORATION

QUARTERLY  
REPORT TO INVESTORS  
FOR THE  
THREE MONTHS ENDED  
MARCH 31, 1994

MANAGEMENT'S LETTER

Average net receivables (gross receivables less unearned finance charges) were \$109,326,776 during the quarter ended March 31, 1994 as compared to \$105,165,627 during the previous quarter ended December 31, 1993 and \$93,211,120 during the quarter ended March 31, 1993. Increases in consumer loan demand and business generated in new offices opened in the prior year were the main causes for the growth in average loans outstanding.

Cash and cash equivalents decreased \$403,175 (7%) during the first quarter of 1994 as compared to 1993 year-end. Funds were used to finance the higher levels of average net receivables outstanding and to reduce other liabilities. During February, the Company disbursed the 1993 employee incentive bonus, which had accrued at December 31, 1993, thereby reducing other liabilities.

The Company's investment portfolio consists mainly of U.S. Treasury bonds and Government Agency bonds backed by the U.S. Government held by the Company's insurance subsidiaries. Management has designated all investment securities as being "available for sale". Any unrealized gain or loss is booked against the Company's equity section, net of deferred taxes. Although investment securities increased during the first quarter of 1994 due to funds invested by the insurance subsidiaries, volatility in bond market values resulted in a \$586,227 decrease in portfolio fair market

value during the quarter just ended as compared to December 31, 1993.

Total revenues increased 24% during the quarter ended March 31, 1994 as compared to the same quarter in 1993 primarily due to increases in net interest income. Net interest income (representing the margin between the amount the Company earns on loans and investments and the amount the Company pays on securities and other borrowings) increased \$1,510,158 (27%) during the quarter just ended as compared to 1993 primarily due to higher levels of average net receivables outstanding. Lower overall borrowing rates also contributed to the increase in the interest income margin.

The higher level of average net receivables during the first quarter of 1994 also led to a \$441,875 (18%) increase in net insurance income. Changes in net insurance income generally correspond to changes in the level of average net receivables outstanding. Increases in average net receivables normally lead to higher levels of insurance in force which increases insurance income.

Net charge-offs increased \$208,614 (63%) during the quarter just ended as compared to the same period a year ago, mainly due to the aforementioned increase in average receivables outstanding. This increase in net charge-offs caused the Company's provision for loan losses to increase \$157,807 (43%) during the comparable periods.

Additional personnel required to staff the new offices opened during the prior year and annual cost-of-living and merit salary increases, effective January 1 of each year, were the major factors causing the \$771,573 (24%) increase in personnel expense during the quarter ended March 31, 1994 as compared to the same period in 1993. Other factors contributing to the increase were increases in accrued profit sharing contribution expenses and employee incentive awards.

Occupancy expense increased \$107,130 (14%) during the comparable periods mainly due to rent expense related to new offices opened during the prior year and increased rent on leases renewed in existing branch offices. Other additional overhead expenses related to offices opened during the prior year, such as telephone, utilities and depreciation expense on fixed assets, also contributed to the increase in occupancy expense.

Increases in advertising expenses, postage, computer expenses and taxes and licenses were the main causes of the \$232,417 (15%) increase in Other Operating Expenses.

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Effective income tax rates were 31.8% and 30.9% for the quarters ended March 31, 1994 and 1993, respectively. Certain tax benefits provided by law to life insurance companies substantially reduce the life insurance subsidiary's effective tax rate and thus decreases the Company's overall tax rate below statutory rates. The increase in the effective rate for the

quarter just ended was mainly due to the Company and the property insurance subsidiary, which are taxed at higher rates, earning a larger portion of pretax income as compared to the prior year.

Liquidity requirements of the Company are financed through the collection of receivables and through the issuance of public debt securities. Net cash flows from financing activities, excluding bank borrowings, increased \$4,753,006 during the first quarter of 1994 as compared to the same period a year ago and collections on loans increased \$4,655,932 over the same period. In addition to the securities program, the Company has three external sources of funds through the use of three Credit Agreements. One agreement provides for available borrowings of \$21,000,000. Available borrowings were \$15,454,000 and \$8,800,000 at March 31, 1994 and December 31, 1993, respectively, relating to this agreement. Another agreement provides for an additional \$1,500,000 for general operating purposes. Available borrowings under this agreement were \$1,500,000 and \$1,377,444 at March 31, 1994 and December 31, 1993, respectively. This \$1,500,000 agreement has a maturity date of June 1994 and will not be renewed. During the second quarter of 1993, the Company established a third line of credit providing \$2,000,000 for general operating purposes (all of which was available at March 31, 1994). This \$2,000,000 agreement will ultimately replace the \$1,500,000 agreement maturing in June, 1994.

Liquidity was not adversely affected by delinquent accounts as the percentage of outstanding receivables 60 days or more past due decreased to 3.7% of receivables at March 31, 1994 from 4.0% of receivables at December 31, 1993.

1st FRANKLIN FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 1994	December 31, 1993
	----- (Unaudited)	----- (Audited)
ASSETS		
CASH AND CASH EQUIVALENTS. . . . .	\$ 5,422,890	\$ 5,826,065
LOANS, net . . . . .	97,547,283	97,485,170
INVESTMENT SECURITIES. . . . .	12,859,509	12,764,567
OTHER ASSETS . . . . .	8,964,129	9,396,368
	-----	-----
TOTAL ASSETS. . . . .	\$ 124,793,811	\$125,472,170
	=====	=====



LIABILITIES AND STOCKHOLDER'S EQUITY

SENIOR DEBT. . . . .	\$ 59,863,722	\$ 60,147,877
OTHER LIABILITIES. . . . .	5,837,338	7,495,036
SUBORDINATED DEBT. . . . .	20,792,780	20,855,733
	-----	-----
Total Liabilities . . . . .	86,493,840	88,498,646
	-----	-----
STOCKHOLDER'S EQUITY:		
Common Stock . . . . .	170,000	170,000
Net Unrealized Gain (Loss) on Investment Securities Available for Sale. . . . .	(299,322)	286,905
Retained Earnings. . . . .	38,429,293	36,516,619
	-----	-----
Total Stockholder's Equity. . . . .	38,299,971	36,973,524
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY. . . . .	\$ 124,793,811	\$125,472,170
	=====	=====

The accompanying Notes to Consolidated Financial Statements are  
an integral part of these statements.

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1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31	
	-----	
	(Unaudited)	
	1994	1993
	----	----
INTEREST INCOME. . . . .	\$ 8,376,564	\$6,721,239
INTEREST EXPENSE . . . . .	1,312,455	1,167,288
	-----	-----
NET INTEREST INCOME. . . . .	7,064,109	5,553,951
Provision for Loan Losses. . . . .	521,942	364,135
	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES . . . . .	6,542,167	5,189,816
	-----	-----

NET INSURANCE INCOME . . . . .	2,843,347	2,401,472
	-----	-----
OTHER REVENUE. . . . .	75,382	63,658
	-----	-----
OTHER OPERATING EXPENSES:		
Personnel Expense. . . . .	4,015,805	3,244,232
Occupancy. . . . .	873,969	766,839
Other . . . . .	1,764,586	1,532,169
	-----	-----
Total . . . . .	6,654,360	5,543,240
	-----	-----
INCOME BEFORE INCOME TAXES . . . . .	2,806,536	2,111,706
Provision for Income Taxes . . . . .	893,862	652,053
	-----	-----
NET INCOME . . . . .	\$ 1,912,674	\$1,459,653
	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

	Three Months Ended March 31	
	-----	
	(Unaudited)	
	1994	1993
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income. . . . .	\$ 1,912,674	\$ 1,459,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for Loan Losses . . . . .	521,942	364,135
Depreciation and Amortization . . . . .	232,781	209,946
Other, net. . . . .	(15,388)	(40,711)
Decrease in Miscellaneous assets. . . . .	527,567	67,553
(Decrease) in Accounts Payable and Accrued Expenses . . . . .	(1,657,698)	(1,350,246)
	-----	-----
Net Cash Provided by Operating Activities	1,521,878	710,330

CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans Originated or purchased . . . . .	(21,127,626)	(17,846,162)
Loan Payments . . . . .	20,543,571	15,887,639
Purchases of marketable debt securities . . . . .	(1,217,405)	(4,102,403)
Sales of marketable securities. . . . .	103,897	1,287,234
Redemptions of securities . . . . .	300,000	--
Principal payments on securities. . . . .	--	14,135
Other, net. . . . .	(180,382)	(180,576)
	-----	-----
Net Cash Provided by Operating Activities . . . . .	(1,577,945)	(4,940,133)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in Senior Debt . . . . .	(284,155)	794,790
Subordinated Debt Issued. . . . .	1,437,375	1,215,290
Subordinated Debt redeemed. . . . .	(1,500,328)	(1,251,275)
	-----	-----
Net Cash Provided by Financing Activities . . . . .	(347,108)	758,805
	-----	-----
NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS. . . . .	(403,175)	(3,470,998)
CASH AND CASH EQUIVALENTS, beginning . . . . .	5,826,065	8,573,140
	-----	-----
CASH AND CASH EQUIVALENTS, ending. . . . .	\$ 5,422,890	\$5,102,142
	=====	=====
Cash Paid during the period for: Interest. . . . .	\$ 1,285,725	\$1,147,291
Income Taxes. . . . .	884,500	5,300

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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-NOTES-

1. The accompanying interim financial information of 1st Franklin Financial Corporation and subsidiaries (the Company) should be read in conjunction with the annual financial statements and notes thereto as of December 31, 1993 and for the years then ended included in the Company's December 31, 1993 Annual Report. The Company is a wholly owned subsidiary of 1st Franklin Corporation and therefore earnings per share is not shown.
2. In the opinion of Management of the Company, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company's financial position as of March 31, 1994, and December 31, 1993, and the results of its operations and its cash flows for the three

months ended March 31, 1994 and 1993. While certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, the Company believes that the disclosures herein are adequate to make the information presented not misleading.

- The results of operations for the three months ended March 31, 1994, are not necessarily indicative of the results to be expected for the full fiscal year.

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BRANCH OPERATIONS

Jarrell Coffee . . . . .	Vice President
Jack Coker . . . . .	Vice President
Isabel Vickery . . . . .	Vice President

SUPERVISORS

Richard Asmussen	Donald Floyd	Melvin Osley
Robert Canfield	Jack Hobgood	Bob Seawright
Robert Carnes	Judy Landon	Joe Seale
Donald Carter	Tommy Lennon	Timothy Schmotz
Mike Culpepper	Steve Maze	Gaines Snow
Jimmy Davis	Dianne Moore	Rick Woods
Tony Ellison	Ronnie Morrow	

OFFICES

Alabama Offices:	Georgia Offices:	Georgia Offices:
- - - - -	-----	-----
Alexander City	Carrollton	McRae
Arab	Cartersville	Milledgeville
Athens	Cedartown	Monroe
Bessemer	Chatsworth	Montezuma
Birmingham	Clarkesville	Monticello
Clanton	Claxton	Moultrie
Cullman	Clayton	Nashville
Decatur	Cleveland	Newnan
Dothan	Cochran	Perry
Enterprise	Commerce	Rome
Eufaula	Conyers	Royston
Florence	Cordele	Savannah
Gadsden	Cornelia	Statesboro
Huntsville	Covington	Swainsboro
Jasper	Cumming	Sylvania
Ozark	Dallas	Sylvester
Prattville	Douglas	Thomaston
Russellville	Douglasville	Thomson
Scottsboro	Eastman	Tifton
Selma	Elberton	Toccoa
Sylacauga	Ellijay	Valdosta

Troy  
Tuscaloosa

Georgia Offices:  
- - - - -

Adel  
Albany  
Alma  
Americus  
Athens  
Barnesville  
Baxley  
Blue Ridge  
Bremen  
Brunswick  
Buford  
Butler  
Cairo  
Calhoun  
Canton

Forsyth  
Fort Valley  
Gainesville  
Garden City  
Griffin  
Hartwell  
Hawkinsville  
Hazlehurst  
Hinesville  
Hogansville  
Jackson  
Jasper  
Jefferson  
Jesup  
Lavonia  
Lawrenceville  
Madison  
Manchester  
McDonough

Vidalia  
Warner Robins  
Washington  
Winder

South Carolina Offices:  
- - - - -

Aiken  
Anderson  
Cayce  
Clemson  
Easley  
Greenwood  
Laurens  
Orangeburg  
Seneca  
Union  
York

DIRECTORS

W. Richard Acree  
President, Acree Oil Company

Ben F. Cheek, III  
Chairman and Chief Executive Officer  
1st Franklin Financial Corporation

Lorene M. Cheek  
Homemaker

Jack D. Stovall  
President, Stovall Building Supplies, Inc.

Dr. Robert E. Thompson  
Physician, Toccoa Clinic

EXECUTIVE OFFICERS

Ben F. Cheek, III  
Chairman and Chief Executive Officer

T. Bruce Childs  
President and Chief Operating Officer

A. Roger Guimond  
Vice President and Chief Financial Officer

Lynn E. Cox  
Secretary

Linda L. Sessa  
Treasurer

INVESTMENT CENTER

Lynn E. Cox  
Account Executive

Phoebe P. Martin  
Account Executive

Sandra N. Oliver  
New Accounts

COUNSEL

Jones, Day, Reavis & Pogue  
3500 One Peachtree Center  
303 Peachtree Street, N.E.  
Atlanta, Georgia 30308-3242

AUDITORS

Arthur Andersen & Co.  
133 Peachtree Street, N.E.  
Atlanta, Georgia 30303