

PELICAN FINANCIAL INC
Form 10-Q
May 13, 2004

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

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**Quarterly Report Pursuant To Section 13 or 15 (d) of the
Securities Exchange Act of 1934**

For the Quarter Ended March 31, 2004

Or

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**Transition Report Pursuant To Section 13 or 15 (d) of the
Securities Exchange Act of 1934**

Commission file number 000-26601

Pelican Financial, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

58-2298215

(IRS Employer
Identification No.)

3767 Ranchero Drive

Ann Arbor, Michigan 48108

(Address of Principal Executive Offices)

734-662-9733

(Registrant's Telephone Number, Including Area Code)

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

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to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock Outstanding as of April 30, 2004

Common stock, \$0.01 Par value	4,488,351 Shares
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PELICAN FINANCIAL, INC.

Consolidated Balance Sheets

	March 31, 2004 (Unaudited)	December 31, 2003
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 9,579,359	\$ 6,354,416
Interest-bearing deposits	52,363,243	45,639,288
Federal funds sold	3,063,141	3,426,013
Total cash and cash equivalents	65,005,743	55,419,717
Accounts receivable, net	199,188	179,488
Securities available for sale	88,798,958	49,729,994
Federal Reserve & Federal Home Loan Bank Stock	1,192,200	949,000
Loans held for sale	35,000	141,200
Loans receivable, net	109,819,308	109,798,257
Other real estate owned	118,595	332,857
Premises and equipment, net	3,084,959	2,658,018
Other assets	2,480,071	2,307,104
	\$ 270,734,022	\$ 221,515,635
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 101,510,530	\$ 74,004,969
Interest-bearing	139,481,401	117,907,625
Total deposits	240,991,931	191,912,594
Note payable		291,665
Federal Home Loan Bank borrowings	12,000,000	12,000,000
Other liabilities	655,481	421,088
Total liabilities	253,647,412	204,625,347
Shareholders' equity		
Preferred stock, 200,000 shares authorized; none outstanding		
Common stock, \$.01 par value 10,000,000 shares authorized; 4,488,351 outstanding at March 31, 2004 and December 31, 2003	44,884	44,884
Additional paid in capital	15,568,593	15,568,593
Retained earnings	1,023,122	1,183,546
Accumulated other comprehensive income (loss), net of tax	450,011	93,265
Total shareholders' equity	17,086,610	16,890,288
	\$ 270,734,022	\$ 221,515,635

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See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
	2004	2003
Interest income		
Loans, including fees	\$ 1,999,705	\$ 2,416,390
Investment securities, taxable	499,232	78,482
Federal funds sold and overnight accounts	89,540	100,015
Total interest income	2,588,477	2,594,887
Interest expense		
Deposits	876,459	584,715
Other borrowings	163,042	265,670
Total interest expense	1,039,501	850,385
Net interest income	1,548,976	1,744,502
Provision for loan losses	75,000	80,000
Net interest income after provision for loan losses	1,473,976	1,664,502
Noninterest income		
Gain on sales of securities, net	2,330	71,652
Service charges on deposit accounts	30,529	52,594
Gain on sale of loans, net	9,641	24,377
Net gain (loss) on foreclosed assets and other income	58,970	37,481
Total noninterest income	101,470	186,104
Noninterest expense		
Compensation and employee benefits	937,674	746,808
Occupancy and equipment	270,806	223,030
Legal	49,625	44,852
Accounting and auditing	70,122	31,444
Data processing	48,202	29,161
Marketing and advertising	32,153	53,354
Loan and other real estate owned	123,279	130,186
Other noninterest expense	286,464	185,673
Total noninterest expense	1,818,325	1,444,508
Income (loss) from continuing operations before income taxes	(242,879)	406,098
Income tax expense (benefit)	(82,455)	138,236
Income (loss) from continuing operations	\$ (160,424)	\$ 267,862
Discontinued operations:		
Income from operations of discontinued mortgage subsidiary		4,041,119
Income tax		1,377,953
Income from discontinued operations		2,663,166
Net income (loss)	\$ (160,424)	\$ 2,931,028
Basic earnings (loss) per share from continuing operations	\$ (0.04)	\$ 0.06
Diluted earnings (loss) per share from continuing	(0.04)	0.06
Per share effect of discontinued operations		0.60

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Basic earnings (loss) per share	\$	(0.04)	\$	0.66
Diluted earnings (loss) per share	\$	(0.04)	\$	0.66
Comprehensive income	\$	196,322	\$	2,785,064

See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended March 31,

	2004	2003
Cash flows from operating activities		
Net cash provided (used) by operating activities of continuing operations	\$ 11,338	\$ (1,252,577)
Net cash (used) by operating activities of discontinued operations		(2,049,868)
Net cash provided (used) by operating activities	\$ 11,338	\$ (3,302,445)
Cash flows from investing activities		
Loan originations, net	(96,051)	5,948,431
Other real estate owned, net	214,262	(122,850)
Property and equipment expenditures, net	(488,141)	(90,875)
Purchase of securities available for sale	(44,208,937)	(34,837,500)
Proceeds from sales of securities available for sale	5,000,000	29,965,402
Proceeds from maturities and principal repayments of securities available for sale	609,083	5,414
Purchase of Federal Home Loan Bank stock	(243,200)	
Investing activities of discontinued operations		(372,014)
Net cash provided (used) by investing activities	(39,212,984)	496,008
Cash flows from financing activities		
Increase in deposits	49,079,337	24,774,275
Cash dividends		(444,024)
Decrease in note payable due on demand	(291,665)	(125,000)
Financing activities of discontinued operations		3,080,378
Net cash provided by financing activities	48,787,672	27,285,629
Net change in cash and cash equivalents	9,586,026	24,479,192
Cash and cash equivalents at beginning of period	55,419,717	57,361,935
Cash and cash equivalents at end of period	\$ 65,005,743	\$ 81,841,127

See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.

Notes to the Consolidated Financial Statements (Unaudited)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The unaudited consolidated financial statements as of and for the three month period ended March 31, 2004 and 2003, include the accounts of Pelican Financial Inc. (Pelican Financial) and its wholly owned subsidiary Pelican National Bank (Pelican National). All references herein to Pelican Financial include the consolidated results of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Washtenaw Group (Washtenaw) is included in the 2003 financial statements as a discontinued operation (See Note 3).

Segment Information:

Pelican Financial's continuing operations include one primary segment, retail banking. The retail-banking segment involves attracting deposits from the general public and using such funds to originate and purchase existing consumer, commercial, commercial real estate, residential construction, and single-family residential mortgage loans, from its five bank branches. Pelican National's primary revenues are comprised of net interest income from loans and investments, service charges on deposit accounts and gain on sales of loans.

Stock Compensation:

Compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

	Three Months Ended March 31,	
	2004	2003
Net income (loss) as reported	\$ (160,424)	\$ 2,931,028
Deduct: Stock-based compensation expense determined under fair value based method	3,443	9,054
Pro forma net income (loss)	\$ (163,867)	\$ 2,921,974
Basic earnings (loss) per share as reported	\$ (0.04)	\$ 0.66
Pro forma basic earnings (loss) per share	(0.04)	0.66
Diluted earnings (loss) per share	\$ (0.04)	\$ 0.66
Pro forma diluted earnings (loss) per share	(0.04)	0.66

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Due to the spin-off (see Note 3), options outstanding at December 31, 2003 included 10,735 options that were held by employees of Washtenaw. These options were cancelled during the first quarter of 2004 and replaced with options on stock of The Washtenaw Group. While employees and directors of Pelican Financial and Pelican National held the remaining options, the intrinsic value (market value per share, less option exercise price) of these options was significantly reduced by the effect of the spin-off. As a result of the spin-off, the number and exercise price of these options was modified in January 2004 to restore the options to substantially the same intrinsic value as existed at the date of the spin-off. Accordingly, the options outstanding at December 31, 2003 were replaced with 288,385 options at an exercise price of \$3.45. Since the options were modified to offset the effect of the spin-off on the stock price per share, no compensation expense has been recognized for the modification.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended March 31, 2004, are not necessarily indicative of the results which may be expected for the entire fiscal year or for any other period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2003 included in Pelican Financial's Form 10-K.

Certain prior year amounts have been reclassified to conform to the current presentation.

NOTE 3 SPIN-OFF

On December 31, 2003, Pelican Financial, the former parent company of Washtenaw, distributed all of the outstanding shares of Washtenaw to the holders of Pelican Financial common stock on a share for share basis (based on Pelican Financial shareholders of record on December 22, 2003). Upon completion of the distribution on December 31, 2003, Washtenaw is no longer a subsidiary of Pelican Financial. The consolidated statements of income and consolidated statements of cash flows, include the activity of Washtenaw as a discontinued operation during 2003.

During the periods presented in the financial statements, Pelican Financial did not incur any expenses on behalf of Washtenaw and no allocation of parent company expenses has been reflected in discontinued operations.

Following the distribution certain individuals continue to serve as officers of both Washtenaw and Pelican Financial. Washtenaw pays their salaries and all other compensation, and Pelican Financial reimburses Washtenaw, as part of the transitional services agreement, for time spent on Pelican Financial matters. Prior to 2004, Pelican did not reimburse Washtenaw for these services. Beginning in 2004, officers and other employees providing services to both companies maintain records of their time spent on the affairs of each company as a basis for determining the reimbursements.

NOTE 4 LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2004	December 31, 2003
Commercial, financial and agricultural	\$ 1,711,756	\$ 1,619,450

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Commercial real estate	45,017,533	43,850,625
Residential real estate	41,212,366	45,056,027
Consumer loans	23,322,925	20,602,267
	111,264,580	111,128,369
Deduct allowance for loan losses	(1,445,272)	(1,330,112)
Loans receivable, net	\$ 109,819,308	\$ 109,798,257

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Activity in the allowance for loan losses for the quarters ended March 31, are as follows:

	2004	2003
Balance at beginning of period	\$ 1,330,112	\$ 1,062,109
Provision for loan losses	75,000	80,000
Loans charged-off		