PELICAN FINANCIAL INC
Form 10-Q
November 21, 2005

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

Form 10-Q

[X] Quarterly Report Pursuant To Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Quarter Ended September 30, 2005
Or

[ ] Transition Report Pursuant To Section 13 or 15 (d) of the Securities Exchange Act of 1934
Commission file number 001-14986

Pelican Financial, Inc.
(Exact name of registrant as specified in its charter)

Delaware
58-2298215
(State or Other Jurisdiction of (IRS Employer Incorporation or Organization)
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 [X] No [ ]
===

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes [ ] No [X]

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes [ ] No [X]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:
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, 2005

Common stock, $0.01 Par value .... 4,494,365 Shares

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PELICAN FINANCIAL, INC.
Consolidated Balance Sheets

	September 30, 2005 (Unaudited)

ASSETS	
Cash and cash equivalents	
Cash and due from banks	$ 1,054,80
Interest-bearing deposits	2,289,93
Federal funds sold	15,224,95
Total cash and cash equivalents	18,569,69
Securities available for sale	61,036,92
Federal Reserve & Federal Home Loan Bank Stock	1,904,90
Loans held for sale	20,581,56
Loans receivable, net	86,770,11
Other real estate owned	62,15
Premises and equipment, net	3,413,63
Other assets	2,149,30
	$ 194,488,29
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities	
Deposits	
Noninterest-bearing	$ 18,576,22
Interest-bearing	135,479,52
Total deposits	154,055,75
Federal Home Loan Bank borrowings	25,500,00
Other liabilities	108,03
Total liabilities	179,663,79
Shareholders' equity	
Preferred stock, 200,000 shares authorized; none outstanding	
Common stock, $.01 par value 10,000,000 shares authorized; 4,494,365 outstanding at September 30, 2005 and December 31, 2004	44,94
Additional paid in capital	15,574,76
Retained earnings (deficit)	(173,385
Accumulated other comprehensive (loss), net of tax	(621,825
Total shareholders' equity	14,824,50
	$ 194,488,29

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

	Three Months Ended September 30, 2005	2004	
Interest income			
Loans, including fees	$ 1,914,769	$ 1,810,314	$
Investment securities, taxable	627,623	853,184	
Federal funds sold and overnight accounts	133,942	82,480	
Total interest income	2,676,334	2,745,978	
Interest expense			
Deposits	1,046,463	1,016,584	
Other borrowings	338,213	164,603	
Total interest expense	1,384,676	1,181,187	
Net interest income	1,291,658	1,564,791	
Provision for loan losses	440,000	(300,000)	
Net interest income after provision for loan losses	851,658	1,864,791	
Noninterest income			
Gain on sales of securities, net	-	310,456	
Service charges on deposit accounts	61,953	52,303	
Gain on sale of loans, net	7,456	4,587	
Net gain on foreclosed assets and other income	50,573	36,262	
Total noninterest income	119,982	403,608	
Noninterest expense			
Compensation and employee benefits	920,010	1,032,321	
Occupancy and equipment	367,083	352,557	
Legal	55,876	67,886	
Accounting and auditing	52,788	52,620	
Data processing	65,097	69,669	
Marketing and advertising	44,884	22,652	
Loan and other real estate owned	54,648	70,590	
Other noninterest expense	262,998	363,442	
Total noninterest expense	1,823,384	2,031,737	
Income (loss) before income taxes	(851,744)	236,662	(
Income tax expense (benefit)	(289,671)	80,848	
Net Income (loss)	$ (562,073)	$ 155,814	$ (
Basic earnings (loss) per share	$ (0.13)	$ 0.03	$
Diluted earnings (loss) per share	$ (0.13)	$ 0.03	$
Comprehensive income (loss)	$ (876,872)	$ 685,552	$ (

PELICAN FINANCIAL, INC.
Consolidated Statements of Cash Flows (Unaudited)
For the Nine months ended September 30,

	Nine months e
	2005
Cash flows from operating activities	
Net cash provided (used) in operating activities	$ (1,223,205)
Cash flows from investing activities	
Loan originations, net	3,577,465
Sale of real estate owned	-
Property and equipment expenditures, net	(50,401)
Purchase of securities available for sale	(31,778,327)
Proceeds from sales of securities available for sale	2,005,625
Proceeds from maturities and principal repayments of securities available for sale	37,435,270
Redemption (purchase) of Federal Home Loan Bank stock	764,800
Net cash (used) in investing activities	11,954,432
Cash flows from financing activities	
Increase in deposits	13,346,981
Cash dividends	-
Decrease in note payable due on demand	-
Proceeds from exercise of stock options	-
Repayments on Federal Home Loan Bank borrowings	(16,000,000)
Net cash provided by financing activities	(2,653,019)
Net change in cash and cash equivalents	8,078,208
Cash and cash equivalents at beginning of period	10,491,489
Cash and cash equivalents at end of period	$ 18,569,697
Transfers from:	
Loans to held for sale	$ 20,421,253
Loans to other real estate owned	$ 62,153

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 nine month periods ended September 30, 2005 and September 30, 2004, 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 subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 September 30, 2005	2004
Net income (loss) as reported	$ (562,073)	$ 155,
Stock-based compensation expense, net of forfeitures, using fair value method	4,547	6,
Pro forma net income (loss)	$ (566,620)	$ 149,
Basic earnings (loss) per share as reported	$ (0.13)	$ 0
Pro forma basic earnings (loss) per share	(0.13)	0
Diluted earnings (loss) per share as reported	$ (0.13)	$ 0
Pro forma diluted earnings (loss) per share	(0.13)	0

	Nine Months Ended September 30, 2005	2004
Net income (loss) as reported	$ (1,106,112)	$ (75,8
Stock-based compensation expense, net of forfeitures, using fair value method	13,641	14,
Pro forma net income (loss)	$ (1,119,753)	$ (89,8
Basic earnings (loss) per share as reported	$ (0.25)	$ (0.
Pro forma basic earnings (loss) per share	(0.25)	(0.
Diluted earnings (loss) per share as reported	$ (0.25)	$ (0.
Pro forma diluted earnings (loss) per share	(0.25)	(0.

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 Mortgage

Company ("Washtenaw"), which prior to the spin-off was a wholly owned subsidiary of Pelican Financial. 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.

PELICAN FINANCIAL, INC.
Notes to the Consolidated Financial Statements (Unaudited)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAS 123, Revised, requires companies to record compensation cost for stock options provided to employees in return for employment service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employment service period, which is normally the vesting period of the options. This will apply to awards granted or modified in fiscal year beginning in 2006. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Existing options that will vest after adoption date are expected to result in additional compensation expense of approximately $23,000 in 2006 and $13,000 in 2007.

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 quarterly period ended September 30, 2005, 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, 2004 included in Pelican Financial's Form 10-K.

Certain prior year amounts have been reclassified to conform to the 2005 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's new parent company, The Washtenaw Group, 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 was no longer a subsidiary of Pelican Financial. During the periods presented in the financial statements, Pelican Financial did not incur any expenses on behalf of Washtenaw.

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.

PELICAN FINANCIAL, INC.
Notes to the Consolidated Financial Statements (Unaudited)

NOTE 4 - LOANS RECEIVABLE

Loans receivable consist of the following:

	September 30, 2005
Commercial, financial and agricultural	$ 5,210,051
Commercial real estate	29,423,024
Residential real estate	47,088,370
Marine	-
Consumer	6,019,230
	87,740,675
Less: allowance for loan losses	(970,561)
Loans receivable, net	$ 86,770,114

All marine loans were reclassified to loans held for sale effective September 30, 2005 due to the requirements of the regulatory agreement disclosed in Note 7. A market value loss adjustment of $440,000 was recorded at the reclassification date to adjust these loans to the lower of cost or market value. The loss was recorded as a charge-off against the allowance for loan losses.

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

	2005	2004
Balance at beginning of period	$ 980,802	$ 1,228,053
Provision for loan losses	440,000	(300,000)
Loans charged-off	(497,864)	(3,534)
Recoveries	47,623	13,366
Balance at end of period	$ 970,561	$ 937,885

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

	2005	2004
Balance at beginning of period	$ 953,954	$ 1,330,112
Provision for loan losses	440,000	(225,000)
Loans charged-off	(536,628)	(245,677)
Recoveries	113,235	78,450
Balance at end of period	$ 970,561	$ 937,885

PELICAN FINANCIAL, INC.
Notes to the Consolidated Financial Statements (Unaudited)

NOTE 5 - EARNINGS PER SHARE

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

	Three Months Ended September 30, 2005	Thr Sep
Basic earnings (loss) per share		
Net income (loss) applicable to common stock	$ (562,073)	
Weighted average shares outstanding	4,494,365	
Basic earnings (loss) per share	$ (0.13)	

Diluted earnings (loss) per share		
Net income (loss) applicable to common stock	$ (562,073)	
Weighted average shares outstanding	4,494,365	
Dilutive effect of assumed exercise of stock options	-	
Diluted average shares outstanding	4,494,365	
Diluted earnings (loss) per share	$ (0.13)	

	Nine Months Ended September 30, 2005	Nin Sep
Basic earnings (loss) per share		
Net income (loss) applicable to common stock	$ (1,106,112)	
Weighted average shares outstanding	4,494,365	
Basic earnings (loss) per share	$ (0.25)	
Diluted earnings (loss) per share		
Net income (loss) applicable to common stock	$ (1,106,112)	
Weighted average shares outstanding	4,494,365	
Dilutive effect of assumed exercise of stock options	-	
Diluted average shares outstanding	4,494,365	
Diluted earnings (loss) per share	$ (0.25)	

PELICAN FINANCIAL, INC.
Notes to the Consolidated Financial Statements (Unaudited)

NOTE 6 - MERGER AGREEMENT

On November 4, 2005, Pelican Financial announced that it had reached an agreement in principle to merge with a newly formed subsidiary of Stark Bank

Group, Ltd, of Fort Dodge, Iowa ("The Stark Bank Group").

According to the terms of the proposed agreement, shareholders of Pelican Financial will receive $6.00 for each common share held, subject to adjustment as to the extent that certain costs incurred by Pelican Financial exceed $3.0 million and subject to an escrow account (expected to be approximately $0.20 per share) to be established to cover these costs, to the extent they may exceed $3.0 million, and to cover possible liabilities from the expected sale of certain marine loans. This escrow will reduce the immediate cash payment to less than $6.00 per share. Pelican Financial has approximately 4.5 million common shares outstanding. The proposed all-cash deal is subject to approval by Pelican Financial shareholders and regulators, to a final due diligence by the Stark Bank Group by November 14, 2005, at which time Pelican Financial expects to enter into a definitive agreement, and to other customary closing conditions. The merger is expected to be completed in the first quarter of 2006.

The proposed agreement also requires Stark Bank Group to purchase $4 million of a newly created series of convertible preferred stock of Pelican Financial.

NOTE 7 - REGULATORY AGREEMENT

On September 1, 2005, Pelican National, entered into a Formal Agreement with the Office of the Comptroller of the Currency ("OCC"). The Formal Agreement requires Pelican National to implement the following: (a) form a compliance committee comprised of at least three outside directors; (b) adopt and implement a written action plan to improve Pelican National; (c) adopt and implement a written three-year strategic plan; (d) adopt and implement a written profit plan to improve and sustain earnings of Pelican National; (e) increase and thereafter maintain Tier 1 capital at least equal to 13% of risk-weighted assets and Tier 1 capital at least equal to 8% of adjusted total assets; (f) appoint a new Senior Lending Officer; (g) develop and implement a written program to improve Pelican National's portfolio management; (f) develop and implement a written program to reduce the high level of credit risk; (g) take immediate and continuing action to protect its interest in assets criticized in the most recent Report of Examination and (h) take all necessary step to ensure that Pelican National corrects each violation of law, rule or regulation cited in the Report of Examination

At September 30, 2005 Pelican National met the Tier 1 to risk-weighted assets ratio requirement, with a ratio of 14.07%, but did not meet the Tier 1 to adjusted total assets ratio requirement, with a ratio of 7.47%. To achieve the increase in capital ratios in the short-term, the Board of Directors approved the sale of the marine loan portfolio. The portfolio was reclassified to loans held for sale and a mark to market adjustment was recorded. This resulted in a charge-off to the allowance for loan losses of $440,000.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements

Discussions of certain matters in this quarterly report on Form 10-Q may constitute forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions or future or conditional verbs such as "may", "will", "should", "would", and "could". 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. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Pelican Financial does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences, or events or circumstances after the date of such statements.

OVERVIEW

Pelican Financial currently serves as the holding company of Pelican National. Pelican Financial's operations focus on retail banking. Retail banking 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 six offices in Naples, Fort Myers, Bonita Springs and Cape Coral, Florida.

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 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.

As part of the effort to manage operating expenses, the Board of Directors made the decision to close one of the Fort Myers bank branches. The branch will be closed by December 31, 2005. This decision was made due to the lack of deposit growth and limited lending opportunities at the branch. No loss is anticipated as a result of the sale of the real estate.

On September 1, 2005, Pelican National, entered into a Formal Agreement with the Office of the Comptroller of the Currency ("OCC") "), under which Pelican National is obligated to take measures necessary to correct unsafe and unsound banking practices and certain violations of law. The Formal Agreement requires Pelican National to implement the following: (a) form a compliance committee comprised of at least three outside directors; (b) adopt and implement a written action plan to improve Pelican National; (c) adopt and implement a written three-year strategic plan; (d) adopt and implement a written profit plan to improve and sustain earnings of Pelican National; (e) increase and thereafter maintain Tier 1 capital at least equal to 13% of risk-weighted assets and Tier 1 capital at least equal to 8% of adjusted total assets; (f) appoint a new Senior Lending Officer; (g) develop and implement a written program to improve Pelican National's portfolio management; (f) develop and implement a written program to reduce the high level of credit risk; (g) take immediate and continuing action to protect its interest in assets criticized in the most recent Report of Examination and (h) take all necessary step to ensure that Pelican National corrects each violation of law, rule or regulation cited in the Report of Examination

To achieve the increase in capital ratios in the short-term, the Board of Directors approved the sale of the marine loan portfolio. The portfolio was reclassified to loans held for sale and a mark to market adjustment was recorded. This resulted in charge-off to the allowance for loan losses of $440,000.

MERGER AGREEMENT

On November 4, 2005, Pelican Financial announced that it had reached an agreement in principle to merge with a newly formed subsidiary of Stark Bank Group. According to the terms of the proposed agreement, shareholders of Pelican Financial will receive $6.00 for each common share held, subject to adjustment as to the extent that certain costs incurred by Pelican Financial exceed $3.0 million and subject to an escrow account (expected to be approximately $0.20 per share) to be established to cover these costs, to the extent they may exceed $3.0 million, and to cover possible liabilities from the expected sale of certain marine loans. This escrow will reduce the immediate cash payment to less than $6.00 per share. Pelican Financial has approximately 4.5 million common shares outstanding. The proposed all-cash deal is subject to approval by Pelican Financial shareholders and regulators, to a final due diligence by the Stark Bank Group by November 14, 2005, at which time Pelican Financial expects to enter into a definitive agreement, and to other customary closing conditions. The merger is expected to be completed in the first quarter of 2006. The proposed agreement also requires Stark Bank Group to purchase $4 million of a newly created series of convertible preferred stock of Pelican Financial.

EARNINGS PERFORMANCE

Pelican Financial reported a net loss of $562,000 for the quarter ended September 30, 2005, compared to a net income of $156,000 for the quarter ended September 30, 2004. Basic and diluted earnings per share from continuing operations was a loss of $0.13 and earnings of $0.03 per share for the three months ended September 30, 2005 and 2004, respectively.

For the nine months ended September 30, 2005, Pelican Financial reported a net loss of $1,106,000 compared to a net loss of $76,000 for the same period in 2004. Basic and diluted earnings per share was a loss of $0.25 and $0.02 per share for the nine months ended September 30, 2005 and September 30, 2004, respectively.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $1.3 million and $1.6 million for the three months ended September 30, 2005 and September 30, 2004, respectively. For the nine months ended September 30, 2005 and September 30, 2004, net interest income was $4.1 million and $4.7 million respectively. Net interest income decreased primarily as a result of the decrease in the average balance of interest-earning assets and the change in the overall deposit structure. Both of these were a direct result of the large withdrawal of deposits that occurred during the fourth quarter of 2004. The non-interest bearing deposits were replaced primarily with the Federal Home Loan Bank ("FHLB") advances with various maturities as well time deposits. Also as a result of the withdrawal of the deposits, the average balance in both federal funds sold and securities available for sale decreased.

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 Septem 2005			
	Average Volume	Interest	Yield/Cost	Ave vol
ASSETS				
Interest-earning assets:				
Federal funds sold..........................	$ 17,252	$ 134	3.11%	$ 2
Securities..................................	65,419	627	3.83	10
Loans receivable............................	109,746	1,915	6.98	10
Total interest-earning assets.............	192,417	2,676	5.56	23
Non-earning assets..........................	7,063			1
Total assets...........................	$ 199,480			$24
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing liabilities:				
NOW accounts................................	$ 2,685	6	0.89	$
Money market accounts.......................	43,054	234	2.17	11
Savings deposits............................	11,550	50	1.73	
Time deposits...............................	78,098	756	3.87	3
Other borrowings............................	30,463	338	4.44	1
Total interest-bearing liabilities.........	165,850	1,384	3.34	17
Noninterest-bearing liabilities.............	18,903			5
Shareholders' equity.........................	14,727			1
Total liabilities and shareholders' equity...	$ 199,480			$24
Interest rate spread.........................			2.22%	
Net interest income and net interest margin.....................................		$1,292	2.69%	

Nine Months Ended Septemb
2005

	Average Volume	Interest	Yield/Cost	Ave Vol
ASSETS				
Interest-earning assets:				
Federal funds sold	$ 13,020	$ 270	2.76%	$ 3
Securities	70,029	1,855	3.53	9
Loans receivable	110,976	5,741	6.90	10
Total interest-earning assets	194,025	7,866	5.40	23
Non-earning assets	7,981			1
Total assets	$202,006			$ 24
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest-bearing liabilities:				
NOW accounts	$ 2,803	17	0.80	$
Money market accounts	52,865	820	2.07	9
Savings deposits	12,267	140	1.52	
Time deposits	63,200	1,752	3.70	3
Other borrowings	36,539	1,073	3.92	1
Total interest-bearing liabilities	167,674	3,802	3.02	15
Noninterest-bearing liabilities	19,435			6
Shareholders' equity	14,897			1
Total liabilities and shareholders' equity	$202,006			$ 24
Interest rate spread			2.38%	
Net interest income and net interest Margin		$4,064	2.79%	

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 September 30, 2005 was $120,000 compared to $404,000 for the same period in 2004, a decrease of $284,000. This decrease was primarily due to the decrease in gain on sale of securities of $310,000. The decrease gain on sale of securities was due to the gains recognized during 2004 on the sales of securities for liquidity purposes. There were no sales of securities during the three months ended September 30, 2005.

For the nine months ended September 30, 2005, noninterest income was $301,000, compared to $562,000 for the same period in 2004. The decrease of $261,000 was primarily the result of fluctuations in operations as described above.

Noninterest Expense
Total noninterest expense for the three months ended September 30, 2005 and September 30, 2004 was $1.8 million and $2.0 million, respectively. For the nine months ended September 30, 2005 and September 30, 2004, noninterest expense was $5.6 million. The significant fluctuations are detailed below.

Compensation and Employee Benefits Expense
Compensation and benefits decreased $112,000 and $201,000 for the three and nine month periods, ended September 30, 2005, respectively. The reduction is primarily due to the departure of several high cost employees. Their responsibilities were subsequently shared among the remaining management team.

Occupancy and Equipment Expense
Occupancy and equipment expense increased $15,000 and $181,000 for the three and nine month periods, ended September 30, 2005, respectively. The increase was due to Pelican National opening two bank branches during the second half of the year in 2004.

Marketing and Advertising
Marketing and Advertising expense increased $22,000 and $48,000 for the three and nine month periods, ended September 30, 2005, respectively. The increase in expenditures was due to increased advertising and promotional activity.

Other Noninterest Expense
Other noninterest expenses decreased to $263,000, compared to $363,000 for the quarters ended September 30, 2005 and 2004, respectively. The decrease is due to management's focused effort on reducing costs to improve profitability. For the nine month period ended September 30, 2005, other noninterest expense decreased $47,000.

BALANCE SHEET ANALYSIS

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

ASSETS
At September 30, 2005, total assets of Pelican Financial equaled $194.5 million compared to $198.8 million at December 31, 2004, a decrease of $4.3 million or 2%.

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 September 30, 2005, and at December 31, 2004, 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 September 30, 2005, the market value of Pelican National's investment portfolio totaled $61.0 million. During the periods indicated and except as otherwise noted, Pelican National had no securities of a single issuer that exceeded 10% of shareholders' equity.

	(dollars in thousands) At September 30, 2005	At D
U. S. Government agency	$ 24,140	
Mortgage-backed securities	36,897	
Federal Reserve Bank and Federal Home Loan Bank Stock	1,905	
Total investment securities	$ 62,942	

The decrease in securities available for sale is the result of management's attempt to maximize the yield earned on the 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 $18.6 million at September 30, 2005, compared to $10.5 million at December 31, 2004. The increase of $8.1 million or 77% was primarily the result of a $13.3 million increase in deposits. These deposits have not been fully invested in higher yielding loans or securities and were primarily being invested in federal funds sold. Management is anticipating higher loan production and is maintaining higher liquidity levels to fund the growth.

Loans Receivable

Total loans receivable were $86.8 million at September 30, 2005, compared to $110.8 million at December 31, 2004. The decrease in balance is the result of new loan production being offset by loan payoffs and principal reductions. Also, $20.6 million in boat loans were transferred to loans held for sale to allow Pelican National to reduce the assets of the bank and achieve compliance with the Formal Agreement with the OCC. New loan production for the three and nine months ended September 30, 2005 was $13.3 million and $47.7 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 loans held for sale and loans held for investment. Pelican Financial had no concentration of loans exceeding 10% of total loans that are not otherwise disclosed below.

	September 30, 2005		Decem
	Amount	Percent (in thousands)	Amoun
Real estate loans:			

Residential, one to four units..........	$45,449	42.08%	$46,331
Commercial and industrial real estate........................	29,423	27.24	37,457
Construction............................	1,408	1.30	1,381
Total real estate loans.............	76,280	70.62	85,169
Other loans:			
Business, commercial...................	5,140	4.76	1,968
Automobile.............................	398	0.37	348
Marine.................................	20,581	19.05	17,823
Other consumer.........................	5,621	5.20	6,205
Total other loans...................	31,740	29.38	26,344
Total gross loans................	108,020	100.00%	111,513
Unearned fees, premiums and discounts, net.........................	302		272
Allowance for loan losses.................	(970)		(954)
Total Loans net........................	$107,352		$110,831

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 September 30,		At Dece
	2005	2004	20
	(Dollars in thousands)		

Nonaccrual loans............................	$ 682	$ 232	$
Loans past due 90 days or more but not on nonaccrual.................................	-	59	
Total nonperforming loans.................	682	291	
Other real estate owned......................	62	-	
Total nonperforming assets................	$ 744	$ 291	
Total nonperforming assets to total assets.....	0.38%	0.11%	
Allowance for loan losses to nonperforming loans	142.27%	322.34%	1
Nonperforming loans to total assets...........	0.35%	0.11%	

Provision and Allowance for Loan Losses

The allowance for loan losses as of September 30, 2005 was $971,000, or 1.12% of total portfolio loans, compared to $954,000, or 0.86% of total loans at December 31, 2004. The 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. The 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 nine months ended September 30, 2005 the allowance for loan losses was not materially changed. The small fluctuation in the allowance was deemed appropriate due to no significant change in the allocations on the loans on the banks "criticized asset report". The aforementioned reclassification of marine loans to held for sale resulted in a charge-off of $440,000 to adjust the loans to the lower of cost or market value. The allowance was replenished for this charge-off by a provision of $440,000 in the quarter ended September 30, 2005. While the allowance as a percent of loans increased from .86% at December 31, 2004 to 1.12% at September 30, 2005, management believes this is appropriate due to uncertainty of the impact of the recent hurricane. Management is concerned this may impact the collateral value of specific loans and the general economic market in the effected areas.

Criticized assets decreased from $4.5 million at December 31, 2004 to $1.9 million at September 30, 2005. 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 September 30, 2005, the total liabilities of Pelican Financial were $179.7 million as compared to $182.5 million at December 31, 2004, a decrease of $2.8 million or 2%. This decrease was primarily due to repayments of FHLB borrowings which was offset by the an increase in deposits.

Deposits

Total deposits were $154.1 million at September 30, 2005, compared to $140.7 million at December 31, 2004, representing an increase of $13.4 million or 10%. The increase was the result of a focus on developing new deposit relationships with customers. In addition the two branches opened during 2004 increased Pelican National's total deposits to $21.0 million at September 30, 2005.

Federal Home Loan Bank Borrowings

During the nine months ended September 30, 2005, FHLB borrowings decreased from $41.5 million to $25.5 million. The decrease of $16.0 million was due to the increase in deposits. Pelican National borrowed additional funds from the FHLB on a short-term basis until it is able to replace the large withdrawal of deposits that occurred during the fourth quarter of 2004 with core deposits. Pelican National intends to replace the FHLB borrowings with customer deposits.

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 FHLB 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 OCC, such as federal funds sold and United States securities and securities guaranteed by the United States. At September 30, 2005, Pelican National had a liquidity ratio of 39%. 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 September 30, 2005, Pelican Financial and Pelican National are both "well capitalized", as defined 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 September 30, 2005 and December 31, 2004, respectively:

	September 30, 2005		December 31, 2004		
	Pelican National	Pelican Financial	Pelican National	Pelican Financial	A C
Total Equity Capital to risk-weighted assets	14.99%	15.77%	15.53%	16.31%	
Tier 1 Capital to risk-weighted assets	14.07%	14.52%	14.64	15.42	
Tier 1 Capital to adjusted total assets	7.47%	7.72%	7.18	7.57	

On September 1, 2005, Pelican National, entered into a Formal Agreement with the OCC. The Formal Agreement requires Pelican National to increase and thereafter maintain Tier 1 capital to at least 13% of risk-weighted assets and Tier 1 capital to at least 8% of adjusted total assets

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 for the fiscal year ended December 31, 2004. 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, 2004.

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, there has been no such change during the quarter covered by this report.

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

During the quarter ended March 31, 2005, Pelican Financial settled two legal proceedings for approximately $135,000. There has been no other material change to the pending legal proceedings to which Pelican Financial is a party since the filing of the registrant's Form 10-K for the fiscal year ended December 31, 2004.

Item 2. Unregistered Sales of Equity 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

None

Item 5. Other Information

On November 4, 2005, Pelican Financial announced that it had reached an agreement in principle to merge with a newly formed subsidiary of Stark Bank

Group.

According to the terms of the proposed agreement, shareholders of Pelican Financial will receive $6.00 for each common share held, subject to adjustment as to the extent that certain costs incurred by Pelican Financial exceed $3.0 million and subject to an escrow account (expected to be approximately $0.20 per share) to be established to cover these costs, to the extent they may exceed $3.0 million, and to cover possible liabilities from the expected sale of certain marine loans. This escrow will reduce the immediate cash payment to less than $6.00 per share. Pelican Financial has approximately 4.5 million common shares outstanding. The proposed all-cash deal is subject to approval by Pelican Financial shareholders and regulators, to a final due diligence by the Stark Bank Group by November 14, 2005, at which time Pelican Financial expects to enter into a definitive agreement, and to other customary closing conditions. The merger is expected to be completed in the first quarter of 2006.

The proposed agreement also requires Stark Bank Group to purchase $4 million of a newly created series of convertible preferred stock of Pelican Financial.

Additional Information about the Merger and Where to Find It

It is anticipated that the merger will be submitted to Pelican Financial shareholders for approval. Pelican Financial will prepare proxy materials describing the merger that will be mailed to Pelican Financial's shareholders. These proxy materials and other relevant materials, including the definitive merger agreement, may be obtained free of charge at the Securities and Exchange Commission's website at http://www.sec.gov. In addition, shareholders may obtain free copies of the documents that Pelican Financial files with the SEC on Pelican Financial's website at www.PelicanFinancialInc.com or by written request directed to:

Howard Nathan
Pelican Financial, Inc.
3767 Ranchero Drive
Ann Arbor, Michigan 48108.

SHAREHOLDERS OF PELICAN FINANCIAL ARE URGED TO READ THESE MATERIALS AND TO READ THE DEFINITIVE PROXY MATERIALS WHEN THEY BECOME AVAILABLE BECAUSE THEY CONTAIN

AND WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED MERGER AND RELATED ITEMS. Shareholders are urged to read the proxy statement and other relevant materials before making any voting or investment decisions with respect to the proposed merger.

The executive officers and directors of Pelican Financial have interests in the proposed merger, some of which differ from, and are in addition to, those of Pelican Financial's shareholders generally. In addition, Pelican Financial and its executive officers and directors may be participating or may be deemed to be participating in the solicitation of proxies from the security holders of the Pelican Financial in connection with the proposed merger. Information about the executive officers and directors of Pelican Financial, their relationship with Pelican Financial and their beneficial ownership of Pelican Financial securities will be set forth in the proxy materials filed with the Securities and Exchange Commission. Shareholders may obtain additional information regarding the direct and indirect interests of Pelican Financial and its executive officers and directors in the proposed merger by reading the proxy materials relating to the merger when they become available.

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of Pelican Financial, Inc.
3.2	Bylaws of Pelican Financial, Inc. (1)
4	Form of Common Stock Certificate of Pelican Financial, I
10.1	Employment Agreement with Michael D. Surgen (1)
10.2	Pelican Financial, Inc. Stock Option and Incentive Agreements (1)
10.3	Master Agreement between Federal National Mortgage Washtenaw Mortgage Corporation dated December 21, 1998 (
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 Adop Pursuant to Section 906 of the Sarbanes-Oxley Act of 200

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: November 14, 2005 /s/ Charles C. Huffman

Charles C. Huffman
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2005 /s/ Howard M. Nathan

Howard M. Nathan
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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