

PELICAN FINANCIAL INC
Form 10-Q
August 13, 2002

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

Form 10-Q

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

For the Quarter Ended June 30, 2002

Or

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.)

**315 East Eisenhower Parkway
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 No

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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, 2002

Common stock, \$0.01 Par value .. 4,439,691 Shares

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PELICAN FINANCIAL, INC.
Consolidated Balance Sheets

	June 30, 2002 (Unaudited)	December 31, 2001
ASSETS		
Cash and cash equivalents		
Cash and demand deposits due from banks	\$ 4,636,801	\$ 2,847,105
Federal funds sold	37,879,000	2,958,000
Total cash and cash equivalents	42,515,801	5,805,105
Accounts receivable, net	8,327,295	7,420,360
Securities available for sale	6,185,753	5,085,142
Federal Reserve & Federal Home Loan Bank Stock	1,330,000	1,070,000
Loans held for sale	92,286,182	231,514,620
Loans receivable, net	100,607,897	94,460,119
Mortgage servicing rights, net	18,961,898	14,832,785
Other real estate owned	901,983	199,687
Premises and equipment, net	2,027,007	1,394,353
Other assets	2,140,878	1,691,898
	\$ 275,284,694	\$ 374,553,594
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 54,106,547	\$ 36,195,274
Interest-bearing	77,609,927	67,277,136
Total deposits	131,716,474	103,472,410
Due to bank	17,295,230	32,604,902
Notes payable	32,189,623	71,980,487
Repurchase agreements	33,009,049	109,594,673
Federal Home Loan Bank borrowings	20,000,000	16,000,000
Other liabilities	10,503,169	12,717,415
Total liabilities	244,713,545	346,369,887
Commitments and contingencies		
Shareholders equity		
Preferred stock, 200,000 shares authorized; none outstanding		
Common stock, \$.01 par value 10,000,000 shares authorized; 4,439,691 and 4,393,194 outstanding at June 30, 2002 and December 31, 2001 respectively	44,397	43,932
Additional paid in capital	15,342,080	15,187,942
Retained earnings	15,162,044	12,951,072
Accumulated other comprehensive income, net of tax	22,628	761
Total shareholders equity	30,571,149	28,183,707

\$ 275,284,694 \$ 374,553,594

PELICAN FINANCIAL, INC.
Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Interest income				
Loans, including fees	\$ 4,373,744	\$ 6,398,184	\$ 10,376,294	\$ 11,472,195
Investment securities, taxable	180,401	92,301	292,240	192,116
Federal funds sold and overnight accounts	78,691	72,381	119,503	170,633
Total interest income	4,632,836	6,562,866	10,788,037	11,834,944
Interest expense				
Deposits	850,761	996,971	1,742,569	2,068,656
Other borrowings	1,273,732	2,846,186	2,935,773	5,014,229
Total interest expense	2,124,493	3,843,157	4,678,342	7,082,885
Net interest income	2,508,343	2,719,709	6,109,695	4,752,059
Provision for loan losses	80,000	142,000	230,000	262,000
Net interest income after provision for loan losses	2,428,343	2,577,709	5,879,695	4,490,059
Noninterest income				
Gain on sales of securities	50,070		50,070	
Service charges on deposit accounts	31,302	23,575	72,122	47,555
Servicing income	1,649,970	606,844	2,919,617	1,179,486
Gain on sales of mortgage servicing rights and loans, net	2,956,481	7,217,725	11,793,457	10,247,795
Other income	165,623	522,578	227,506	874,344
Total noninterest income	4,853,446	8,370,722	15,062,772	12,349,180
Noninterest expense				
Compensation and employee benefits	2,782,718	4,308,733	8,012,540	7,462,575
Occupancy and equipment	452,175	391,957	824,986	779,977
Telephone	141,926	160,058	289,180	304,263
Postage	134,869	171,196	279,761	321,763
Amortization of loan servicing rights	1,197,376	480,057	2,126,862	840,271
Loan servicing rights valuation adjustment	2,718,506	338,219	2,881,523	935,314
Other noninterest expense	1,482,877	1,518,784	3,165,019	2,266,363
Total noninterest expense	8,910,447	7,369,004	17,579,871	12,910,526
Income before income taxes and cumulative effect of change in accounting principle	(1,628,658)	3,579,427	3,362,596	3,928,713
Provision for income taxes	(549,306)	1,229,887	1,151,624	1,353,280

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Income before cumulative effect of change in accounting principle		(1,079,352)		2,349,540		2,210,972		2,575,433
Cumulative effect of change in accounting principle, net of tax								(420,495)
Net income (loss)	\$	(1,079,352)	\$	2,349,540	\$	2,210,972	\$	2,154,938
Basic and diluted earnings per share before cumulative effect of change in accounting principle	\$	(0.24)	\$	0.53	\$	0.50	\$	0.59
Per share cumulative effect of change in accounting principle								(0.10)
Basic earnings (loss) per share	\$	(0.24)	\$	0.53	\$	0.50	\$	0.49
Diluted earnings (loss) per share	\$	(0.24)	\$	0.53	\$	0.49	\$	0.49
Comprehensive income (loss)	\$	(1,028,246)	\$	2,351,070	\$	2,232,839	\$	2,171,836

PELICAN FINANCIAL, INC.
Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended June 30,

	2002	2001
Cash flows from operating activities		
Net cash provided (used) by operating activities	\$ 127,989,757	\$ (138,277,818)
Cash flows from investing activities		
Loans receivable originations, net	(6,377,778)	(16,285,341)
Proceeds from sales of mortgage servicing rights	6,176,072	20,318,471
Other real estate owned, net	(702,296)	(324,504)
Property and equipment expenditures, net	(887,440)	(394,253)
Purchase of securities available for sale	(12,000,000)	(4,560,000)
Proceeds from sales of securities available for sale	9,610,070	
Proceeds from maturities and principal repayments of securities available for sale	1,370,279	4,128,931
Purchase of Federal Reserve Stock	(260,000)	
Net cash provided (used) by investing activities	(3,071,093)	2,883,304
Cash flows from financing activities		
Increase in deposits	28,244,064	11,466,394
Increase (decrease) in due to bank	(15,309,672)	26,353,766
Increase (decrease) in notes payable due on demand	(39,790,864)	28,786,822
Advances on Federal Home Loan Bank borrowings	4,000,000	
Proceeds from exercise of stock options	154,603	
Increase (decrease) in repurchase agreements	(76,585,624)	64,418,343
Net cash provided (used) by financing activities	(99,287,493)	131,025,325
Net change in cash and cash equivalents	25,631,171	(4,369,189)
Cash and cash equivalents at beginning of period	16,884,630	10,174,294
Cash and cash equivalents at end of period	\$ 42,515,801	\$ 5,805,105

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 six months periods ended June 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. Assets held in an agency or fiduciary capacity are not assets of Pelican Financial and, accordingly, are not included in the accompanying consolidated financial statements.

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 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, 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 to the 2002 presentation.

NOTE 3 - LOANS RECEIVABLE

Loans receivable consist of the following:

	June 30, 2002	December 31, 2001
Commercial, financial and agricultural	\$ 669,173	\$ 703,468
Commercial real estate	51,428,425	34,923,223
Residential real estate	46,949,819	55,951,132
Installment loans	2,617,373	3,738,512
	101,644,790	95,316,335
Deduct allowance for loan losses	(1,056,893)	(856,216)

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Loans receivable, net	\$	100,607,897	\$	94,460,119
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Activity in the allowance for loan losses for the quarter ended June 30, are as follows:

	2002		2001	
Balance at beginning of period	\$	976,964	\$	562,622
Provision for loan losses		80,000		142,000
Loans charged-off		(356)		(15,281)
Recoveries		285		938
Balance at end of period	\$	1,056,893	\$	690,279

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

	2002	2001
Balance at beginning of period	\$ 856,216	\$ 507,513
Provision for loan losses	230,000	262,000
Loans charged-off	(31,206)	(80,719)
Recoveries	1,883	1,485
Balance at end of period	\$ 1,056,893	\$ 690,279

NOTE 4 - EARNINGS PER SHARE

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

	Three Months ended June 30, 2002	Three Months ended June 30, 2001
Basic earnings (loss) per share		
Net income (loss)	\$ (1,079,352)	\$ 2,349,540
Weighted average shares outstanding	4,410,673	4,392,119
Basic earnings (loss) per share	\$ (0.24)	\$ 0.53
Diluted earnings (loss) per share		
Net income (loss)	\$ (1,079,352)	\$ 2,349,540
Weighted average shares outstanding	4,410,673	4,392,119
Dilutive effect of assumed exercise of stock options		
Diluted average shares outstanding	4,410,673	4,392,119
Diluted earnings (loss) per share	\$ (0.24)	\$ 0.53

	Six Months ended June 30, 2002		Six Months ended June 30, 2001	
Basic earnings (loss) per share				
Net income (loss)	\$	2,210,972	\$	2,154,938
Weighted average shares outstanding		4,401,982		4,392,119
Basic earnings (loss) per share	\$	0.50	\$	0.49
Diluted earnings (loss) per share				
Net income (loss)	\$	2,210,972	\$	2,154,938
Weighted average shares outstanding		4,401,982		4,392,119
Dilutive effect of assumed exercise of stock options		65,566		
Diluted average shares outstanding		4,467,548		4,019,308
Diluted earnings (loss) per share	\$	0.49	\$	0.49

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, Sarasota 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.

NOTE 6 - SEGMENT INFORMATION (CONTINUED)

	Dollars in thousands			
	Retail Banking	Mortgage Banking	Other	Consolidated Totals
Three Months Ended June 30, 2002				
Net interest income	\$ 1,577	\$ 937	\$ (6)	\$ 2,508
Gain on sales of MSR and loans, net	110	2,846		2,956
Servicing income	3	1,647		1,650
Noncash items:				
Provision for loan losses	80			80
MSR amortization & valuation	3	3,913		3,916
Provision for income taxes	256	(765)	(40)	(549)
Segment profit/(loss), before cumulative effect of change in accounting principle	496	(1,496)	(79)	(1,079)
Segment assets	166,317	109,020	(52)	275,285

Three Months Ended June 30, 2001

Net interest income	\$ 1,148	\$ 1,598	\$ (26)	\$ 2,720
Gain on sales of MSR and loans, net	47	7,171		7,218
Servicing income		607		607
Noncash items:				
Provision for loan losses	142			142
MSR amortization & valuation	2	816		818
Provision for income taxes	71	1,211	(52)	1,230
Segment profit/(loss), before cumulative effect of change in accounting principle	136	2,316	(102)	2,350
Segment assets	118,489	220,050	(68)	338,471

	Dollars in thousands			
	Retail Banking	Mortgage Banking	Other	Consolidated Totals
Six Months Ended June 30, 2002				
Net interest income	\$ 3,096	\$ 3,027	\$ (13)	\$ 6,110
Gain on sales of MSR and loans, net	222	11,571		11,793
Servicing income	5	2,915		2,920
Noncash items:				
Provision for loan losses	230			230
MSR amortization & valuation	5	5,003		5,008
Provision for income taxes	463	801	(112)	1,152
Segment profit/(loss), before cumulative effect of change in accounting principle	897	1,532	(218)	2,211
Segment assets	166,317	109,020	(52)	275,285

Six Months Ended June 30, 2001

Net interest income	\$ 2,480	\$ 2,334	\$ (62)	\$ 4,752
Gain on sales of MSR and loans, net	57	10,237	(46)	10,248
Servicing income	2	1,177		1,179
Noncash items:				
Provision for loan losses	262			262

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MSR amortization & valuation	4	1,772		1,776
Provision for income taxes	184	1,269	(100)	1,353
Segment profit/(loss), before cumulative effect of change in accounting principle	353	2,416	(194)	2,575
Segment assets	118,489	220,050	(68)	338,471

NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS

The Derivative Implementation Group (DIG) of the Financial Accounting Standards Board (FASB) issued guidance on mortgage loan rate lock commitments to borrowers. The guidance categorizes rate lock commitments intended for sale as derivatives and is effective July 1, 2002. Subsequent to adopting this guidance on July 1, the Company will record the fair value of rate lock commitments as derivatives, and, depending on the amount and attributes of derivatives held at the time, the resulting fair value adjustments would be expected to partially or largely, offset the fair value adjustments on forward sales commitments that are currently carried as derivatives. Effective July 1, 2002, this guidance requires the Company to record a cumulative effect of change in accounting principle adjustment. Pelican Financial will record an adjustment of approximately \$375,000, net of tax, to reflect the fair value of rate lock commitments outstanding on July 1, 2002.

Effective January 1, 2002, the Company is required to adopt a new accounting standard for goodwill and other intangible assets arising from prior and future business combinations. Since the Company currently has no goodwill or intangible assets, the adoption of this new standard had no effect on the financial statements.

Effective January 1, 2002, the Company adopted a new accounting standard on impairment and disposal of long-lived assets. The adoption of this new standard had no effect on the financial statements.

A new accounting standard regarding asset retirement obligations will apply for 2003. Management does not believe this standard will have a material effect on the Company's financial statements.

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.

EARNINGS PERFORMANCE

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Pelican Financial reported a net loss of \$1.1 million for the quarter ended June 30, 2002, a decrease of \$3.4 million when compared to net income of \$2.3 million for the same period in 2001. Earning per share, basic and diluted, were a net loss of \$0.24 per share compared to net income of \$0.53 per share for the three months ended June 30, 2002 and 2001 respectively. The primary cause for the net loss was the mortgage servicing right valuation adjustment of \$2.7 million. This is the result of a decrease in mortgage loan interest rates which increase the likelihood that the loans in the mortgage loan servicing portfolio would be refinanced. Since the change occurred at the end of the quarter, Washtenaw was not able to offset the loss through the anticipated increase in mortgage loan originations.

For the six months ended June 30, 2002 Pelican Financial reported net income of \$2.2 compared to \$2.2 million for the same period in 2001. The 2001 earnings include a \$420,000 after tax charge as the result of a cumulative effect of change in accounting principle. Basic earnings per share were \$0.50 per share while diluted earnings per share were \$0.49 for the six months ended June 30, 2002 compared to \$0.49, basic and diluted, for the six months ended June 30, 2001.

For further explanation of the earnings performance, please see the discussion on the retail and mortgage banking segments to follow.

RESULTS OF OPERATIONS**Retail Banking**

The following discussion provides information that relates specifically to Pelican Financial's retail banking line of business.

For the three months ended June 30, 2002, Pelican Financial's net income from retail banking activities primarily conducted by Pelican National totaled \$496,000. For the three months ended June 30, 2001 Pelican National's comparable net income was \$136,000. For the six months ended June 30, 2002, Pelican Financial's net income from retail banking activities primarily conducted by Pelican National totaled \$897,000. For the six months ended June 30, 2001 Pelican National's comparable net income was \$353,000.

The increase in net income for both the three and six month periods was primarily attributable to an increase in net interest income and noninterest income. This is due primarily to the increase in average loans outstanding and the sale of several small loan packages.

Net Interest Income

Net Interest Income was \$1.6 million and \$1.1 million for the three months ended June 30, 2002 and 2001, respectively. For the six months ended June 30, 2002 and 2001 net interest income was \$3.1 million and \$2.5 million respectively. The increase in net interest income was due primarily to an increase in the average interest bearing assets outstanding as well as a decrease in the cost of funds. This was offset by a decrease in yield on interest earning assets.

Average Balance Sheet

The following tables summarizes the average yields earned on interest-earning assets and the average rates paid on interest-bearing liabilities for Pelican Financial. With the exception of loans held for sale and other borrowings, the interest earning-assets and interest-bearing liabilities are attributable to Pelican National.

	Three months ended June 30,					
	2002			2001		
	Average Volume	Interest	Yield/Cost	Average Volume	Interest	Yield/Cost
ASSETS						
Interest-earning assets:						
Federal funds sold	\$ 18,626	\$ 79	1.70%	\$ 6,240	\$ 72	4.62%
Securities	11,172	180	6.44	5,720	92	6.43
Loans held for sale	131,869	2,308	7.00	206,027	4,207	8.17
Loans receivable, net	104,543	2,066	7.90	100,866	2,192	8.69
Total interest-earning assets	266,210	4,633	6.96	318,853	6,563	8.23
Non-earning assets	38,471			15,431		
Total assets	\$ 304,681			\$ 334,284		

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LIABILITIES AND STOCKHOLDERS

EQUITY

Interest-bearing liabilities:

NOW accounts	\$	859	2	0.93	\$	1,049	6	2.29
Money market accounts		5,720	34	2.38		3,270	37	4.53
Savings deposits		10,778	64	2.38		17,824	78	1.75
Time deposits		61,552	751	4.88		54,308	876	6.45
Other borrowings		122,030	1,274	4.18		190,036	2,846	5.99
Total interest-bearing liabilities		200,939	2,125	4.23		266,487	3,843	5.77
Noninterest-bearing liabilities		72,001				45,531		
Stockholders equity		31,741				22,266		
Total liabilities and stockholders equity	\$	304,681			\$	334,284		
Interest rate spread				2.73%				2.46%
Net interest income and net interest margin	\$	2,508		3.77%	\$	2,720		3.41%

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	Six months ended June 30,					
	Average Volume	2002 Interest	Yield/Cost	Average Volume	2001 Interest	Yield/Cost
ASSETS						
Interest-earning assets:						
Federal funds sold	\$ 14,292	\$ 120	1.68%	\$ 6,560	\$ 171	5.21%
Securities	9,359	292	6.24	6,015	192	6.38
Loans held for sale	174,809	6,071	6.95	170,283	6,945	8.16
Loans receivable, net	105,170	4,305	8.19	96,206	4,527	9.41
Total interest-earning assets	303,630	10,788	7.11	279,064	11,835	