PELICAN FINANCIAL INC
Form 10-Q
August 13, 2004

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the Quarter Ended June 30, 2004

Or

o	**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	**58-2298215**
(State or Other Jurisdiction of Incorporation or Organization)	(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 to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes o No ý

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 July 31, 2004

Common stock, $0.01 Par value	4,488,351 Shares

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PELICAN FINANCIAL, INC.

Consolidated Balance Sheets

	June 30, 2004 (Unaudited)	December 31, 2003
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 7,366,929	$ 6,354,416
Interest-bearing deposits	3,514,574	45,639,288
Federal funds sold	27,436,120	3,426,013
Total cash and cash equivalents	38,317,623	55,419,717
Securities available for sale	107,434,443	49,729,994
Federal Reserve & Federal Home Loan Bank Stock	1,192,200	949,000
Loans held for sale		141,200
Loans receivable, net	105,180,322	109,798,257
Other real estate owned		332,857
Premises and equipment, net	3,479,880	2,658,018
Other assets	3,175,562	2,486,592
	$ 258,780,030	$ 221,515,635
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 72,475,879	$ 74,004,969
Interest-bearing	158,041,948	117,907,625
Total deposits	230,517,827	191,912,594
Note payable		291,665
Federal Home Loan Bank borrowings	12,000,000	12,000,000
Other liabilities	316,829	421,088
Total liabilities	242,834,656	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 June 30, 2004 and December 31, 2003	44,884	44,884
Additional paid in capital	15,568,593	15,568,593
Retained earnings	951,905	1,183,546
Accumulated other comprehensive income (loss), net of tax	(620,008)	93,265
Total shareholders equity	15,945,374	16,890,288
	$ 258,780,030	$ 221,515,635

See accompanying notes to the financial statements

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PELICAN FINANCIAL, INC.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Interest income				
Loans, including fees	$ 1,902,121	$ 2,468,711	$ 3,901,826	$ 4,885,101
Investment securities, taxable	771,950	125,779	1,271,182	204,261
Federal funds sold and overnight accounts	82,288	145,002	171,828	245,017
Total interest income	2,756,359	2,739,492	5,344,836	5,334,379
Interest expense				
Deposits	990,771	548,019	1,867,230	1,132,734
Other borrowings	162,814	267,374	325,856	533,044
Total interest expense	1,153,585	815,393	2,193,086	1,665,778
Net interest income	1,602,774	1,924,099	3,151,750	3,668,601
Provision for loan losses		290,000	75,000	370,000
Net interest income after provision for loan losses	1,602,774	1,634,099	3,076,750	3,298,601
Noninterest income				
Gain on sales of securities, net	529	57,708	2,859	129,360
Service charges on deposit accounts	35,961	47,615	66,490	100,209
Gain on sale of loans, net	10,117	46,427	19,758	70,804
Net gain on foreclosed assets and other income	10,425	23,041	69,395	60,522
Total noninterest income	57,032	174,791	158,502	360,895
Noninterest expense				
Compensation and employee benefits	929,236	1,136,682	1,866,910	1,883,490
Occupancy and equipment	316,393	252,735	587,199	475,765
Legal	57,825	157,507	107,450	202,359
Accounting and auditing	31,028	34,500	91,150	65,944
Data processing	43,430	28,506	91,632	57,667
Marketing and advertising	25,452	37,503	57,605	90,857
Loan and other real estate owned	78,360	176,313	201,639	306,499
Other noninterest expense	284,895	215,212	581,359	400,885
Total noninterest expense	1,766,619	2,038,958	3,584,944	3,483,466
Income (loss) from continuing operations before income taxes	(106,813)	(230,068)	(349,692)	176,030
Income tax expense (benefit)	(35,596)	(77,457)	(118,051)	60,779
Income (loss) from continuing operations	$ (71,217)	$ (152,611)	$ (231,641)	$ 115,251
Discontinued operations:				
Income from operations of discontinued mortgage subsidiary		5,198,287		9,239,406
Income tax		1,788,555		3,166,508
Income from discontinued operations		3,409,732		6,072,898
Net income (loss)	$ (71,217)	$ 3,257,121	$ (231,641)	$ 6,188,149
Basic earnings (loss) per share from continuing operations	$ (0.02)	$ (0.03)	$ (0.05)	$ 0.03

Diluted earnings (loss) per share from continuing operations		(0.02)		(0.03)		(0.05)		0.03
Per share effect of discontinued operations				0.76				1.36
Basic earnings (loss) per share	$	(0.02)	$	0.73	$	(0.05)	$	1.39
Diluted earnings (loss) per share	$	(0.02)	$	0.73	$	(0.05)	$	1.39
Comprehensive income	$	(1,141,236)	$	3,394,568	$	(944,914)	$	6,179,632

See accompanying notes to the financial statements

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PELICAN FINANCIAL, INC.

Consolidated Statements of Cash Flows (Unaudited)

	2004	2003
Cash flows from operating activities		
Net cash provided (used) by operating activities of continuing operations	$ (86,197)	$ 18,576,632
Net cash (used) by operating activities of discontinued operations		(77,794,332)
Net cash provided (used) by operating activities	$ (86,197)	$ (59,217,700)
Cash flows from investing activities		
Loan originations, net	4,542,935	(59,449)
Sale of real estate owned	332,857	
Property and equipment expenditures, net	(944,768)	(198,427)
Purchase of securities available for sale	(75,973,646)	(44,775,000)
Proceeds from sales of securities available for sale	13,000,000	42,457,589
Proceeds from maturities and principal repayments of securities available for sale	3,956,357	10,127
Purchase and redemption of Federal Home Loan Bank stock	(243,200)	100,000
Investing activities of discontinued operations		15,678,454
Net cash provided (used) by investing activities	(55,329,465)	13,213,294
Cash flows from financing activities		
Increase in deposits	38,605,233	43,252,505
Cash dividends		(888,131)
Decrease in note payable due on demand	(291,665)	(250,000)
Proceeds from exercise of stock options		6,233
Financing activities of discontinued operations		66,024,053
Net cash provided by financing activities	38,313,568	108,144,660
Net change in cash and cash equivalents	(17,102,094)	62,140,254
Cash and cash equivalents at beginning of period	55,419,717	57,361,935
Cash and cash equivalents at end of period	$ 38,317,623	$ 119,502,189
Non-cash investing activities		
Decrease in real estate owned, net		(920,236)

See accompanying notes to the 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 and six month periods ended June 30, 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).

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 June 30,			
		2004		**2003**
Net income (loss) as reported	$	(71,217)	$	3,257,121
Stock-based compensation expense (benefit), net of forfeitures, using fair value method		3,825		(9,778)
Pro forma net income (loss)	$	(75,042)	$	3,266,899
Basic earnings (loss) per share as reported	$	(0.02)	$	0.73
Pro forma basic earnings (loss) per share		(0.02)		0.74
Diluted earnings (loss) per share	$	(0.02)	$	0.73
Pro forma diluted earnings (loss) per share		(0.02)		0.73

	Six Months Ended June 30,			
		2004		**2003**
Net income (loss) as reported	$	(231,641)	$	6,188,149
Stock-based compensation expense (benefit), net of forfeitures, using fair value method		7,268		(724)
Pro forma net income (loss)	$	(238,909)	$	6,188,873
Basic earnings (loss) per share as reported	$	(0.05)	$	1.39

Pro forma basic earnings (loss) per share		(0.05)		1.39
Diluted earnings (loss) per share	$	(0.05)	$	1.39
Pro forma diluted earnings (loss) per share		(0.05)		1.39

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 U.S. generally accepted accounting principles. 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 June 30, 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 2003 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:

	June 30, 2004	December 31, 2003
Commercial, financial and agricultural	$ 1,972,615	$ 1,619,450

Commercial real estate		40,713,052		43,850,625
Residential real estate		39,515,954		45,056,027
Consumer loans		24,206,754		20,602,267
		106,408,375		111,128,369
Deduct allowance for loan losses		(1,228,053)		(1,330,112)
Loans receivable, net	$	105,180,322	$	109,798,257

Activity in the allowance for loan losses for the quarter ended June 30, are as follows:

		2004		2003
Balance at beginning of period	$	1,445,272	$	1,046,243
Provision for loan losses				290,000
Loans charged-off		(242,143)		(208,106)
Recoveries		24,924		
Balance at end of period	$	1,228,053	$	1,128,137

Activity in the allowance for loan losses for the six months ended June 30, are as follows:

		2004		2003
Balance at beginning of period	$	1,330,112	$	1,062,109
Provision for loan losses		75,000		370,000
Loans charged-off		(242,143)		(314,110)
Recoveries		65,084		10,138
Balance at end of period	$	1,228,053	$	1,128,137

NOTE 5 - EARNINGS PER SHARE

The following summarizes the computation of basic and diluted earnings per share.

		Three Months Ended June 30, 2004		Three Months Ended June 30, 2003
Basic earnings (loss) per share				
Loss from continuing operations	$	(71,217)	$	(152,611)
Income from discontinued operations				3,409,732
Net income (loss) applicable to common stock		(71,217)		3,257,121
Weighted average shares outstanding		4,488,351		4,440,930
Loss from continuing operations per share	$	(0.02)	$	(0.03)
Income from discontinued operations per share				0.76
Basic earnings (loss) per share	$	(0.02)	$	0.73
Diluted earnings (loss) per share				
Loss from continuing operations	$	(71,217)	$	(152,611)
Income from discontinued operations				3,409,732
Net income (loss) applicable to common stock		(71,217)		3,257,121
Weighted average shares outstanding		4,488,351		4,440,930
Dilutive effect of assumed exercise of stock options				37,560
Diluted average shares outstanding		4,488,351		4,478,490
Loss from continuing operations per share	$	(0.02)	$	(0.03)
Income from discontinued operations per share				0.76
Diluted earnings (loss) per share	$	(0.02)	$	0.73

		Six Months Ended June 30, 2004		Six Months Ended June 30, 2003
Basic earnings (loss) per share				
Income (loss) from continuing operations	$	(231,641)	$	115,251
Income from discontinued operations				6,072,898
Net income (loss) applicable to common stock		(231,641)		6,188,149
Weighted average shares outstanding		4,488,351		4,440,560
Income (loss) from continuing operations per share	$	(0.05)	$	0.03
Income from discontinued operations per share				1.36
Basic earnings (loss) per share	$	(0.05)	$	1.39
Diluted earnings (loss) per share				

Income (loss) from continuing operations	$	(231,641)	$	115,251
Income from discontinued operations				6,072,898
Net income (loss) applicable to common stock		(231,641)		6,188,149
Weighted average shares outstanding		4,488,351		4,440,560
Dilutive effect of assumed exercise of stock options				22,968
Diluted average shares outstanding		4,488,351		4,463,528
Income (loss) from continuing operations per share	$	(0.05)	$	0.03
Income from discontinued operations per share				1.36
Diluted earnings (loss) per share	$	(0.05)	$	1.39

Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Certain information in this Form 10-Q may constitute forward-looking information that involves risks and uncertainties that could cause actual results to differ materially from those estimated. Persons are cautioned that such forward-looking statements are not guarantees of future performance and are subject to various factors that could cause actual results to differ materially from those estimated. These factors include, but are not limited to, changes in general economic and market conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, demand for loan and deposit products and the development of an interest rate environment that adversely affects the interest rate spread or other income from Pelican Financial s investments and operations.

OVERVIEW

Pelican Financial currently serves as the holding company of Pelican National and until the distribution on December 31, 2003, Washtenaw Mortgage Company. Pelican National business activities involves attracting deposits from the general public and using these funds to originate consumer, commercial, commercial real estate, residential construction, and single-family residential mortgage loans, from its offices in Naples, Fort Myers (two), Bonita Springs and San Carlos, Florida. A sixth branch in Cape Coral is scheduled to open in July, 2004.

Pelican Financial s earnings are primarily dependent upon three sources: net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities; fee income from customers; and gains realized on sales of loans. These revenues are in turn significantly affected by factors such as changes in prevailing interest rates and in the yield curve (that is, the difference between prevailing short-term and long-term interest rates).

The earnings performance of the continuing operations of Pelican Financial is a concern to management. Management is attempting to improve this by a variety of factors including liquidity management, cross selling of products and managing operating expenses. Pelican National achieved a small operating profit during the quarter ended June 30, 2004 which was offset by various holding company expenses resulting in an overall net loss.

Management is also focusing on increasing core deposits to allow the opportunity to cross sell other products and services. As part of this objective, Pelican National has aggressively marketed a money market deposit account in its local markets. The account pays an interest rate higher than the majority of the local competitors.

EARNINGS PERFORMANCE

Pelican Financial reported a net loss from continuing operations of $71,000 for the quarter ended June 30, 2004 compared to a net loss of $152,000 for the quarter ended June 30, 2003. Basic and diluted earnings per share from continuing operations was $0.02 and $0.03 loss per share for the three months ended June 30, 2004 and 2003 respectively.

For the six months ended June 30, 2004 Pelican Financial reported a net loss from continuing operations of $232,000 compared to net income of $115,000 for the same period in 2003. Basic and diluted earnings per share were a loss of $0.05 for the six months ended June 30, 2004 compared to earnings of $0.03 for the six months ended June 30, 2003.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $1.6 million and $1.9 million for the three months ended June 30, 2004 and 2003, respectively. For the six months ended June 30, 2004 and 2003 net interest income was $3.2 million and $3.7 million respectively. Net interest income decreased primarily as a result of the decrease in the yield on interest-earning assets. This was due to the payoff of high interest rate loans being replaced with lower yielding loans and investment securities. This was partially offset by a decrease in the cost of funds due to lower cost money market deposits replacing higher cost time deposits and other borrowings. In addition, the custodial deposits from Washtenaw negatively impacted net interest margin. While Pelican National was able to earn a positive spread, the volatility in the balance of the accounts results in Pelican National investing the Washtenaw deposits primarily in federal funds sold and investment securities. The increase in the federal funds sold rate by the Federal Reserve Board is expected to improve the yield earned by Pelican National and improve net interest margin.

Average Balance Sheet

The following tables summarize the average yields earned on interest-earning assets and the average rates paid on interest-bearing liabilities for Pelican Financial.

	Three months ended June 30,					
	2004			2003		
	Average Volume	Interest	Yield/Cost	Average Volume	Interest	Yield/Cost
ASSETS						
Interest-earning assets:						
Federal funds sold	$ 32,906	$ 82	1.00%	$ 46,383	$ 145	1.25%
Securities	103,454	772	2.98	9,760	126	5.16
Loans held for sale				17,817	240	5.39
Loans receivable	108,366	1,902	7.02	108,848	2,228	8.19
Total interest-earning assets	244,726	2,756	4.50	182,208	2,739	5.99
Non-earning assets	13,561			31,327		
Total assets	$ 258,287			$ 214,135		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
NOW accounts	$ 1,342	3	0.89	$ 1,494	3	0.80
Money market accounts	104,062	553	2.13	13,406	48	1.43
Savings deposits	8,714	30	1.38	12,840	44	1.37
Time deposits	37,198	405	4.36	47,809	453	3.79
Other borrowings	12,000	163	5.43	18,594	267	5.74
Total interest-bearing liabilities	163,316	1,154	2.83	94,143	815	3.46
Noninterest-bearing liabilities	78,812			103,544		
Stockholders equity	16,159			16,448		
Total liabilities and stockholders equity	$ 258,287			$ 214,135		
Interest rate spread			1.67%			2.53%
Net interest income and net interest margin		$ 1,602	2.62%		$ 1,924	4.21%

	Six months ended June 30,					
	2004			2003		
	Average Volume	Interest	Yield/Cost	Average Volume	Interest	Yield/Cost
ASSETS						
Interest-earning assets:						
Federal funds sold	$ 34,556	$ 171	0.99%	$ 38,952	$ 245	1.26%
Securities	84,251	1,272	3.02	7,957	204	5.13
Loans held for sale	78	2	5.13	13,997	382	5.46
Loans receivable	109,751	3,900	7.11	112,213	4,503	8.03
Total interest-earning assets	228,636	5,345	4.68	173,119	5,334	6.16
Non-earning assets	11,897			26,376		
Total assets	$ 240,533			$ 199,495		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
NOW accounts	$ 1,521	6	0.81	$ 1,463	7	0.89
Money market accounts	91,902	982	2.14	10,579	81	1.53
Savings deposits	9,280	64	1.37	12,854	102	1.59
Time deposits	37,650	815	4.33	48,176	943	3.92
Other borrowings	12,000	326	5.43	18,657	533	5.71
Total interest-bearing liabilities	152,353	2,193	2.88	91,729	1,666	3.63
Noninterest-bearing liabilities	71,702			92,472		
Stockholders equity	16,478			15,294		
Total liabilities and stockholders equity	$ 240,533			$ 199,495		
Interest rate spread			1.80			2.53
Net interest income and net interest Margin		$ 3,152	2.76%		$ 3,668	4.24%

Net interest income represents the excess of income on interest-earning assets over interest expense on interest bearing liabilities. The principal interest-earning assets are federal funds sold, investment securities and loans receivable. Interest-bearing liabilities primarily consist of FHLB borrowings, time deposits, interest-bearing checking accounts (NOW accounts), savings, deposits and money market accounts. Funds attracted by these interest-bearing liabilities are invested in interest-earning assets. Accordingly, net interest income depends upon the volume of average interest-earning assets and average interest bearing liabilities and the interest rates earned or paid on them.

Noninterest Income

Noninterest income for the three months ended June 30, 2004 was $57,000 compared to $175,000 for the same period in 2003, a decrease of $118,000 or 67%. This decrease was primarily due to the decrease in gain on sale of securities of approximately $57,000; the decrease in gain on sale of loans of $36,000; the $12,000 decrease in service charges on deposit accounts and the decrease in the net gain on foreclosed assets and other income of $13,000. The decrease in the gain on sale of securities resulted from the reduction in the sale of securities for liquidity purposes. The decrease in gain on sales loans, net resulted from the reduction in the origination and sale of loans during 2004. The decrease in service charges on deposit accounts resulted from a reduction in insufficient fund charges on checking accounts.

For the six months ended June 30 2004, noninterest income was $159,000 compared to $361,000 for the same period in 2003. The decrease of $202,000, or 56%, was primarily the result of fluctuations in operations as described above.

Noninterest Expense

Total noninterest expense for the three months ended June 30, 2004 was $1.8 million, compared to $2.0 million for the same period in 2003, a decrease of approximately $200,000 or 10%. The decrease is primarily related to the cost of employee compensation and benefits that decreased $207,000; legal expenses that decreased $100,000 and loan and other real estate owned that decreased $98,000. The decrease in employee compensation was the result a $300,000 severance payment in 2003 offset by the costs of additional staff for the new branch in Fort Myers, Florida and existing branches as well as to increase the loan sales and operations staff. Legal expenses decreased due to work performed as a result of the services provided related to the spin-off of Washtenaw during 2003. The decreases were offset by occupancy and equipment expense that increased $64,000 and other expense that increased $70,000. The increases were due primarily to the increase in number of employees and branches.

For the six months ended June 30, 2004, noninterest expense was $3.6 million compared to $3.5 million for the same period in 2003. The increase of $101,000 or 3% was also attributable to the aforementioned expenses.

BALANCE SHEET ANALYSIS

The following is a discussion of the consolidated balance sheet of Pelican Financial.

ASSETS

At June 30, 2004, total assets of Pelican Financial equaled $258.8 million compared to $221.5 million at December 31, 2003, an increase of $37.3 million or 17%. The increase is primarily due to the increase in securities available for sale offset by the decrease in cash and cash equivalents and loans receivable.

Investment Securities

Pelican National primarily utilizes investments in securities for liquidity management and as a method of deploying excess funding not utilized for investment in loans. Pelican National has invested primarily in U. S. government and agency securities and U. S. government sponsored agency issued mortgage-backed securities. As required by SFAS No. 115, Pelican National classifies securities as held-to-maturity, available-for-sale, or trading. At June 30, 2004 and at December 31, 2003, all of the investment securities held in Pelican National s investment portfolio were classified as available for sale.

The following table contains information on the carrying value of Pelican National s investment portfolio at the dates indicated. At June 30, 2004, the market value of Pelican National s investment portfolio totaled $108.6 million. During the periods indicated and except as otherwise noted, Pelican National had no securities of a single issuer that exceeded 10% of stockholders equity.

	(dollars in thousands)			
	At June 30, 2004		**At December 31, 2003**	
U. S. Government agency	$	66,850	$	25,403
Mortgage-backed securities		40,585		24,327
Federal Reserve Bank and Federal Home Loan Bank Stock		1,192		949
Total investment securities	$	108,627	$	50,679

The increase in securities available for sale is the result of managements attempt to maximize the yield earned on the additional deposits at Pelican National. Management is using the investment portfolio as an alternative to investing in loans receivable due to new loan originations trailing deposit growth.

Cash and Cash Equivalents

Cash and cash equivalents were $38.3 million at June 30, 2004 compared to $55.4 million at December 31, 2003. The decrease of $17.1 million or 31% was primarily the result of a $5.1 million decrease in deposits attributed to Washtenaw maintaining all of the investor accounts related to its servicing portfolio at Pelican National and a larger percentage of these deposits being invested in investment securities. This was offset by an increase in money market account deposits resulting from a program Pelican National Bank began offering in August, 2003 that has raised the amount of core deposits at Pelican National. The balances at December 31, 2003 increased as loan payoffs from Washtenaw s servicing portfolio decreased. Due to the fluctuation in balances of these accounts, Pelican National typically invested a substantial portion of the deposits in interest-bearing deposits and federal funds sold. These increases were partially offset by the use of cash to purchase securities available for sale.

Loans Receivable

Total loans receivable were $105.2 million at June 30, 2004 compared to $109.8 million at December 31, 2003. The slight decrease in balance is the result of new loan production being offset by loan payoffs and principal reductions.

New loan production for the three and six months ended June 30, 2004 was $16.2 million and $28.3 million, respectively.

The following table contains selected data relating to the composition of Pelican Financial s loan portfolio by type of loan at the dates indicated. This table includes mortgage loans held for sale and mortgage loans held for investment. Pelican Financial had no concentration of loans exceeding 10% of total loans that are not otherwise disclosed below.

	June 30, 2004		December 31, 2003	
	Amount	Percent	Amount	Percent
Real estate loans:				
Residential, one to four units	$ 39,245	36.99%	$ 44,094	39.83%
Commercial and industrial real estate	39,272	37.01	43,151	38.98
Construction	1,400	1.32	1,327	1.19
Total real estate loans	79,917	75.32	88,572	80.00
Other loans:				
Business, commercial	1,973	1.86	1,534	1.39
Automobile	415	0.39	478	0.43
Boat	17,538	16.53	14,578	13.17
Other consumer	6,253	5.90	5,546	5.01
Total other loans	26,179	24.68	22,136	20.00
Total gross loans	106,096	100.00%	110,708	100.00%
Unearned fees, premiums and discounts, net	312		420	
Allowance for loan losses	(1,228)		(1,330)	
Total Loans net	$ 105,180		$ 109,798	

Asset Quality

Pelican Financial is exposed to certain credit risks related to the value of the collateral that secures loans held in its portfolio and the ability of borrowers to repay their loans during the term thereof. Pelican Financial s senior officers closely monitor the loan and real estate owned portfolios for potential problems on a continuing basis and report to the Board of Directors of Pelican Financial at regularly scheduled meetings. These officers regularly review the classification of loans and the allowance for losses. Pelican Financial also has a quality control department, the function of which is to provide the Board of Directors with an independent ongoing review and evaluation of the quality of the process by which lending assets are generated.

The following table sets forth certain information on nonperforming loans and other real estate owned, the ratio of such loans and other real estate owned to total loans and total assets as of the dates indicated.

	At June 30, 2004	At June 30, 2003	At December 31, 2003
	(Dollars in thousands)		
Nonaccrual loans	$ 219	$ 871	$ 455
Loans past due 90 days or more but not on nonaccrual		88	
Total nonperforming loans	219	959	455
Other real estate owned		996	333
Total nonperforming assets	$ 219	$ 1,955	$ 788
Total nonperforming assets to total assets	0.08%	1.54%	0.36%
Allowance for loan losses to nonperforming loans	560.73%	117.62%	292.31%
Nonperforming loans to total assets	0.08%	0.41%	0.21%

Provision and Allowance for Loan Losses

The allowance for loan losses as of June 30, 2004 was $1.2 million, or 1.15% of total portfolio loans, compared to $1.3 million, or 1.20% of total loans at December 31, 2003. Our allowance for loan losses is maintained at a level management considers appropriate based upon our regular, quarterly assessments of the probable estimated losses inherent in the loan portfolio. Our methodology for measuring the appropriate level of allowance relies on several key elements, which include specific allowances for identified problem loans, general allocations for graded loans, and general allocations based on historical trends for pools of similar un-graded loans.

Specific allowances are established in cases where senior credit management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired. The specific allowance is determined by methods prescribed by SFAS No. 114, Accounting by Creditors for Impairment of a Loan .

A general allocation on commercial and commercial real estate loans not considered impaired is calculated by applying loss factors to outstanding loans based on the internal risk grade of such loans. Loans are assigned a loss allocation factor for each loan classification category. The lower the grading assigned to a loan category, the greater the allocation percentage that is applied. Changes in risk grade of both performing and nonperforming loans affect the amount of the allocation. Loss factors are based on our loss experience and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the analysis date.

Groups of homogeneous loans, such as residential real estate and consumer loans, receive an allowance allocation based on loss trends. We use historical loss trends based on our experience in determining an adequate allowance for these pools of loans. General economic and business conditions, credit quality trends, seasoning of the portfolios and recent loss experience are conditions considered in connection with allocation factors for these similar pools of loans.

During the three and six months ended June 30, 2004 the allowance for loan losses decreased by $217,000 and $102,000. This was due to the reduction in the provision for loan losses and the charge-offs of several impaired loans. The decrease in the allowance was deemed appropriate due to a decrease in loans on the banks criticized asset report and a decrease in overall loan portfolio.

Criticized assets decreased from $10.6 million at March 31, 2004 to $8.3 million at June 30, 2004. These loans represent loans with one or more underwriting deficiencies as identified by bank management or the bank s regulatory agency. Management is in the process of corrective actions on the criticized loans in an effort to improve the rating on the criticized assets. Criticized assets may or may not be delinquent.

LIABILITIES

At June 30, 2004, the total liabilities of Pelican Financial were $242.8 million as compared to $204.6 million at December 31, 2003, an increase of $38.2 million or 19%. This increase was primarily due to an increase in deposits.

Deposits

Total deposits were $230.5 million at June 30, 2004 compared to $191.9 million at December 31, 2003, representing an increase of $38.6 million or 20%. The increase was the result of a focus on developing new deposit relationships with customers. This was achieved by maintaining the yield paid on its money market account to one of the highest in the local market area. This resulted in an increase in core deposits of $44.7 million. This was offset by a decrease in Washtenaw s deposits attributable to its servicing portfolio by $5.1 million, from $63.5 million at December 31, 2003 to $58.4 million at June 30, 2004, due to decreased loan payoffs. The loan payoffs are remitted to Washtenaw s investors within five business days in the subsequent month. This was further offset by a reduction of approximately $2 million in certificate of deposits obtained from brokers and the Internet. Pelican National is attempting to reduce the reliance on this source of funds in the future and currently is allowing all certificates of deposits obtained in this manner to mature without replacing the funds. At June 30, 2004, there were $7.9 million in deposits obtained from brokers and the Internet.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Management

The objective of liquidity management is to ensure the availability of sufficient resources to meet all financial commitments and to capitalize on opportunities for business expansion. Liquidity management addresses the ability to meet deposit withdrawals either on demand or by contractual maturity, to repay other borrowings as they mature and to make new loans and investments as opportunities arise.

Pelican Financial s source of funds is dividends paid by Pelican National. Pelican National s sources of funds include net increases in deposits, principal and interest payments on loans, proceeds from sales of loans held for sale, proceeds from maturities and sales of securities, calls of available for sale securities and Federal Home Loan Bank borrowings.

The liquidity reserve may consist of cash on hand, cash on demand deposits with other correspondent banks, and other investments and short-term marketable securities as determined by the rules of the Office of the Comptroller of the Currency (OCC), such as federal funds sold and United States securities and securities guaranteed by the United States. At June 30, 2004, Pelican National had a liquidity ratio of 60%. This is calculated by adding all of Pelican National s cash, unpledged securities and federal funds sold and dividing by its total liabilities. Pelican National has available to it several contingent sources of funding. These include the ability to raise funds through brokered deposits, lines of credit and the sale of loans or participations

Capital Resources

The Board of Governors of the Federal Reserve System s (FRB) capital adequacy guidelines mandate that minimum ratios be maintained by bank holding companies such as Pelican Financial. Pelican National is governed by capital adequacy guidelines mandated by the OCC.

Based upon their respective regulatory capital ratios at June 30, 2004 Pelican Financial and Pelican National are both well capitalized, based upon the definitions in the regulations issued by the FRB and the OCC setting forth the general capital requirements mandated by the Federal Deposit Insurance Corporation Improvement Act of 1991.

The table below indicates the regulatory capital ratios of Pelican Financial and Pelican National and the regulatory categories for a well capitalized and adequately capitalized bank under the regulatory framework for prompt corrective action (all three capital ratios) at June 30, 2004 and December 31, 2003, respectively:

	June 30, 2004		December 31, 2003		Required to be	
	Pelican National	Pelican Financial	Pelican National	Pelican Financial	Adequately Capitalized	Well Capitalized
Total Equity Capital to risk-weighted assets	14.29%	15.10%	13.66%	15.50%	8.00%	10.00%
Tier 1 Capital to risk-weighted assets	13.24%	14.06%	12.51%	14.36%	4.00%	6.00%
Tier 1 Capital to adjusted total assets	6.03%	6.45%	7.20%	7.96%	4.00%	5.00%

Item 3: Quantitative and Qualitative Disclosure About Market Risk

For a discussion of Pelican Financial s asset/liability management policies as well as the potential impact of interest rate changes upon the market value of Pelican Financial s portfolio, see Pelican Financial s Annual Report to Shareholders and Form 10-K. Management believes that there has been no material change in Pelican Financial s asset/liability position or the market value of Pelican Financial s portfolio since December 31, 2003.

Item 4: Controls and Procedures

Pelican Financial, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that Pelican Financial s disclosure controls and procedures are effective in reaching a reasonable level of assurance that information required to be disclosed by Pelican Financial in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission s rules and forms.

The principal executive officer and principal financial officer also conducted an evaluation of internal control over financial reporting (Internal Control) to determine whether any changes in Internal Control occurred during the fiscal quarter that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, the only changes identified were the resignation from Pelican National of the chief financial officer in April 2004. His duties were reassigned to the other members of senior management. Also, president announced his retirement effective in September 2004. In August 2004, Pelican National appointed a new president.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Pelican Financial have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Pelican Financial conducts periodic evaluations to enhance, where necessary its procedures and controls.

Part II. Other Information

Item 1. Legal Proceedings

There have been no material changes to the pending legal proceedings to which Pelican Financial is a party since the filing of the registrant s Form 10-K.

Item 2. Changes in Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Submission of Matters to a Vote of Shareholders

Pelican Financial held its 2004 Annual Meeting of Shareholders on April 22, 2004. The following directors were elected at the annual meeting to serve a three year term.

	For	Against	Abstentions
Robert C. Huffman	3,784,166	101,462	0
Howard M. Nathan	3,784,166	101,462	0
Scott D. Miller	3,784,166	37,462	0

A vote was taken to ratify the appointment of Crowe Chizek and Company LLC as independent auditors for the fiscal year ending December 31, 2004. The appointment was approved by the following votes: 3,868,584 for, 3,862 against, and 24,797 abstained.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification 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

April 23, 2004 to announce financial results of quarter ended March 31, 2004.

Pelican Financial, Inc. and Subsidiaries

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.

Date: August 13, 2004	/s/ Charles C. Huffman Charles C. Huffman President and Chief Executive Officer
Date: August 13, 2004	/s/ Howard M. Nathan Howard M. Nathan Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)