

PELICAN FINANCIAL INC
Form 10-Q
November 13, 2002

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 September 30, 2002

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
(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)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 October 31, 2002

Common stock, \$0.01 Par value	4,440,241 Shares
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PELICAN FINANCIAL, INC.

Consolidated Balance Sheets

	September 30, 2002 (Unaudited)	December 31, 2001
ASSETS		
Cash and cash equivalents		
Cash and demand deposits due from banks	\$ 7,552,562	\$ 2,791,630
Federal funds sold	49,380,781	14,093,000
Total cash and cash equivalents	56,933,343	16,884,630
Accounts receivable, net	6,950,846	7,420,360
Securities available for sale	2,071,469	5,085,142
Federal Reserve & Federal Home Loan Bank Stock	1,330,000	1,070,000
Loans held for sale	153,896,944	231,514,620
Loans receivable, net	103,812,837	94,460,119
Mortgage servicing rights, net	13,665,628	14,832,785
Other real estate owned	1,935,914	199,687
Premises and equipment, net	2,080,781	1,394,353
Other assets	2,161,407	1,691,898
	\$ 344,839,169	\$ 374,553,594
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 71,907,801	\$ 36,195,274
Interest-bearing	78,700,651	67,277,136
Total deposits	150,608,452	103,472,410
Due to bank	27,803,469	32,604,902
Notes payable	45,464,111	71,980,487
Repurchase agreements	55,549,370	109,594,673
Federal Home Loan Bank borrowings	18,000,000	16,000,000
Other liabilities	17,616,456	12,717,415
Total liabilities	315,041,858	346,369,887
Shareholders equity		
Preferred stock, 200,000 shares authorized; none outstanding		
Common stock, \$.01 par value 10,000,000 shares authorized; 4,440,241 and 4,393,194 outstanding at September 30, 2002 and December 31, 2001, respectively	44,402	43,932
Additional paid in capital	15,345,573	15,187,942
Retained earnings	14,391,665	12,951,072
Accumulated other comprehensive income net of tax	15,671	761
Total shareholders equity	29,797,311	28,183,707
	\$ 344,839,169	\$ 374,553,594

See accompanying notes to financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Interest income				
Loans, including fees	\$ 4,872,986	\$ 6,091,915	\$ 15,249,280	\$ 17,564,110
Investment securities	85,206	115,215	377,446	307,331
Federal funds sold and overnight accounts	112,174	16,551	231,677	187,184
Total interest income	5,070,366	6,223,681	15,858,403	18,058,625
Interest expense				
Deposits	845,392	971,508	2,587,961	3,040,164
Other borrowings	1,485,750	2,362,177	4,421,523	7,376,406
Total interest expense	2,331,142	3,333,685	7,009,484	10,416,570
Net interest income	2,739,224	2,889,996	8,848,919	7,642,055
Provision for loan losses	40,000	150,000	270,000	412,000
Net interest income after provision for loan losses	2,699,224	2,739,996	8,578,919	7,230,055
Noninterest income				
Gain on sales of securities	22,698		72,768	
Service charges on deposit accounts	38,602	28,606	110,724	76,161
Servicing income	1,621,425	670,607	4,541,042	1,850,093
Gain on sales of mortgage servicing rights and loans, net	5,680,457	5,360,481	17,473,914	15,608,276
Other income	310,470	352,510	530,092	1,226,854
Total noninterest income	7,673,652	6,412,204	22,728,540	18,761,384
Noninterest expense				
Compensation and employee benefits	3,236,691	4,445,909	11,249,231	11,908,484
Occupancy and equipment	550,028	424,155	1,375,014	1,204,132
Telephone	138,210	117,686	427,390	421,949
Postage	155,159	158,604	434,920	480,367
Amortization of mortgage servicing rights	1,137,893	569,054	3,264,755	1,409,325
Mortgage servicing rights valuation adjustment	5,009,077	680,064	7,890,600	1,615,378
Other noninterest expense	1,494,938	1,497,114	4,652,073	3,763,477
Total noninterest expense	11,721,996	7,892,586	29,293,983	20,803,112
Income (loss) before income taxes and cumulative effect of change in accounting	(1,349,120)	1,259,614	2,013,476	5,188,327

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principle				
Provision for income taxes	(431,654)	425,159	719,970	1,778,439
Income (loss) before cumulative effect of change in accounting principle	(917,466)	834,455	1,293,506	3,409,888
Cumulative effect of change in accounting principle, net of tax	413,449		413,449	(420,495)
Net income (loss)	\$ (504,017)	\$ 834,455	\$ 1,706,955	\$ 2,989,393
Basic and diluted earnings (loss) per share before cumulative effect of change in accounting principle	\$ (0.20)	\$ 0.19	\$ 0.29	\$ 0.76
Per share cumulative effect of change in accounting principle	0.09		0.09	(0.09)
Basic and diluted earnings (loss) per share	\$ (0.11)	\$ 0.19	\$ 0.38	\$ 0.67
Comprehensive income (loss)	\$ (510,974)	\$ 872,537	\$ 1,721,865	\$ 3,044,373

See accompanying notes to financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended September 30,

	2002	2001
Cash flows from operating activities		
Net cash provided (used) by operating activities	\$ 74,273,402	\$ (88,723,853)
Cash flows from investing activities		
Loans receivable originations, net	(9,622,718)	(18,018,676)
Proceeds from sales of mortgage servicing rights	11,692,926	35,244,666
Other real estate owned, net	(1,736,227)	(112,981)
Property and equipment expenditures, net	(1,084,529)	(648,485)
Purchase of securities available for sale	(12,000,000)	(4,560,000)
Proceeds from sales of securities available for sale	10,743,143	
Proceeds from maturities and principal repayments of securities available for sale	4,378,047	4,251,151
Purchase of Federal Reserve Stock	(260,000)	(100,000)
Net cash provided by investing activities	2,110,642	16,055,675
Cash flows from financing activities		
Increase in deposits	47,136,042	12,081,884
Increase (decrease) in due to bank	(4,801,433)	13,816,832
Increase (decrease) in notes payable	(26,516,376)	25,979,870
Advances on Federal Home Loan Bank borrowings	4,000,000	2,000,000
Repayment on Federal Home Loan Bank borrowings	(2,000,000)	
Exercise of stock options	158,101	3,586
Cash dividends	(266,362)	
Increase (decrease) in repurchase agreements	(54,045,303)	15,943,318
Net cash provided (used) by financing activities	(36,335,331)	69,825,490
Net change in cash and cash equivalents	40,048,713	(2,842,688)
Cash and cash equivalents at beginning of period	16,884,630	10,174,294
Cash and cash equivalents at end of period	\$ 56,933,343	\$ 7,331,606

See accompanying notes to financial statements

PELICAN FINANCIAL, INC.

Notes to the Consolidated Financial Statements (Unaudited)

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The unaudited consolidated financial statements as of and for the three and nine month periods ended September 30, 2002 and 2001, include the accounts of Pelican Financial Inc. (Pelican Financial) and its wholly owned subsidiaries Pelican National Bank (Pelican National) and Washtenaw Mortgage Company (Washtenaw) for all periods. All references herein to Pelican Financial include the consolidated results of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 September 30, 2002, 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, 2001 included in Pelican Financial s Form 10-K.

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

NOTE 3 LOANS RECEIVABLE

Loans receivable consist of the following:

	September 30, 2002	December 31, 2001
Commercial, financial and agricultural	\$ 882,395	\$ 703,468
Commercial real estate	58,381,616	34,923,223
Residential real estate	42,946,845	55,951,132
Installment loans	2,689,006	3,738,512
	104,899,862	95,316,335
Deduct: allowance for loan losses	(1,087,025)	(856,216)

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Loans receivable, net \$ 103,812,837 \$ 94,460,119

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

	2002	2001
Balance at beginning of period	\$ 1,056,893	\$ 690,279
Provision for loan losses	40,000	150,000
Loans charged-off	(15,861)	(68,270)
Recoveries	5,993	
Balance at end of period	\$ 1,087,025	\$ 772,009

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Activity in the allowance for loan losses for the nine months ended September 30, are as follows:

	2002	2001
Balance at beginning of period	\$ 856,216	\$ 507,513
Provision for loan losses	270,000	412,000
Loans charged-off	(47,067)	(148,989)
Recoveries	7,876	1,485
Balance at end of period	\$ 1,087,025	\$ 772,009

NOTE 4 - EARNINGS PER SHARE

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

	Three Months ended September 30, 2002	Three Months ended September 30, 2001
Basic earnings (loss) per share		
Net income (loss)	\$ (504,017)	\$ 834,455
Weighted average shares outstanding	4,440,172	4,392,192
Basic earnings (loss) per share	\$ (0.11)	\$ 0.19
Diluted earnings (loss) per share		
Net income (loss)	\$ (504,017)	\$ 834,455
Weighted average shares outstanding	4,440,172	4,392,192
Dilutive effect of assumed exercise of stock options		8,200
Diluted average shares outstanding	4,440,172	4,440,392
Diluted earnings (loss) per share	\$ (0.11)	\$ 0.19

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	Nine Months ended September 30, 2002	Nine Months ended September 30, 2001
Basic earnings per share		
Net income	\$ 1,706,955	\$ 2,989,393
Weighted average shares outstanding	4,416,791	4,392,144
Basic earnings per share	\$ 0.38	\$ 0.67
Diluted earnings per share		
Net income	\$ 1,706,955	\$ 2,989,393
Weighted average shares outstanding	4,416,791	4,392,144
Dilutive effect of assumed exercise of stock options	54,889	8,200
Diluted average shares outstanding	4,471,680	4,400,344
Diluted earnings per share	\$ 0.38	\$ 0.67

NOTE 5 - SEGMENT INFORMATION

Pelican Financial's operations include two primary segments: mortgage banking and retail banking. The mortgage banking segment involves the origination and purchase of single-family residential mortgage loans in approximately 41 states; the sale of such loans in the secondary market, generally on a pooled and securitized basis; and the servicing of mortgage loans for investors. 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 offices in Naples, San Carlos and Fort Myers, Florida.

Of the two segments, Pelican National comprises the retail-banking segment, with net interest income from loans, investments and deposits accounting for its primary revenues. Washtenaw comprises the mortgage-banking segment, with gains on sales of mortgage servicing rights (MSR) and loans, as well as loan servicing income accounting for its primary revenues.

The following segment financial information has been derived from the internal financial statements of Pelican National and Washtenaw, which are used by management to monitor and manage the financial performance of Pelican Financial. The accounting policies of the two segments are the same as those of Pelican Financial.

The evaluation process for segments does not include holding company income and expense. Holding company amounts are the primary difference between segment amounts and consolidated totals, and are reflected in the Other column below, along with minor amounts to eliminate transactions between segments.

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	Retail Banking	Mortgage Banking	Other	Consolidated Totals
<i>Dollars in thousands</i>				
Three Months Ended September 30, 2002				
Net interest income	\$ 1,703	\$ 1,041	\$ (5)	\$ 2,739
Gain on sales of MSR and loans, net	122	5,558		5,680
Servicing income	2	1,619		1,621
Noncash items:				
Provision for loan losses	40			