FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
SEC Accession No. 0000038723-04-000036

FILER

FIRST FRANKLIN FINANCIAL CORP

CIK:**38723**| IRS No.: **580521233** | State of Incorp.:**GA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **002-27985** | Film No.: **04970022**
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 2049

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 June 30, 2004

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 2-27985

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

Indicate by check mark whether the registrant: (1) has filed 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 by check mark whether the registrant is an accelerated filer (as defined by Rule 126-2 of the Exchange Act). Yes __ No **X**

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 July 31, 2004
Voting Common Stock, par value $100 per share	1,700 Shares
Non-Voting Common Stock, no par value	168,300 Shares

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 Six Months Ended June 30, 2004. See Exhibit 19.

Consolidated Statements of Financial Position:
June 30, 2004 and December 31, 2003

Consolidated Statements of Income and Retained Earnings:
Three and Six Months Ended June 30, 2004 and June 30, 2003

Consolidated Statements of Cash Flows:
Six Months Ended June 30, 2004 and June 30, 2003

Notes to Consolidated Financial Statements

ITEM 2. Management's 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 Six Months Ended June 30, 2004. See Exhibit 19.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk:

The information required hereunder is set forth under "Management's Letter --Quantitative and Qualitative Disclosures about Market Risk" of the Company's Quarterly Report to Investors for the Six Months Ended June 30, 2004. See Exhibit 19.

ITEM 4. Controls And Procedures:

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this Report, an evaluation was carried out under the supervision and with the participation of the Company's Management, including the Chairman and Chief Executive Officer ("CEO") and Executive Vice President and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective as of June 30, 2004. No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings:

Lillie Barnes, et al. v. 1st Franklin Financial Corporation, et al.: 3:02cv1259LN, filed in the Circuit Court of Holmes County, Mississippi, and removed to the United States District Court for the Southern District of Mississippi, Jackson Division, where it has been dismissed as to 1st Franklin Financial Corporation.

This lawsuit alleges fraud and deceit in the Company's sale of credit insurance, refinancing practices and use of arbitration agreements. There have been no changes in the status of this suit since our previous update in the Company's Form 10-Q for the quarter ended March 31, 2004. The plaintiffs seek statutory, compensatory and punitive damages. The case was initially filed on February 21, 2002, but the defendants were not served until the latter part of

June 2002. The case was removed to the United States District Court for the Southern District of Mississippi, Jackson Division. The Plaintiffs' Motion to Remand was denied on March 31, 2003. Motions to compel arbitration of the plaintiffs' claims were filed and granted on August 14, 2003. As a result, 1st Franklin Financial Corporation was dismissed from the action without prejudice. Although arbitration has not been commenced, the Company intends to proceed with arbitration and defend the case vigorously. Management believes that it is too early to assess the Company's potential liability in connection with this action.

Carolyn Robinson, et al. v. 1st Franklin Financial Corporation, et al.: 2:02cv897PG, filed in the Circuit of Panola County, Mississippi, Second Judicial District, and removed to the United States District Court for the Southern District of Mississippi, Hattiesburg Division, where it is currently pending.

This lawsuit alleges fraud, deceit and misrepresentation in the Company's sale of credit insurance, refinancing practices and use of arbitration agreements. There have been no changes in the status of this suit since our previous update in the Company's Form 10-Q for the quarter ended March 31, 2004. The plaintiffs seek statutory, compensatory and punitive damages. The case was initially filed on November 13, 2002. All of the plaintiffs have agreed to submit their claims to arbitration and to dismiss, without prejudice, the above-referenced litigation. By agreed order of the parties, the court ordered the action to arbitration on June 30, 2003, and dismissed 1st Franklin Financial Corporation without prejudice. Although arbitration has not been commenced, the Company intends to proceed with arbitration and defend this case vigorously. Management believes that it is too early to assess the Company's potential liability in connection with this suit.

Dennis and Collie Pearson, et al. v. American General Finance, 1st Franklin Financial Corporation, et al.: 2:03cv043BB, filed in the Circuit Court of Panola County, Mississippi, Second Judicial District, and removed to the Unitied States District Court for the Northern District of Mississippi, Delta Division, where it is currently pending.

This lawsuit alleges fraud and deceit in the Company's sale of credit insurance, refinancing practices and use of arbitration agreements. There have been no changes in the status of this suit March 31, 2003. The plaintiffs seek statutory, compensatory and punitive damages. The case was initially filed on January 7, 2003. At the time this case was removed to Federal Court, the Company had not been properly served. As a result, the Company joined the notice of removal cautiously reserving its objection to service. Motions to quash service and summons were filed contemporaneously therewith. The Company awaits ruling on those motions. In the event that the Court denies the motions to quash service, the Company intends to promptly file proceedings to enforce arbitration. Management believes that it is too early to assess the Company's potential liability in connection with this suit, and the Company is diligently contesting and defending this case.

Dora L. Wright, et al. v. 1st Franklin Financial Corporation, et al., 3:03cv726WS, filed in the Circuit Court of Holmes County, Mississippi, and removed to the United States District Court for the Southern District of Mississippi, Jackson Division.

This lawsuit alleges fraud and deceit in the Company's sale of credit insurance, refinancing practices and use of arbitration agreements. There have been no changes in the status of this suit since our previous update in the Company's Form 10-Q for the period ended March 31, 2004. The plaintiffs seek statutory, compensatory and punitive damages. The case was initially filed on December 31, 2002, but the defendants were not served until the latter part of April, 2003. The case was removed to the United States District Court for the Southern District of Mississippi, Jackson Division on May 22, 2003. The plaintiffs have filed a motion to remand the case to state court. The plaintiffs have agreed to stay consideration of remand until a decision is rendered on the arbitration issue. In January 2004, a status conference was held between counsel and the Court wherein it was agreed that the arbitration it was agreed that the arbitration actions would be consolidated with the underlying action for determination of the arbitration issue. A motion for summary judgement on the issue of arbitration has been filed in the underlying action. We expect the motion for summary judgement to be granted and the underlying action to be dismissed.

Locke D. Barkley, in her capacity as Standing Chapter 13 Trustee of various Debtor bankruptcy estates v. 1st Franklin Financial Corporation, et al. Removed Civil Action No. 3:04cv286 (Copiah County, MS Civil Action No. 04-134) in the United States District Court of Southern District of Mississippi.

This lawsuit was filed by Harold J. Barkley, Jr. and Locke D. Barkley in their respective capacities as Standing Chapter 13 Trustees for various debtor bankruptcy estates on February 13, 2004. The Company and two former/current employees are named as defendants. The lawsuit alleges various counts relating to the Company' s credit insurance and loan practices in Mississippi, and requests actual and compensatory damages, punitive damages, disgorgement of insurance premiums and attorneys fees. Counsel for the Company learned of the lawsuit on or about March 17, 2004. The Company removed the lawsuit to federal court on April 12, 2004. At the time of the removal, the state court' s records showed that summonses for the Company and the two individual defendants had been issued but not yet served. The Plaintiffs have filed a motion to remand the case to state court, and the Company has filed a motion to stay its deadline to file a response to the motion to remand and a request to conduct remand-related discovery. On or about June 26, 2004, the Court granted the Company' s requests and set a remand-related discovery deadline of September 30, 2004, and a deadline for the Company to file its remand response of October 30, 2004. The parties are currently negotiating various logistical aspects of the remand-related discovery.

The Trustees filed applications to employ attorneys to sue the Company in March 2002, and those applications were granted. The Company then filed its own complaints against the Trustees in May 2002 seeking to bar the Trustees from bringing suit based on bankruptcy-related defenses. The Company' s complaints also contained requests for arbitration with respect to the Trustees' allegations. In May 2004, the Bankruptcy Court ruled against the Company on the bankruptcy defenses but to date has not entered a final order. The Company' s requests for arbitration remain pending and will be addressed by the Bankruptcy Court.

As to the merits of the Trustees' complaints, the Company believes that it is to early to assess it' s potential liability in connection with this suit, and intends to diligently contest and defend the complaints.

Harold J. Barkley, Jr. and Locke D. Barkley, in their capacity as Standing Chapter 13 Trustees of various Debtor bankruptcy estates v. 1st Franklin Financial Corporation, et al. Removed Civil Action No. 3:04cv287 (Holmes County, MS Civil Action No. 04-263) in the United States District Court for the Southern District of Mississippi.

<PAGE> 4

This lawsuit was filed by Harold J. Barkley, Jr. and Locke D. Barkley in their respective capacities as Standing Chapter 13 Trustees for various debtor bankruptcy estates on February 13, 2004. The Company and approximately twenty former/current employees are named as defendants. The lawsuit alleges various counts relating to the Company' s credit insurance and loan practices in Mississippi, and requests actual and compensatory damages, punitive damages, disgorgement of insurance premiums and attorneys fees. Counsel for the Company learned of the lawsuit on or about March 17, 2004. The Company removed the lawsuit to federal court on April 12, 2004. At the time of the removal, the state court' s records showed that summonses for the Company and the approximately twenty individual defendants had been issued but not yet served. The Plaintiffs have filed a motion to remand the case to state court, and the Company has filed a motion to stay its deadline to file a response to the motion to remand and a request to conduct remand-related discovery. Those requests remain pending before the Court.

The Trustees filed applications to employ attorneys to sue the Company in March 2002, and those applications were granted. The Company then filed its own complaints against the Trustees in May 2002 seeking to bar the Trustees from bringing suit based on bankruptcy-related defenses. The Company' s complaints also contained requests for arbitration with respect to the Trustees' allegations. In May 2004, the Bankruptcy Court ruled against the Company on the bankruptcy defenses but to date has not entered a final order. The Company' s requests for arbitration remain pending and will be addressed by the Bankruptcy Court.

As to the merits of the Trustees' complaints, the Company believes that it is to early to assess it' s potential liability in connection with this suit, and intends to diligently contest and defend the complaints.

Nadia D. Barbos, individually and on behalf of all others similarly situated, Plaintiffs v. 1st Franklin Financial Corporation, Defendant, Case No. I031051G in the State Court of Chatham County, State of Georgia.

This lawsuit alleges that a note signed by the named Plaintiff violates Georgia's usury statutes. There have been no changes in the status of this suit since our previous update in the Company's Form 10-Q for the quarter ended March 31, 2004. The lawsuit requests that a class be certified consisting of "individuals in Georgia who have been granted short-term loans and who have paid excessive or usurious interest and finance charges in connection therewith." The lawsuit alleges that as a result the Company is liable to Plaintiff and the putative class for counts of conversion, negligence *per se* and fraud. The case was initially filed on April 4, 2003 The Complaint requests a class award in an unspecified amount. The Company's Motion to Dismiss was filed on May 7, 2003. Plaintiffs have engaged in limited discovery to the Company and the company that provided credit insurance in connection with the plaintiff's transaction. Management believes it is too early to assess the Company's potential liability in connection with this suit, and the Company is diligently contesting and defending the case.

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

(a) Exhibits:

19 Quarterly Report to Investors as of and for the Six Months Ended June 30, 2004.

31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) / 15d-14(a) of the Securities Exchange Act of 1934.

31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) / 15d-14(a) of the Securities Exchange Act of 1934.

32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K
No reports on Form 8-K were filed during the quarter ended June 30, 2004.

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
Registrant

/s/ Ben F. Cheek, III
Chairman of Board

/s/ A. Roger Guimond
Vice President, Chief Financial
Officer and Principal Accounting Officer

Date: August 12, 2004

1st FRANKLIN FINANCIAL CORPORATION

INDEX TO EXHIBITS

Exhibit 19

1st FRANKLIN FINANCIAL CORPORATION

QUARTERLY REPORT TO INVESTORS AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2004

#

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview:

1ST Franklin is engaged in the consumer finance business, particularly in making consumer loans to individuals in relatively small amounts for short periods of time. Other lending activities include the purchase of sales finance contracts from various dealers and in making first and second mortgage loans on real estate to homeowners who wish to improve their property or who wish to restructure their financial obligations. The business is operated through a network of 211 branch offices located in the states of Alabama, Georgia, Louisiana, Mississippi and South Carolina.

We also offer optional credit insurance coverage to our customers when making a loan. Such coverage may include credit life insurance, credit accident and health insurance, and/or credit property insurance. Customers may request credit life coverage to help assure the remaining loan balances are repaid if borrowers die before the loans are repaid or they may request accident and health coverage to help continue loan payments if borrowers become sick or disabled for an extended period of time. Customers may also choose property coverage to protect the values of loan collateral against damage, theft or destruction. We write the various insurance products as an agent for a non-affiliated insurance company. Our wholly-owned insurance subsidiaries reinsure the insurance written from the non-affiliated insurance company.

The Company's operations are subject to various state and federal laws and regulations. We believe our operations are in compliance with the applicable state and federal laws and regulations.

Financial Condition:

Total assets of the Company were $295.3 million at June 30, 2004 compared to $292.9 million at December 31, 2003, representing a 1% increase. The main area of growth was in our investment securities portfolio, which increased $4.1 million or 7%. Surplus funds generated by our insurance subsidiaries during the six-month period just ended were positioned in our investment securities portfolio in an attempt to maximize yields.

The Company's investment portfolio consists mainly of U.S. Treasury bonds, government agency bonds and various municipal bonds A significant portion of these investment securities have been designated as "available for sale" (54% as of June 30, 2004 and 62% as of December 31, 2003) with any unrealized gain or loss accounted for in the equity section of the Company's balance sheet, net of deferred income taxes for those investments held by the Company's insurance subsidiaries. The remainder of the investment portfolio represents securities carried at amortized cost and designated "held to maturity", as Management has both the ability and intent to hold these securities to maturity.

A rise in the level of receivables managed under the Company's net loan portfolio also contributed to the increase in total assets. Net loans rose $3.2 million (2%) as a result of higher loan originations during the six-month period ended June 30, 2004. Management expects loan originations to continue to grow during the remainder of 2004, resulting in additional growth in our net loan portfolio.

The aforementioned positioning of surplus cash into investment securities and funds required to finance the increase in net loans were responsible for the $4.7 million (28%) decline in our cash and cash equivalents. Higher operating expenses also contributed to the decline. The Company had $12.2 million on hand at June 30, 2004 as compared to $16.9 million at December 31, 2003.

Overall liabilities were comparable at June 30, 2004 and December 31, 2003. Variances did, however, occur in certain liability categories. Senior and subordinated debt increased a total of $2.9 million during the six-month period just ended due to increased sales of the Company's debt securities and an increase in the balance outstanding on it's credit line. Offsetting the increase in senior and subordinated debt was a $2.9 million decline in other liabilities during the same period. The decline in other liabilities was mainly due to the disbursement of the prior year's accrued incentive bonus and the Company's annual contribution to the employee profit sharing plan.

Results of Operations:

During the three- and six-month period ended June 30, 2004, total revenues were $24.2 million and $48.1 million, respectively, compared to $22.4 million and $44.9 million during the same comparable periods a year ago. Although revenues rose, net income declined $1.9 million (53%) during the comparable three-month period and $2.6 million (42%) during the comparable six-month period as a result of higher operating costs.

Net Interest Income

Net interest income represents the margin between earnings on loans and investments and interest paid on senior and subordinated debt. It represents a key performance driver in the operations and success of the Company's operations. Changes in our interest margin are influenced by factors such as the level of average net receivables outstanding and the interest income associated therewith, capitalized loan origination costs, and borrowing costs. Net interest income increased $1.0 million (7%) during the quarter ended June 30, 2004, as compared to the quarter ended June 30, 2003. During the six months just ended, the net interest margin increased $2.3 million (8%) compared to the same period a year ago.

Our growth in the net interest margin was primarily due to increases in finance charge income earned on our loan portfolio. Average net receivables were $234.5 million during the six months ended June 30, 2004 as compared to $216.4 million during the six months ended June 30, 2003. The higher level of average net receivables generated an additional $1.1 million (7%) and $2.4 million (8%) in interest income during the three- and six-month period just ended as compared to the same comparable periods a year ago, respectively.

The lower interest rate environment allowed the Company to reduce interest expense slightly during the six-month period ended June 30, 2004 as compared to the same period a year ago, which had a positive impact on net interest income. Although our average debt level on senior and subordinated debt rose to $192.4 million during the first half of 2004, as compared to $182.4 million during the first half of 2003, average interest rates on outstanding borrowings decreased to 3.5% as compared to 3.6% for the same comparable period. During the quarter ended June 30, 2004, we experienced a slight increase in interest expense compared to the quarter ended June 30, 2003, mainly due to a rise in the average debt level outstanding.

Various economic indicators and the recent increase in the prime rate by the Federal Reserve suggest interest rates are beginning an upward trend. As market rates rise, the Company may need to offer higher rates on its senior and subordinated debt in order to remain competitive. Any such increase may negatively impact our net interest margin. However, we do not anticipate that rates will increase significantly and do not project a material impact on our margin for the remainder of this year.

Insurance Income

Net insurance income rose $.5 million (10%) and $.7 million (7%) during the three- and six-month periods ended June 30, 2004 as compared to the same periods a year ago, respectively. As average net receivables increase, the Company typically sees an increase in the number of loan customers requesting credit insurance, thereby leading to higher levels of insurance in force.

Provision for Loan Losses

The provision for loan losses reflects the level of net charge offs and adjustments to the allowance for loan losses, which we believe is sufficient to cover credit losses inherent in the outstanding loan portfolio at the balance sheet date. Our provision for loan losses rose $.4 million (12%) during the three-month period just ended as compared to the same period in 2003. During the six-month period just ended, the provision rose $.9 million or 15%. Write-offs of non-performing loans were the major causes of the increases. Net write-offs increased $.3 million (10%) and $.9 million (15%) during the three- and six-month periods ended June 30, 2004 as compared to the same periods during 2003. Also contributing to the increase in the provision were adjustments to our allowance for loan losses to keep pace with our growth in the loan portfolio.

We continually monitor the credit-worthiness of the loan portfolio. Additions will be made to the allowance for losses when we deem it appropriate to protect against probable losses in the current portfolio.

Other Operating Expenses

The primary cause of the decline in net income during the current year has been due to significant increases in operating overhead. Other operating expenses increased approximately $3.0 million (25%) and $4.7 million (19%) during the three- and six-month periods ended June 30, 2004 as compared to the same periods ended June 30, 2003, respectively.

As previously disclosed in our March 31, 2004 quarterly report and the Company's annual report for 2003, we are in the process of converting our branch office loan accounting system to a new service provider. The project began during the third quarter of 2002 and was divided into two phases. Phase one involved the conversion of our investment center to the new system, which was completed on October 3, 2003. Phase Two involves the conversion of our branch office network and accounting system. The scope of the project has been a major undertaking for the Company. We have implemented a data communication network, which links all the branch offices in our five-state territory on the new system. We are assisting the new service provider in modifying its existing system to meet the needs of the consumer finance industry. Training on the new system began at the end of January 2004, and all employees will have completed extensive training prior to the completion of the conversion. Management's goal is to convert to a premier loan accounting system, which enables the Company to operate more efficiently and provides additional services to our customers. The additional development and testing necessary to implement such a first-class system has shifted the anticipated completion date of the conversion from the second quarter of this year to the beginning of 2005.

The most significant factor causing our higher overhead expenses relates to our computer conversion. Costs associated with the conversion have been the main causes of the aforementioned increases in other operating expenses during the comparable periods. These costs include the additional personnel expense incurred in training employees on the new system, networking costs, costs associated with testing and development, and costs of new equipment. The conversion may continue to have a negative impact on the operating results for the remainder of 2004; however, we are diligently working to insure a smooth transition and to minimize any adverse operating results.

Although the conversion project has been the primary cause of the higher operating expenses during 2004, other factors also contributed to the increases. An increase in our employee base and merit salary increases effective February 1, 2004 added to our higher overhead. Another factor were costs associated with the opening of eight new branch offices during the current year. Increases in legal and audit expenses also contributed to the higher operating expenses.

Effective income tax rates were 24% and 11% during the six-month periods ended June 30, 2004 and 2003, respectively, and 23% and 14% during the three-month periods then ended. The Company files under S Corporation status for income tax reporting purposes. Taxable income or loss of an S Corporation is included in the individual tax returns of the stockholders of the Company. Income taxes are reported for the Company's insurance subsidiaries. The tax rates are also below statutory rates due to certain benefits provided by law to life insurance companies, which reduced the effective tax rate of the Company's insurance subsidiary. The higher rates during the current year periods were due to losses of the S Corporation being passed to the shareholders for tax reporting, whereas income earned by the insurance subsidiaries was taxed at the corporate level.

Quantitive and Qualitative Disclosures about Market Risk:

As previously discussed, the lower interest rate environment has enabled the Company to reduce interest expense during the current year. Although rates are expected to rise, we don't believe rates will increase to a level which would cause a significant impact on our operating performance for the remainder of the year. There has been no change during the current year that is expected to have a material impact on our exposure to changes in market conditions. Please refer to the market risk analysis discussed in our annual report on Form 10-K as of and for the year ended December 31, 2003 for a detailed analysis of our market risk exposure.

Liquidity and Capital Resources:

As of June 30, 2004 and December 31, 2003, the Company had $12.2 million and $16.9 million, respectively, invested in cash and short-term investments readily convertible into cash with original maturities of three months or less. Beneficial owners of the Company are also beneficial owners of Liberty Bank & Trust. As of June 30, 2004, the Company had $115,620 in demand deposits with Liberty Bank & Trust.

The Company's investments in marketable securities can be converted into cash, if necessary. As of June 30, 2004 and December 31, 2003, respectively, 94% and 93% of the Company's cash and cash equivalents and investment securities were maintained in our insurance subsidiaries. State insurance regulations limit the use an insurance company can make of its assets. Dividend payments to the Company by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to the greater of 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2003, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had statutory surplus of $22.2 million and $24.5 million, respectively. The maximum aggregate amount of dividends these subsidiaries can pay to the Company in 2004 without prior approval of the Georgia Insurance Commissioner is approximately $6.9 million.

Liquidity requirements of the Company are financed through the collection of receivables and through the issuance of debt securities. Continued liquidity of the Company is therefore dependent on the collection of its receivables and the sale of debt securities that meet the investment requirements of the public. In addition to the securities program, the Company has an external source of funds through the use of a credit agreement. The agreement provides for available unsecured borrowings of $21.0 million and is scheduled to expire on September 25, 2004. The Company expects to renew this credit agreement when it expires, but there can be no assurance that the lender will renew this credit facility upon the same or similar terms, or at all, or that any replacement will be available to the Company in such event. Available borrowings under the agreement were $18.2 and $21.0 million at June 30, 2004 and December 31, 2003, respectively.

Other:

There are six legal proceedings pending against the Company in the state of Mississippi alleging fraud and deceit in the Company's sale of credit insurance, refinancing practices and use of arbitration agreements. The plaintiffs seek statutory, compensatory and punitive damages. The cases have been removed to Federal District Court. In two of the cases, the Company has been dismissed from the court proceedings but motions to compel arbitration have been granted. Management believes that it is too early to assess the Company's potential liability in connection with the six suits. The Company is diligently contesting and defending these cases.

A legal proceeding is pending against the Company in the state of Georgia alleging violation of usury statutes. The Company is diligently contesting and defending this case. Management believes that it is too early to assess the Company's potential liability in connection with this suit.

A more detailed summary of the aforementioned legal proceedings appears in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, under Part II, Item 1.

The Company is involved in various other claims and lawsuits incidental to its business. In the opinion of Management, the ultimate resolution of such claims and lawsuits will not have a material effect on the Company's financial position, liquidity or results of operations.

Recent Accounting Pronouncements:

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51), to certain entities in which equity investors do not have characteristics of controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46, as revised, was adopted January 1, 2004 by the Company and, as the Company does not have any investments in entities that qualify as Variable Interest Entities, this adoption did not have a significant impact on the Company's financial statements.

Critical Accounting Policies:

The accounting and reporting policies of 1st Franklin and its subsidiaries are in accordance with accounting principles generally accepted in the United States and conform to general practices within the financial services industry. The more critical accounting and reporting policies include the allowance for loan losses, revenue recognition, accounting for securities, loans, insurance claims reserve and income taxes. In particular, 1st Franklin's accounting policies relating to the allowance for loan losses revenue recognition are the most complex.

The allowance for loan losses is based on the Company's previous loss experience, a review of specifically identified loans where collection is doubtful and Management's evaluation of the inherent risks and changes in the composition of the Company's loan portfolio. Specific provision for loan losses is made for impaired loans based on a comparison of the recorded carrying value in the loan to either the present value of the loan' s expected cash flow, the loan' s estimated market price or the estimated fair value of the underlying collateral.

Accounting principles generally accepted in the United States require that an interest yield method be used to calculate the income recognized on accounts which have precomputed charges. An interest yield method is used by the Company on each individual precomputed account to calculate income for on-going precomputed accounts, however, state regulations often allow interest refunds to be made according to the Rule of 78's method for payoffs and renewals. Since the majority of the Company's precomputed accounts are paid off or renewed prior to maturity, the result is that most of the precomputed accounts effectively yield on a Rule of 78's basis.

Precomputed finance charges are included in the gross amount of certain direct cash loans, sales finance contracts and certain real estate loans. These precomputed charges are deferred and recognized as income on an accrual basis using the effective interest method. Some other cash loans and real estate loans, which are not precomputed, have income recognized on a simple interest accrual basis. Income is not accrued on a loan that is more than 60 days past due.

Loan fees and origination costs are deferred and recognized as an adjustment to the loan yield over the contractual life of the related loan.

The property and casualty credit insurance policies written by the Company are reinsured by the property and casualty insurance subsidiary. The premiums are deferred and earned over the period of insurance coverage using the pro-rata method or the effective yield method, depending on whether the amount of insurance coverage generally remains level or declines.

The credit life and accident and health policies written by the Company are reinsured by the life insurance subsidiary. The premiums are deferred and earned using the pro-rata method for level-term life policies and the effective yield method for decreasing-term life policies. Premiums on accident and health policies are earned based on an average of the pro-rata method and the effective yield method.

Different assumptions in the application of these policies could result in material changes in the consolidated financial position or consolidated results of operations. Please refer to Note 1 in the "Notes to Consolidated Financial Statements" in the Company' s Form 10-K as of and for the year ended December 31, 2003 for details regarding all of the Company' s critical and significant accounting policies.

Forward Looking Statements:

Certain information in the previous discussion and other statements contained in this Quarterly Report, which are not historical facts, may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may involve known and unknown risks and uncertainties. The Company's results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Possible factors, which could cause future results to differ from expectations, are, but are not limited to, adverse economic conditions including the interest rate environment, federal and state regulatory changes, unfavorable outcome of litigation and other factors referenced elsewhere in our filings with the Securities and Exchange Commission.

1st FRANKLIN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2004 (Unaudited)	December 30, 2003 (Audited)
ASSETS		
CASH AND CASH EQUIVALENTS	$ 12,207,335	$ 16,911,082
LOANS:		
Direct Cash Loans	211,589,531	211,202,608
Real Estate Loans	29,027,528	31,520,134
Sales Finance Contracts	31,103,697	26,678,509
	271,720,756	269,401,251
Less: Unearned Finance Charges	31,212,866	31,519,343
Unearned Insurance Premiums and Commissions	16,707,422	17,904,814
Allowance for Loan Losses	14,115,085	13,515,085
Net Loans	209,685,383	206,462,009
INVESTMENT SECURITIES:		
Available for Sale, at fair market	33,632,102	36,124,485
Held to Maturity, at amortized cost	28,620,196	22,039,894
	62,252,298	58,164,379
OTHER ASSETS	11,190,505	11,330,260
TOTAL ASSETS	$295,335,521	$ 292,867,730
LIABILITIES AND STOCKHOLDERS' EQUITY		
SENIOR DEBT	$ 150,136,066	$ 148,204,014
OTHER LIABILITIES	13,888,543	16,743,750
SUBORDINATED DEBT	44,999,321	44,075,934
Total Liabilities	209,023,930	209,023,698
STOCKHOLDERS' EQUITY:		
Preferred Stock; $100 par value	--	--
Common Stock		
Voting Shares; $100 par value; 2,000 shares authorized; 1,700 shares outstanding	170,000	170,000
Non-Voting Shares; no par value; 198,000 shares authorized; 168,300 shares outstanding as of June 30, 2004 and December 31, 2003	--	--
Accumulated Other Comprehensive Income	634,381	1,051,078
Retained Earnings	85,507,210	82,622,954
Total Stockholders' Equity	86,311,591	83,844,032
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$295,335,521	$ 292,867,730

See Notes to Consolidated Financial Statements

#

1st FRANKLIN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Quarter Ended June 30 (Unaudited)		Six Months Ended June 30 (Unaudited)	
	2004	2003	2004	2003
INTEREST INCOME	$16,788,793	$ 15,691,114	$33,606,350	$ 31,238,332
INTEREST EXPENSE	1,755,357	1,665,065	3,485,962	3,414,353
NET INTEREST INCOME	15,033,436	14,026,049	30,120,388	27,823,979
Provision for Loan Losses	3,757,667	3,341,344	7,020,896	6,079,382
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,275,769	10,684,705	23,099,492	21,744,597
NET INSURANCE INCOME				
Premiums and Commissions	7,209,919	6,549,783	14,142,159	13,297,006
Insurance Claims and Expenses	1,565,335	1,441,061	2,946,432	2,845,887
	5,644,584	5,108,722	11,195,727	10,451,119
OTHER REVENUE	187,884	175,490	378,286	347,624
OTHER OPERATING EXPENSES:				
Personnel Expense	8,428,384	6,887,878	17,625,224	14,955,814
Occupancy Expense	2,086,683	1,770,370	3,974,502	3,536,746
Other	4,378,280	3,276,875	8,350,854	6,739,414
Total	14,893,347	11,935,123	29,950,580	25,231,974
INCOME BEFORE INCOME TAXES	2,214,890	4,033,794	4,722,925	7,311,366
Provision for Income Taxes	537,633	461,081	1,068,691	1,051,502
NET INCOME	1,677,257	3,572,713	3,654,234	6,259,864
RETAINED EARNINGS, Beginning of Period	84,610,888	81,240,833	82,622,954	78,657,682
Distributions on Common Stock	780,935	3,238,339	769,978	3,342,339
RETAINED EARNINGS, End of Period	$85,507,210	$81,575,207	$ 85,507,210	$ 81,575,207
BASIC EARNINGS PER SHARE:				
Voting Common Stock; 1,700 shares Outstanding all periods	$ 9.87	$21.02	$21.50	$36,82
Non-Voting Common Stock; 168,300 shares Outstanding all periods	$ 9.87	$21.02	$21.50	$36.82

See Notes to Consolidated Financial Statements

#

1ST FRANKLIN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30 (Unaudited) 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 3,654,234	$ 6,259,864
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Provision for Loan Losses	7,020,896	6,079,382
Depreciation and Amortization	847,966	667,605
Deferred Income Taxes	26,676	62,476
Other, net	28,317	(7,347)
Decrease in miscellaneous assets	778,734	9,777
Decrease in Accounts Payable		
and Accrued Expenses	(2,523,926	(2,570,729)
Net Cash Provided	)	10,501,028
	9,832,897	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans originated or purchased	(93,563,069)	(83,289,140)
Loan payments	83,318,799	73,049,769
Purchases of marketable debt securities	(11,024,061)	(6,877,735)
Principal payments on securities	38,929	83,492
Sales of marketable debt securities	1,640,000	2,893,910
Redemptions of marketable debt securities	4,637,500	6,159,500
Other, net	(1,670,203)	(551,622)
Net Cash Used	(16,622,105)	(8,656,187)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in Senior Debt	1,932,052	2,766,972
Subordinated debt issued	3,534,204	3,057,211
Subordinated debt redeemed	(2,610,817)	(6,017,908)
Distributions paid	(769,978)	(3,342,339)
Net Cash Provided (Used)	2,085,461	(3,536,064)
NET DECREASE IN		
CASH AND CASH EQUIVALENTS	(4,703,747)	(1,691,223)
CASH AND CASH EQUIVALENTS, beginning	16,911,082	20,464,259

CASH AND CASH EQUIVALENTS, ending		$ 12,207,335	$ 18,773,036
Cash Paid during the period for:	Interest	$ 3,505,603	$ 3,425,873
	Income Taxes	1,219,300	1,365,500

See Notes to Consolidated Financial Statements

#

-NOTES-

Note 1 - Basis of Presentation

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, 2003 and for the year then ended included in the Company's December 31, 2003 Annual Report.

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 June 30, 2004 and December 31, 2003, the results of its operations for the three and six months ended June 30, 2004 and 2003, and its cash flows for the six months ended June 30, 2004 and 2003. While certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States 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 six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full fiscal year.

The computation of earnings per share is self-evident from the Consolidated Statements of Income and Retained Earnings.

Note 2 - Impact of Recently Issued Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51), to certain entities in which equity investors do not have characteristics of controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46, as revised, was adopted January 1, 2004 by the Company and as the Company does not have any investments in entities that qualify as Variable Interest Entities, the adoption did not expected to have a significant impact on the financial statements.

Note 3 - Allowance for Loan Losses

An analysis of the allowance for the six month periods ended June 30, 2004 and 2003 is shown in the following table:

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003

Beginning Balance	$ 13,515,085	$ 12,195,000
Provision for Loan Losses	7,020,896	6,079,382
Charge-offs	(8,683,839)	(7,901,945)
Recoveries	2,262,943	2,225,073
Ending Balance	$ 14,115,085	$ 12,597,510

#

Note 4 - Investment Securities

Debt securities available for sale are carried at estimated fair market value. Debt securities designated as "Held to Maturity" are carried at amortized cost based on Management's intent and ability to hold such securities to maturity. The amortized cost and estimated fair market values of these debt securities are as follows:

	As of June 30, 2004		As of December 31, 2003	
	Amortized Cost	Estimated Fair Market Value	Amortized Cost	Estimated Fair Market Value
Available for Sale:				
U.S. Treasury Securities And obligations of U.S. government Corporations and Agencies	$ 8,652,940	$ 8,656,965	$ 7,957,147	$ 8,073,693
Obligations of states and Political subdivisions	23,852,711	24,263,180	26,442,242	27,419,961
Corporate securities	385,176	711,957	386,454	630,831
	$ 32,890,827	$ 33,632,102	$ 34,785,843	$ 36,124,485
Held to Maturity:				
U.S. Treasury Securities and obligations of U.S. government corporations and agencies	$ 6,471,824	$ 6,400,728	$ 4,267,834	$ 4,334,247
Obligations of states and political subdivisions	21,143,391	21,409,356	16,764,427	17,518,420
Corporate securities	1,004,981	1,037,426	1,007,633	1,066,231
	$ 28,620,196	$ 28,847,510	$ 22,039,894	$ 22,918,898

Note 5 - Commitments and contingencies

There are six legal proceedings pending against the Company in the state of Mississippi alleging fraud and deceit in the Company's sale of credit insurance, refinancing practices and use of arbitration agreements. The plaintiffs seek statutory, compensatory and punitive damages. The cases have been moved to Federal District Court, and action is being taken to compel arbitration. In two of the cases, the Company has been dismissed from the actions and motions to compel arbitration have been granted. Management believes that it is too early to assess the Company's potential liability in connection with the six suits. The Company is diligently contesting and defending these cases.

A legal proceeding is pending against the Company in the state of Georgia alleging violation of usury statutes. The Company is diligently contesting and defending this case. Management believes that it is too early to assess the Company's potential liability in connection with this suit.

The Company is involved in various other claims and lawsuits incidental to its business. In the opinion of Management, the ultimate resolution of such claims and lawsuits will not have a material effect on the Company's financial position, liquidity or results of operations.

Note 6 - Income Taxes

Effective income tax rates were 21% and 11% during the six-month periods ended June 30, 2004 and 2003, respectively, and 23% and 14% during the three-month periods then ended. The Company files under S Corporation status for income tax reporting purposes. Taxable income or loss of an S Corporation is included in the individual tax returns of the stockholders of the Company. Income taxes are reported for the Company's insurance subsidiaries. The tax rates of the Company's insurance subsidiaries are below statutory rates due to certain benefits provided by law to life insurance companies which reduces the effective tax rates and due to investments in tax exempt bonds held by the property insurance company.

#

Note 7 - Other Comprehensive Income

Comprehensive income was $1,065,682 and $3,237,537 for the three- and six-month periods ended June 30, 2004, respectively, as compared to $3,602,947 and $6,299,137 for the same periods in 2003.

Accumulated other comprehensive income consists solely of unrealized gains and losses on investment securities available for sale, net of applicable deferred taxes. The Company recorded ($611,575) and ($416,697) in accumulated other comprehensive losses for the three- and six-month periods ended June 30, 2004, respectively. During the same prior year periods, the Company recorded $30,234 and $39,273, respectively, in accumulated other comprehensive income.

Note 8 - Related party transactions

Beneficial owners of the Company are also beneficial owners of Liberty Bank & Trust ("Liberty"). The Company also had $115,620 in demand deposits with Liberty at June 30, 2004.

The Company also engages from time to time in other transactions with related parties. Please refer to the "Related Parties" disclosure in our Annual Report on Form 10-K as of and for the year ended December 31, 2003 for additional information on related party transactions.

Note 9 - Segment Financial Information

The following table summarizes assets, revenues and profit by business segment. A reconcilement to consolidated net income is also provided.

	Division I	Division II	Division III	Division IV	Division V	Total
			(in Thousands)			
Segment Revenues:						
3 Months ended 6/30/04	$ 3,641	$ 9,168	$ 8,992	$ 4,875	$ 3,462	$ 30,138
3 Months ended 6/30/03	2,809	6,844	6,643	3,381	2,280	21,957
6 Months ended 6/30/04	6,196	14,166	13,796	7,718	5,537	47,413
6 Months ended 6/30/03	5,553	13,805	13,346	6,578	4,523	43,805
Segment Profit:						
3 Months ended 6/30/04	$ 473	$ 2,224	$ 2,191	$ 1,327	$ 206	$ 6,421
3 Months ended 6/30/03	590	2,989	2,791	1,298	413	8,081
6 Months ended 6/30/04	1,166	5,098	1.166 5,192	2,893	804	15,153
6 Months ended 6/30/03		6,131	5,864	2,507	876	16,538

Segment Assets:						
6/30/04	$ 31,080	$ 66,649	$ 63,019	$ 40,487	$ 27,002	$ 231,237
6/30/03	26,708	66,130	63,867	34,202	20,629	211,536

	3 Months Ended 6/30/04 (in 000's)	3 Months Ended 6/30/03 (in 000's)	6 Months Ended 6/30/04 (in 000's)	6 Months Ended 6/30/03 (in 000's)
Reconcilement of Profit:				
Profit per segments	$ 6,421	$ 8,081	$ 15,153	$ 16,538
Corporate earnings not allocated	(800)	(2,062)	(2,232)	(1,768)
Corporate expenses not allocated	(3,406)	(1,985)	(8,198)	(7,458)
Income Taxes not allocated	(538)	(461)	(1,069)	(1,052)
Net Income	$ 1,677	$ 3,573	$ 3,654	$ 6,260

#

BRANCH OPERATIONS

Jack R. Coker Senior Vice President
J. Michael Vice President
Culpepper
Kay S. Lovern Vice President
Dianne H. Vice President
Moore
Ronald F. Vice President
Morrow
Michael J. Vice President
Whitaker

REGIONAL OPERATIONS DIRECTORS

Sonya Acosta	Shelia Garrett	Bonnie Letempt	Dale Palmer
Bert Brown	Brian Gray	Mike Lyles	Hilda Phillips
Ronald Byerly	Jack Hobgood	Jimmy Mahaffey	Henrietta Reathford
Debbie Carter	Bruce Hooper	Roy Metzger	Michelle Rentz
Rick Childress	Jerry Hughes	Brian McSwain	Pat Smith
Bryan Cook	Janice Hyde	Harriet Moss	Gaines Snow
Jeremy Cranfield	Judy Landon	Mike Olive	Les Snyder
Joe Daniel	Jeff Lee	Melvin Osley	Marc Thomas
Donald Floyd	Tommy Lennon		

BRANCH OPERATIONS

ALABAMA

Alexander City	Clanton	Fayette	Jasper	Pelham	Sylacauga
Andalusia	Cullman	Florence	Moulton	Prattville	Troy
Arab	Decatur	Gadsden	Muscle Shoals	Russellville (2)	Tuscaloosa
Athens	Dothan	Hamilton	Opp	Scottsboro	Wetumpka
Bessemer	Enterprise	Huntsville (2)	Ozark	Selma	
Center Point					

GEORGIA

Adel
Albany
Alma
Americus
Athens (2)
Bainbridge
Barnesville
Baxley
Blakely
Blue Ridge
Bremen
Brunswick
Buford
Butler
Cairo
Calhoun
Canton
Carrollton
Cartersville
Cedartown
Chatsworth
Clarkesville
Claxton
Clayton
Cleveland
Cochran
Colquitt
Commerce
Conyers
Cordele
Cornelia
Covington
Cumming
Dahlonega
Dallas
Dalton
Dawson
Douglas (2)
Douglasville
East Ellijay
Eastman
Eatonton
Elberton
Flowery Branch
Forsyth
Fort Valley
Gainesville
Garden City
Georgetown
Glennville
Greensboro
Griffin (2)
Hartwell
Hawkinsville
Hazlehurst
Helena
Hinesville (2)
Hogansville
Jackson
Jasper
Jefferson
Jesup
LaGrange
Lavonia
Lawrenceville
Madison
Manchester
McDonough
Milledgeville
Monroe
Montezuma
Monticello
Moultrie
Nashville
Newnan
Perry
Pooler
Richmond Hill
Rome
Royston
Sandersville
Savannah
Statesboro
Stockbridge
Swainsboro
Sylvania
Sylvester
Thomaston
Thomson
Tifton
Toccoa
Valdosta (2)
Vidalia
Villa Rica
Warner Robins
Washington
Waycross
Waynesboro
Winder

LOUISIANA

Alexandria
Crowley
Denham Springs
DeRidder
Franklin
Houma
Jena
Lafayette
Leesville
Marksville
Morgan City
Natchitoches
New Iberia
Opelousas
Pineville
Prairieville

BRANCH OPERATIONS
(Continued)

MISSISSIPPI

Batesville
Bay St. Louis
Booneville
Carthage
Columbia
Forest
Grenada
Gulfport
Hattiesburg
Hazlehurst
Hernando
Houston
Iuka
Jackson
Kosciusko
Magee
McComb
New Albany
Newton
Oxford
Pearl
Picayune
Ripley
Senatobia
Starkville
Tupelo
Winona

SOUTH CAROLINA

Aiken
Anderson
Cayce
Charleston
Chester
Clemson
Columbia
Conway
Dillon
Easley
Florence
Gaffney
Greenville
Greenwood
Greer
Lancaster
Laurens
Lexington
Lugoff
Marion
Newberry
North Augusta
North Charleston
Orangeburg
Rock Hill
Seneca
Simpsonville
Spartanburg
Summerville
Sumter
Union
York

DIRECTORS

Ben F. Cheek, III
Chairman and Chief Executive Officer

Ben F. Cheek, IV
Vice Chairman

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

Ben F. Cheek, IV
Vice Chairman

Virginia C. Herring
President

A. Roger Guimond
Executive Vice President and Chief Financial Officer

A. Jarrell Coffee
Executive Vice President and Chief Operating Officer

Phoebe P. Martin
Executive Vice President - Human Resources

Lynn E. Cox
Area Vice President / Corporate Secretary and Treasurer

LEGAL COUNSEL

Jones Day
1420 Peachtree Street, N.E.
Suite 800
Atlanta, Georgia 30309-3053

AUDITORS

Deloitte & Touche LLP
191 Peachtree Street, N.E.
Atlanta, Georgia 30303

Exhibit 31.1

RULE 13a-14(a)/15d-14(a)
CERTIFICATIONS

I, Ben F. Cheek, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Franklin Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August , 2004

/s/ Ben F. Cheek, III
Ben F. Cheek, III, Chairman and
Chief Executive Officer

Exhibit 31.2

RULE 13a-14(a) / 15d-14(a)
CERTIFICATIONS

I, A. Roger Guimond, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Franklin Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August   , 2004   s/ A. Roger Guimond

A. Roger Guimond,
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

1st FRANKLIN FINANCIAL CORPORATION
213 EAST TUGALO STREET
P.O. BOX 880
TOCCOA, GEORGIA 30577
TELEPHONE: (706) 886-7571

August ___, 2004

Re: Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002

Ladies and Gentlemen:

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the quarterly report of 1st Franklin Financial Corporation (the "Company") for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on Form 10-Q on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer' s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

s/ Ben F. Cheek, III
Name: Ben F. Cheek, III
Title: Chairman and Chief Executive Officer

Exhibit 32.2

1st FRANKLIN FINANCIAL CORPORATION
213 EAST TUGALO STREET
P.O. BOX 880
TOCCOA, GEORGIA 30577
TELEPHONE: (706) 886-7571

August __, 2004

Re: Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002

Ladies and Gentlemen:

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the quarterly report of 1st Franklin Financial Corporation (the "Company") for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on Form 10-Q on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer' s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

s/ A. Roger Guimond
Name: A. Roger Guimond
Title: Executive Vice President and
Chief Financial Officer