PELICAN FINANCIAL INC
Form 10-Q
May 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 March 31, 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	**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 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, 2002

Common stock, $0.01 Par value	**4,393,194 Shares**

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PELICAN FINANCIAL, INC.

Consolidated Balance Sheets

	March 31, 2002 (Unaudited)	December 31, 2001
ASSETS		
Cash and cash equivalents	$ 22,573,885	$ 16,884,630
Accounts receivable, net	6,581,236	7,420,360
Securities available for sale	9,674,792	5,085,142
Federal Reserve & Federal Home Loan Bank Stock	1,270,000	1,070,000
Loans held for sale	118,358,886	231,514,620
Loans receivable, net	106,158,480	94,460,119
Mortgage servicing rights, net	23,203,733	14,832,785
Other real estate owned	344,048	199,687
Premises and equipment, net	1,349,428	1,394,353
Other assets	3,911,204	1,691,898
	$ 293,425,692	$ 374,553,594
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 44,727,697	$ 36,195,274
Interest-bearing	82,218,596	67,277,136
Total deposits	126,946,293	103,472,410
Due to bank	21,068,895	32,604,902
Notes payable	39,282,501	71,980,487
Repurchase agreements	46,293,668	109,594,673
Federal Home Loan Bank borrowings	16,000,000	16,000,000
Other liabilities	12,389,543	12,717,415
Total liabilities	261,980,900	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; 4,393,194 outstanding at March 31, 2002 and December 31, 2001	43,932	43,932
Additional paid in capital	15,187,942	15,187,942
Retained earnings	16,241,396	12,951,072
Accumulated other comprehensive income (loss), net of tax	(28,478)	761
Total shareholders equity	31,444,792	28,183,707
	$ 293,425,692	$ 374,553,594

See accompanying notes to financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
	2002	**2001**
Interest income		
Loans, including fees	$ 6,002,550	$ 5,074,011
Investment securities, taxable	111,839	99,815
Federal funds sold and overnight accounts	40,812	98,252
Total interest income	6,155,201	5,272,078
Interest expense		
Deposits	891,808	1,071,685
Other borrowings	1,662,041	2,168,043
Total interest expense	2,553,849	3,239,728
Net interest income	3,601,352	2,032,350
Provision for loan losses	150,000	120,000
Net interest income after provision for loan losses	3,451,352	1,912,350
Noninterest income		
Service charges on deposit accounts	40,820	23,980
Servicing income	1,269,647	572,642
Gain on sales of mortgage servicing rights and loans, net	8,836,976	3,030,070
Other income	70,281	351,766
Total noninterest income	10,217,724	3,978,458
Noninterest expense		
Compensation and employee benefits	5,229,822	3,153,843
Occupancy and equipment	372,811	388,020
Telephone	147,254	144,205
Postage	144,892	150,567
Amortization of mortgage servicing rights	929,486	360,214
Mortgage servicing rights valuation adjustment	163,017	597,095
Other noninterest expense	1,690,540	747,578
Total noninterest expense	8,677,822	5,541,522
Income before income taxes and cumulative effect of change in accounting principle	4,991,254	349,286
Provision for income taxes	1,700,930	123,393
Income before cumulative effect of change in accounting principle	3,290,324	225,893

Cumulative effect of change in accounting principle, net of tax				(420,495)
Net income (loss)	$	3,290,324	$	(194,602)
Basic and diluted earnings per share before cumulative effect of change in accounting principle	$	0.75	$	0.06
Per share cumulative effect of change in accounting principle				(0.10)
Basic earnings (loss) per share	$	0.75	$	(0.04)
Diluted earnings (loss) per share	$	0.74	$	(0.04)
Comprehensive income (loss)	$	3,261,085	$	(179,234)

See accompanying notes to financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended March 31,

	2002	2001
Cash flows from operating activities		
Net cash provided (used) by operating activities	$ 106,777,994	$ (71,388,690)
Cash flows from investing activities		
Loan originations, net	(11,848,361)	(5,501,697)
Proceeds from sales of mortgage servicing rights	20,694	6,752,737
Other real estate owned, net	(144,361)	(45,099)
Property and equipment expenditures, net	(74,713)	(198,357)
Purchase of securities available for sale	(5,000,000)	
Proceeds from maturities and principal repayments of securities available for sale	219,117	2,063,483
Purchase of Federal Reserve Stock	(200,000)	
Net cash provided (used) by investing activities	(17,027,624)	3,071,067
Cash flows from financing activities		
Increase in deposits	23,473,883	10,139,279
Increase (decrease) in due to bank	(11,536,007)	22,561,897
Increase (decrease) in notes payable due on demand	(32,697,986)	17,086,840
Increase (decrease) in repurchase agreements	(63,301,005)	25,084,862
Net cash provided (used) by financing activities	(84,061,115)	74,872,878
Net change in cash and cash equivalents	5,689,255	6,555,255
Cash and cash equivalents at beginning of period	16,884,630	10,174,294
Cash and cash equivalents at end of period	$ 22,573,885	$ 16,729,549
Cash and equivalents is composed of:		
Cash and demand deposits due from banks	$ 4,999,885	$ 4,383,549
Federal funds sold	17,574,000	12,346,000
Total cash and cash equivalents	$ 22,573,885	$ 16,729,549

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 month period ended March 31, 2002 and 2001, include the accounts of Pelican Financial Inc. (Pelican Financial) and it s 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 March 31, 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 current presentation.

NOTE 3   LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2002	December 31, 2001
Commercial, financial and agricultural	$ 662,259	$ 703,468
Commercial real estate	50,918,584	34,923,223
Residential real estate	52,504,945	55,951,132
Installment loans	3,049,656	3,738,512
	107,135,444	95,316,335
Deduct allowance for loan losses	(976,964)	(856,216)

Loans receivable, net	$	106,158,480	$	94,460,119

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

		2002		**2001**
Balance at beginning of period	$	856,216	$	507,513
Provision for loan losses		150,000		120,000
Loans charged-off		(30,850)		(65,438)
Recoveries		1,598		546
Balance at end of period	$	976,964	$	562,621

NOTE 4 EARNINGS PER SHARE

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

		Three Months ended March 31, 2002		Three Months ended March 31, 2001
Basic earnings (loss) per share				
Net income (loss)	$	3,290,324	$	(194,602)
Weighted average shares outstanding		4,393,194		4,392,094
Basic earnings (loss) per share	$	0.75	$	(0.04)
Diluted earnings (loss) per share				
Net income (loss)	$	3,290,324	$	(194,602)
Weighted average shares outstanding		4,393,194		4,392,094
Dilutive effect of assumed exercise of stock options		32,810		
Diluted average shares outstanding		4,426,004		4,392,094
Diluted earnings (loss) per share	$	0.74	$	(0.04)

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 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.

	Dollars in thousands			
	Retail Banking	**Mortgage Banking**	**Other**	**Consolidated Totals**
Three Months Ended March 31, 2002				
Net interest income	$ 1,519	$ 2,090	$ (8)	$ 3,601
Gain on sales of MSR and loans, net	112	8,725		8,837
Servicing income	2	1,268		1,270
Noncash items:				
Provision for loan losses	150			150
MSR amortization & valuation	2	1,090		1,092
Provision for income taxes	207	1,566	(72)	1,701
Segment profit, before cumulative effect of change in accounting principle	402	3,028	(140)	3,290
Segment assets	136,933	156,577	(84)	293,426
Three Months Ended March 31, 2001				
Net interest income	$ 1,332	$ 736	$ (36)	$ 2,032
Gain on sales of MSR and loans, net	11	3,065	(46)	3,030
Servicing income	3	570		573
Noncash items:				
Provision for loan losses	120			120
MSR amortization & valuation	2	955		957
Provision for income taxes	113	58	(48)	123
Segment profit, before cumulative effect of change in accounting principle	218	100	(92)	226
Segment assets	116,956	159,669	7	276,632

NOTE 6 NEW ACCOUNTING PRONOUNCEMENT

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 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 effect of this new standard is not presently expected to be material to the financial statements.

Effective January 1, 2002, the Company adopted a new accounting standard on impairment and disposal of long-lived assets. The effect of this new standard is not presently expected to be material to 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

Pelican Financial reported net income of $3.3 million for the quarter ended March 31, 2002 compared to a net loss of $195,000, including a $420,000 after tax charge as the result of a cumulative effect of a change in accounting principle, for the quarter ended March 31, 2001. Diluted earnings per share was $0.74 per share compared to a loss of $0.04, per share for the three months ended March 31, 2002 and 2001 respectively.

The cumulative effect of a change in accounting principle was the result of the adoption of a new accounting standard (SFAS No. 133) that requires all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. Forward contracts and Treasury options are used to manage interest rate risk on loans held for sale and the pipeline of loans in-process. Under SFAS 133, forward contracts and Treasury options will be carried at fair value, while the change in fair value of loans held for sale will be recorded to offset the value of forward contracts designated as a hedge. The effect of SFAS 133 at January 1, 2001 was a pre-tax expense of $635,495, consisting of $689,152 of expense to record the loss on the forward contracts offset by income of $53,657 on hedged loans held for sale.

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 March 31, 2002, Pelican Financial s net income from retail banking activities primarily conducted by Pelican National totaled $402,000. For the three months ended March 31, 2001 Pelican National s comparable net income was $218,000. The increase in net income for the period was primarily attributable to an increase in net interest income and the increase in gain on sale of loans.

Net Interest Income

Net Interest Income was $1.5 million and $1.3 million for the three months ended March 31, 2002 and 2001, respectively. Net interest income increased as a result of the decrease in the cost of funds. This was due to the numerous interest rate reductions by the Federal Reserve during 2001 and the increase in custodial accounts held by Pelican National related to Washtenaw s mortgage servicing portfolio.

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 March 31,					
	2002			2001		
	Average Volume	Interest	Yield/Cost	Average Volume	Interest	Yield/Cost
ASSETS						
Interest-earning assets:						
Federal funds sold	$ 9,911	$ 41	1.65%	$ 6,882	$ 100	5.81%
Securities	9,526	112	4.70	6,368	98	6.16
Loans held for sale	218,226	3,762	6.90	134,141	2,738	8.16
Loans receivable, net	105,804	2,240	8.47	91,494	2,336	10.21
Total interest-earning assets	343,467	6,155	7.17	238,885	5,272	8.83
Non-earning assets	28,989			21,695		
Total assets	$ 372,456			$ 260,580		