

PELICAN FINANCIAL INC
Form 10-Q
May 13, 2005

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 March 31, 2005

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.)

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 No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock Outstanding as of April 30, 2005

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Common Stock, \$0.01 Par value

4,494,365 Shares

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PELICAN FINANCIAL, INC.
Consolidated Balance Sheets

	March 31, 2005 (Unaudited)	December 31, 2004
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 966,961	\$ 2,831,621
Interest-bearing deposits	1,601,113	275,800
Federal funds sold	10,877,466	7,384,068
Total cash and cash equivalents	13,445,540	10,491,489
Securities available for sale	68,157,039	69,385,545
Federal Reserve & Federal Home Loan Bank Stock	2,489,900	2,669,700
Loans receivable, net	113,992,909	110,830,985
Premises and equipment, net	3,633,571	3,713,200
Other assets	2,105,630	1,724,659
	\$ 203,824,589	\$ 198,815,578
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 19,330,858	\$ 15,200,340
Interest-bearing	129,817,994	125,508,431
Total deposits	149,148,852	140,708,771
Federal Home Loan Bank borrowings	38,500,000	41,500,000
Other liabilities	601,221	319,057
Total liabilities	188,250,073	182,527,828
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 March 31, 2005 and December 31, 2004		
	44,943	44,943
Additional paid in capital	15,574,767	15,574,767
Retained earnings	606,306	932,726
Accumulated other comprehensive income (loss), net of tax	(651,500)	(264,686)
Total shareholders' equity	15,574,516	16,287,750
	\$ 203,824,589	\$ 198,815,578

See accompanying notes to consolidated financial statements

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

	Three Months Ended March 31,	
	2005	2004
Interest income		
Loans, including fees	\$ 1,947,805	\$ 1,999,705
Investment securities, taxable	536,418	499,232
Federal funds sold and overnight accounts	71,690	89,540
Total interest income	2,555,913	2,588,477
Interest expense		
Deposits	806,599	876,459
Other borrowings	357,309	163,042
Total interest expense	1,163,908	1,039,501
Net interest income	1,392,005	1,548,976
Provision for loan losses		75,000
Net interest income after provision for loan losses	1,392,005	1,473,976
Noninterest income		
Gain on sales of securities, net		2,330
Service charges on deposit accounts	58,042	30,529
Gain on sale of loans, net	1,657	9,641
Net gain (loss) on foreclosed assets and other income	3,910	58,970
Total noninterest income	63,609	101,470
Noninterest expense		
Compensation and employee benefits	874,816	937,674
Occupancy and equipment	378,766	270,806
Legal	67,837	49,625
Accounting and auditing	50,303	70,122
Data processing	73,242	48,202
Marketing and advertising	44,465	32,153
Loan and other real estate owned	66,545	123,279
Other noninterest expense	393,899	286,464
Total noninterest expense	1,949,873	1,818,325
Income (loss) before income taxes	(494,259)	(242,879)
Income tax expense (benefit)	(167,839)	(82,455)
Net Income (loss)	\$ (326,420)	\$ (160,424)
Basic earnings (loss) per share	\$ (0.07)	\$ (0.04)
Diluted earnings (loss) per share	\$ (0.07)	\$ (0.04)
Comprehensive income	\$ (713,234)	\$ 196,322

See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended March 31,

	2005	2004
Cash flows from operating activities		
Net cash provided (used) by operating activities	\$ (62,279)	\$ 11,338
Cash flows from investing activities		
Loan originations, net	(3,161,924)	(96,051)
Other real estate owned, net		214,262
Property and equipment expenditures, net	(38,283)	(488,141)
Purchase of securities available for sale	(26,953,023)	(44,208,937)
Proceeds from sales of securities available for sale		5,000,000
Proceeds from maturities and principal repayments of securities available for sale	27,549,679	609,083
Sale (purchase) of Federal Home Loan Bank stock	179,800	(243,200)
Net cash provided (used) by investing activities	(2,423,751)	(39,212,984)
Cash flows from financing activities		
Increase in deposits	8,440,081	49,079,337
Repayments on Federal Home Loan Bank Borrowings	(3,000,000)	
Decrease in note payable due on demand		(291,665)
Net cash provided by financing activities	5,440,081	48,787,672
Net change in cash and cash equivalents	2,954,051	9,586,026
Cash and cash equivalents at beginning of period	10,491,489	55,419,717
Cash and cash equivalents at end of period	\$ 13,445,540	\$ 65,005,743

See accompanying notes to consolidated financial statements

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIESPrinciples of Consolidation:

The unaudited consolidated financial statements as of and for the three month period ended March 31, 2005 and 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 subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Segment Information:

Pelican Financial's operations include one primary segment, retail banking. 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 five bank branches. Pelican National's primary revenues are comprised of net interest income from loans and investments, service charges on deposit accounts and gain on sales of loans.

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 March 31,	
	2005	2004
Net income (loss) as reported	\$ (326,420)	\$ (160,424)
Deduct: Stock-based compensation expense determined under fair value based method	4,547	3,443
Pro forma net income (loss)	\$ (330,967)	\$ (163,867)
Basic earnings (loss) per share as reported	\$ (0.07)	\$ (0.04)
Pro forma basic earnings (loss) per share	(0.07)	(0.04)
Diluted earnings (loss) per share	\$ (0.07)	\$ (0.04)
Pro forma diluted earnings (loss) per share	(0.07)	(0.04)

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). 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

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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 was recognized for the modification.

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

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended March 31, 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 current presentation.

NOTE 3 SPIN-OFF

On December 31, 2003, Pelican Financial, the former parent company of Washtenaw, distributed all of the outstanding shares of Washtenaw to the holders of Pelican Financial common stock on a share for share basis (based on Pelican Financial shareholders of record on December 22, 2003). Upon completion of the distribution on December 31, 2003, Washtenaw is no longer a subsidiary of Pelican Financial. The consolidated statements of income and consolidated statements of cash flows, include the activity of Washtenaw as a discontinued operation during 2003.

During the periods presented in the financial statements, Pelican Financial did not incur any expenses on behalf of Washtenaw and no allocation of parent company expenses has been reflected in discontinued operations.

Following the distribution, certain individuals continue to serve as officers of both Washtenaw and Pelican Financial. Washtenaw pays their salaries and all other compensation, and Pelican Financial reimburses Washtenaw, as part of the transitional services agreement, for time spent on Pelican Financial matters. Prior to 2004, Pelican did not reimburse Washtenaw for these services. Beginning in 2004, officers and other employees providing services to both companies will maintain records of their time spent on the affairs of each company as a basis for determining the reimbursements.

NOTE 4 LOANS RECEIVABLE

Loans receivable consist of the following:

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	March 31, 2005	December 31, 2004
Commercial, financial and agricultural	\$ 1,947,566	\$ 1,967,687
Commercial real estate	36,164,592	38,751,936
Residential real estate	49,879,327	46,689,250
Marine	19,297,211	17,823,612
Consumer loans	7,676,051	6,552,454
	114,964,747	111,784,939
Deduct allowance for loan losses	(971,838)	(953,954)
Loans receivable, net	\$ 113,992,909	\$ 110,830,985

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

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

	2005	2004
Balance at beginning of period	\$ 953,954	\$ 1,330,112
Provision for loan losses		75,000
Loans charged-off	(26,348)	
Recoveries	44,232	40,160
Balance at end of period	\$ 971,838	\$ 1,445,272

NOTE 5 - EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2005	2004
Basic earnings (loss) per share		
Net income (loss) applicable to common stock	(326,420)	(160,424)
Weighted average shares outstanding	4,494,365	4,488,351
Basic earnings (loss) per share	\$ (0.07)	\$ (0.04)
Diluted earnings (loss) per share		
Net income (loss) applicable to common stock	(326,420)	(160,424)
Weighted average shares outstanding	4,494,365	4,488,351
Dilutive effect of assumed exercise of stock options		
Diluted average shares outstanding	4,494,365	4,488,351
Diluted earnings (loss) per share	\$ (0.07)	\$ (0.04)

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

Forward Looking Statements

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

OVERVIEW

Pelican Financial currently serves as the holding company of Pelican National. 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.

Management is also focusing on increasing core deposits to allow the opportunity to cross sell other products and services. As part of this objective, Pelican National aggressively marketed a money market deposit account in its local markets during the first nine months of 2004. During the fourth quarter, management decided to reduce the interest rate being paid on the money market accounts in an effort to increase its interest margin.

Management is attempting to increase the growth rate of Pelican National's loan portfolio. The approach includes recruiting seasoned loan officers, purchase of loans or participations within its lending area and aggressive pricing to attract high quality loans.

CRITICAL ACCOUNTING POLICIES

The accounting policy that has the greatest impact on Pelican Financial's financial condition and results of operations and that requires the most judgment relates to the accounting for the allowance for loan losses. Pelican Financial's accounting policy for the allowance for loan losses has not changed since December 31, 2004 and the accounting policy is described more fully in the Annual Report on Form 10-K for the year ended December 31, 2004.

EARNINGS PERFORMANCE

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Pelican Financial reported a net loss of \$326,000 for the quarter ended March 31, 2005 compared to a net loss of \$160,000 for the quarter ended March 31, 2004. Basic and diluted earnings per share was \$0.07 and \$0.04 loss per share for the three months ended March 31, 2005 and 2004, respectively.

RESULTS OF OPERATIONS

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Net Interest Income

Net interest income was \$1.4 million and \$1.5 million for the three months ended March 31, 2005 and 2004, respectively. Net interest income decreased as a result of the increase in the average balance of other borrowings. These are comprised of Federal Home Loan Bank (FHLB) advances with various maturities. Pelican National used this source of funds to replace the custodial deposits from Washtenaw that were removed from Pelican National in the fourth quarter of 2004. These custodial deposits were non-interest bearing.

Average Balance Sheet (dollars in thousands)

The following table summarizes the average yields earned on interest-earning assets and the average rates paid on interest-bearing liabilities for the continuing operations of Pelican Financial.

	Average Volume	2005		Three months ended March 31,		2004	
		Interest	Yield/Cost	Average Volume	Interest	Yield/Cost	
ASSETS							
Interest-earning assets:							
Federal funds sold	\$ 14,964	\$ 72	1.92%	\$ 36,206	\$ 89	0.98%	
Securities	71,921	536	2.98	64,726	499	3.08	
Loans held for sale				74	1	5.41	
Loans receivable, net	112,476	1,948	6.93	111,218	1,999	7.19	
Total interest-earning assets	199,361	2,556	5.13	212,224	2,588	4.88	
Non-earning assets	4,974			11,855			
Total assets	\$ 204,335			\$ 224,079			
LIABILITIES AND SHAREHOLDERS EQUITY							
Interest-bearing liabilities:							
NOW accounts	\$ 2,742	5	0.73	\$ 1,699	3	0.71	
Money market accounts	63,869	315	1.97	79,682	429	2.15	
Savings deposits	12,785	43	1.35	9,841	34	1.38	
Time deposits	50,865	444	3.49	38,103	410	4.30	
Other borrowings	40,767	357	3.50	12,000	163	5.43	
Total interest-bearing liabilities	171,028	1,164	2.72	141,325	1,039	2.94	
Noninterest-bearing liabilities	17,839			65,957			
Stockholders equity	15,468			16,797			
Total liabilities and stockholders equity	\$ 204,335			\$ 224,079			
Interest rate spread			2.41%			1.94%	
Net interest income and net interest margin		\$ 1,392	2.79%		\$ 1,549	2.92%	

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 March 31, 2005 was \$64,000 compared to \$101,000 for the same period in 2004, a decrease of \$37,000 or 37%. This decrease was primarily due to the decrease in the net gain on the sale of foreclosed assets and other income of approximately \$55,000; and the decrease in gain on the sale of loans of \$8,000 offset by the \$28,000 increase in service charges on deposit accounts. The decrease in the net gain on sale of foreclosed assets and other income resulted from the gain on a foreclosed property during 2004. The decrease in the gain on sales loans, net resulted from the reduction in the sales of marine loans during 2005. Pelican National has retained a greater portion of their originated marine loans that were previously being sold. The increase in service charges on deposit accounts resulted from a modification in the fee structure allowing Pelican National to increase the revenue.

Noninterest Expense

Compensation and Employee Benefits Expense

Compensation and benefits totaled \$875,000 for the quarter ended March 31, 2005 compared to \$938,000 for the quarter ended March 31, 2004, representing a decrease of approximately \$63,000, or 7%. 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 totaled \$379,000 for the quarter ended March 31, 2005 compared to \$271,000 for the quarter ended March 31, 2004. The increase was due to Pelican National opening two bank branches during second half of the year in 2004.

Legal

Legal expenses increased to \$68,000 compared to \$50,000 for the quarters ended March 31, 2005 and 2004. The increase is primarily due to the expenses related to several lawsuits in which Pelican National has been named as a defendant. One lawsuit was settled in the quarter ending March 31, 2005 while the other it is anticipated will be settled in the quarter ending June 30, 2005. Management believes that the current accrual is adequate to cover the settlement of the case.

Accounting and Auditing

Accounting and auditing expenses were \$50,000 compared to \$70,000 for the years ended March 31, 2005 and 2004, respectively. The decrease is primarily due to \$26,000 in audit fees paid in 2004 related to the spin-off of The Washtenaw Group.

Data Processing

Data Processing expense increased to \$73,000 compared to \$48,000 for the quarters ended March 31, 2005 and 2004, respectively. The increase is due to the increased costs on the core systems contract due to the additional depositor relationships established during 2004.

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Marketing and Advertising

Marketing and advertising expenses increased to \$44,000 compared to \$32,000 for the quarters ended March 31, 2005 and 2004, respectively. The increase in expenditures was due to increased advertising and promotional activity.

Loan and Other Real Estate Owned

Loan and other real estate owned expenses decreased to \$66,000 compared to \$123,000 for the years ended March 31, 2005 and 2004, respectively. This is due to reduced costs associated with foreclosures and repossessions in 2005.

Other Noninterest Expense

Other noninterest expenses increased to \$394,000 compared to \$286,000 for the quarters ended December 31, 2005 and 2004, respectively. The increase is due to the additional branches added during 2004. Also, two lawsuits were settled for approximately \$136,000. These suits were not considered significant however management determined it would be more cost effective to settle these cases than to continue the litigation process.

BALANCE SHEET ANALYSIS

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

ASSETS

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At March 31, 2005, total assets of Pelican Financial equaled \$203.8 million compared to \$198.8 million at December 31, 2004, an increase of \$5.0 million or 3%. The increase is primarily due to the increase in cash and cash equivalents and loans receivable.

Cash and Cash Equivalents

Cash and cash equivalents were \$13.4 million at March 31, 2005 compared to \$10.5 million at December 31, 2004. The increase of \$2.9 million, or 28%, was primarily the result of an \$8.4 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.

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 March 31, 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 March 31, 2005, the market value of Pelican National's investment portfolio totaled \$70.7 million. During the periods indicated and except as otherwise noted, Pelican National had no securities of a single issuer that exceeded 10% of stockholders' equity.

	(dollars in thousands)	
	At March 31, 2005	At December 31, 2004
U. S. Government agency	\$ 27,015	\$ 49,934
Mortgage-backed securities	41,142	19,452
Federal Reserve Bank and Federal Home Loan Bank Stock	2,490	2,670
Total investment securities	\$ 70,647	\$ 72,056

Loans Receivable

Total loans receivable were \$114.0 million at March 31, 2005 compared to \$110.8 million at December 31, 2004. The increase is the result of new loan production totaling \$14.9 million for the quarter ended March 31, 2005. This was offset by loan payoffs and principal reductions. New loan production for the three months ended March 31, 2004 was \$12.1 million.

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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 excludes mortgage loans held for sale. Pelican Financial had no concentration of loans exceeding 10% of total loans that are not otherwise disclosed below.

	March 31, 2005		December 31, 2004	
	Amount	Percent	Amount	Percent
Real estate loans:				
Residential, one to four units	\$ 47,863	41.76%	\$ 46,331	41.55%
Commercial and industrial real estate	36,165	31.55	37,457	33.59
Construction	1,763	1.54	1,381	1.24
Total real estate loans	85,791	74.85	85,169	76.38
Other loans:				
Business, commercial	1,847	1.61	1,968	1.77
Automobile	304	0.27	348	0.31
Boat	19,297	16.84	17,823	15.98
Other consumer	7,372	6.43	6,205	5.56
Total other loans	28,820	25.15	26,344	23.62
Total gross loans	114,611	100.00%	111,513	100.00%
Unearned fees, premiums and discounts, net	354		272	
Allowance for loan losses	(972)		(954)	
Total Loans net	\$ 113,993		\$ 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.

	2005	At March 31,		At December 31,
		2004		
(Dollars in thousands)				
Nonaccrual loans	\$ 1,026	\$ 557	\$ 450	
Loans past due 90 days or more but not on nonaccrual	163	735	109	
Total nonperforming loans	1,189	1,292	559	
Other real estate owned		119		
Total nonperforming assets	\$ 1,189	\$ 1,411	\$ 559	
Total nonperforming assets to total assets	0.58%	0.52%	0.28%	
Allowance for loan losses to nonperforming loans	81.75%	111.84%	170.83%	
Nonperforming loans to total assets	0.58%	0.48%	0.28%	

Provision and Allowance for Loan Losses

The provision for loan losses is charged to earnings to bring the allowance for loan losses to a level deemed appropriate by management. During the quarter ended March 31, 2005, management did not make a provision for loan losses compared to a provision of \$75,000 for the quarter ended March 31, 2004. The allowance for loan losses as of March 31, 2005 was \$972,000, or 0.85% of total portfolio loans, compared to \$954,000, or 0.86% of total loans at December 31, 2004.

Our allowance for loan losses is maintained at a level based upon our regular, quarterly assessments of the probable estimated losses incurred in the loan portfolio. Our methodology for measuring the appropriate level of allowance relies on several key elements, which include specific allowances for identified problem loans, general allocations for graded loans, and general allocations based on historical trends for pools of similar ungraded loans.

Specific allowances are established in cases where senior credit management has identified significant conditions or circumstances related to an individual credit that it believes 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 quarter ended March 31, 2005 the allowance for loan losses increased by \$18,000. The increase was the result of \$44,000 in recoveries offset by \$26,000 in charge offs. Criticized assets increased slightly from \$4.5 million at December 31, 2004 to \$4.7 million at March 31, 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

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At March 31, 2005, the total liabilities of Pelican Financial were \$188.3 million as compared to \$182.5 million at December 31, 2004, an increase of \$5.8 million or 3%. This increase was primarily due to an increase in deposits.

Deposits

Total deposits were \$149.1 million at March 31, 2005 compared to \$140.7 million at December 31, 2004, representing an increase of \$8.4 million or 6%. The increase was the result of a focus on developing new deposit relationships with customers. In addition the two branches opened during 2004 increased their total deposits by \$5.0 million during the quarter.

Federal Home Loan Bank Borrowings.

During the quarter, FHLB borrowings decreased from \$41.5 million to \$38.5 million at March 31, 2005. The decrease of \$3.0 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.

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 Office of the Comptroller of the Currency (OCC), such as federal funds sold and United States government securities and securities guaranteed by the United States. At March 31, 2005, Pelican National had a liquidity ratio of 40%. 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 March 31, 2005 Pelican Financial and Pelican National are both well capitalized, based upon the definitions in the regulations issued by the FRB and the OCC setting forth the general capital requirements mandated by the Federal Deposit Insurance Corporation Improvement Act of 1991.

The table below indicates the regulatory capital ratios of Pelican Financial and Pelican National and the regulatory categories for a well capitalized and adequately capitalized bank under the regulatory framework for prompt corrective action (all three capital ratios) at March 31, 2005 and December 31, 2004, respectively:

	March 31, 2005		December 31, 2004		Required to be	
	Pelican National	Pelican Financial	Pelican National	Pelican Financial	Adequately Capitalized	Well Capitalized
Total Equity Capital to risk-weighted assets	13.88%	15.40%	15.53%	16.31%	8.00%	10.00%
Tier 1 Capital to risk-weighted assets	14.75%	14.53%	14.64	15.42	4.00%	6.00%
Tier 1 Capital to adjusted total assets	7.58%	7.94%	7.18	7.57	4.00%	5.00%

LIABILITIES

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

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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 changes to the pending legal proceedings to which Pelican Financial is a party since the filing of the registrant's Form 10-K.

Item 2. Unregistered Sales of Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of Pelican Financial, Inc. (1)
3.2	Bylaws of Pelican Financial, Inc. (1)
4	Form of Common Stock Certificate of Pelican Financial, Inc. (1)
10.1	Employment Agreement with Michael D. Surgen (1)
10.2	Pelican Financial, Inc. Stock Option and Incentive Plan and Forms of Agreements (1)
10.3	Master Agreement between Federal National Mortgage Association and Washtenaw Mortgage Corporation dated December 21, 1998 (1)
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Pelican Financial, Inc. and Subsidiaries
Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 13, 2005

/s/ Charles C. Huffman
Charles C. Huffman
President and Chief Executive Officer

Date: May 13, 2005

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