

STURGIS BANCORP INC

Form 10-Q

November 14, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20429

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

STURGIS BANCORP, INC.

(Exact name of registrant as specified in its charter)

MICHIGAN

(State of incorporation or organization)

0-49613

38-3609814

(Commission File No.)

(I.R.S. Employer Identification No.)

113-125 E. Chicago Road, Sturgis, Michigan 49091

(Address of principal executive offices)

(269) 651-9345

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since
last report.)

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 of 1934 Act during the past 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 stock, as of the latest practicable date.

Class	Outstanding at November 12, 2003
Common Stock, \$1.00 par value	2,808,535

Transitional Small Business Disclosure Format (check one); Yes ☐ No ☒

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

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

CONDENSED CONSOLIDATED STATEMENT OF INCOME

CONDENSED CONSOLIDATED STATEMENT OF INCOME

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 2. CHANGES IN SECURITIES

ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

SIGNATURES

10-Q EXHIBIT INDEX

Employment Agreement with Eric L Eishen

Employment Agreement with Brian P. Hoggatt

Employment Agreement with Ronald W. Scheske

Employment Agreement with Steven L. Gage

Employment Agreement with Tracey L. Parker

Employment Agreement with David E. Watters

Excerpt from Annual Report to Stockholders

Excerpt from Annual Report to Stockholders

302 Certification of Chief Executive Officer

302 Certification of Chief Financial Officer

906 Certification of Chief Executive Officer

906 Certification of Chief Financial Officer

Table of Contents

STURGIS BANCORP, INC. AND SUBSIDIARIES

INDEX

	<u>Page No.</u>
Part I. Financial Information	
Item 1. Financial Statements:	
Condensed Consolidated Statements of Financial Condition September 30, 2003 and December 31, 2002.	2
Condensed Consolidated Statements of Income Three Months Ended September 30, 2003 and 2002 (Unaudited).	3
Condensed Consolidated Statements of Income Nine Months Ended September 30, 2003 and 2002 (Unaudited).	4
Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2003 and 2002 (Unaudited).	5
Notes To Condensed Consolidated Financial Statements.	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	16
Item 3. Quantitative and Qualitative Disclosures about Market Risks.	29
Item 4. Controls and Procedures	29
Part II. Other Information	
Item 1. Legal Proceedings	32
Item 2. Changes in Securities	32
Item 4. Submission of Matters to a Vote of Security Holders	32
Item 6. Exhibits and Reports on Form 8-K	32
Signatures	33

Table of Contents

PART I. FINANCIAL INFORMATION

Throughout this Form 10-Q, Sturgis Bancorp, Inc. will be referred to as Bancorp and Sturgis Bank and Trust Company and its subsidiaries will be referred to as the Bank. Bancorp is a financial holding company under the Bank Holding Company Act of 1956, as amended. The Bank is a wholly owned subsidiary of Bancorp.

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

STURGIS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

	September 30, 2003	December 31, 2002
ASSETS		
Cash and due from banks	\$ 12,699,231	\$ 13,064,101
Short-term interest-bearing deposits	305,482	7,183
	<hr/>	<hr/>
Total cash and cash equivalents	13,004,713	13,071,284
Interest-bearing deposits in banks	10,608,825	23,018,375
Securities - Available-for-sale	9,075,367	
Securities - Held-to-maturity	11,332,009	12,590,709
Federal Home Loan Bank stock, at cost	4,221,700	4,115,400
Loans held for sale	5,017,562	7,437,506
Loans, net	209,554,727	212,043,350
Real estate owned	763,928	1,358,759
Bank owned life insurance	6,558,150	6,335,429
Accrued interest receivable	1,711,828	1,731,948
Investment in limited partnership	1,187,680	161,080
Premises and equipment, net	6,780,758	6,641,980
Intangible assets		
Goodwill, net of accumulated amortization	5,109,419	5,109,419
Originated mortgage servicing rights	1,816,886	1,501,922
Other intangible assets	102,613	105,601
Other assets	1,805,378	1,461,695
	<hr/>	<hr/>
Total assets	\$ 288,651,543	\$ 296,684,457
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposit accounts:		
Noninterest-bearing	\$ 14,207,139	\$ 12,747,121
Interest-bearing	184,681,783	189,816,675
Borrowings from Federal Home Loan Bank	58,375,883	64,381,396
Accrued interest payable	617,557	935,954
Other liabilities	1,924,966	1,350,783
	<hr/>	<hr/>
Total liabilities	259,807,328	269,231,929
Stockholders' equity:		
Common stock	2,808,535	2,799,535
Additional paid-in capital	17,805,688	17,732,617
Retained earnings	8,229,992	6,920,376
	<hr/>	<hr/>
Total stockholders' equity	28,884,215	27,452,528
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 288,651,543	\$ 296,684,457
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Table of Contents

STURGIS BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended September 30,	
	2003	2002
Interest income		
Loans	\$ 3,386,875	\$ 3,947,896
Mortgage-backed securities	59,798	88,145
Investments	77,062	119,263
Interest-bearing deposits	123,419	258,553
Overnight deposits at FHLB	1,537	2,811
	<u> </u>	<u> </u>
Total interest income	3,648,691	4,416,668
Interest expense		
Deposits	975,867	1,324,880
FHLB advances	712,902	830,449
	<u> </u>	<u> </u>
Total interest expense	1,688,769	2,155,329
	<u> </u>	<u> </u>
Net interest income	1,959,922	2,261,339
Provision for loan losses	53,600	248,635
	<u> </u>	<u> </u>
Net interest income after provision for loan losses	1,906,322	2,012,704
Noninterest income:		
Service charges and other fees	359,298	393,715
Commission income	371,317	222,853
Mortgage banking activities	526,411	425,633
Trust fee income	119,443	113,337
Increase in cash surrender value of life insurance	70,663	84,089
Other income	9,735	28,326
	<u> </u>	<u> </u>
Total noninterest income	1,456,867	1,267,953
Noninterest expenses:		
Salaries and employee benefits	1,262,459	1,158,543
Office occupancy and equipment	348,424	336,581
Deposit account expenses	51,008	52,559
Service bureau expense	150,709	156,348
Professional fees and services	55,607	74,221
Other	487,882	448,577
	<u> </u>	<u> </u>
Total noninterest expenses	2,356,089	2,226,829
	<u> </u>	<u> </u>
Income before provision for federal income tax	1,007,100	1,053,828
Provision for federal income tax	290,299	336,141
	<u> </u>	<u> </u>
Net income	\$ 716,801	\$ 717,687
	<u> </u>	<u> </u>
Basic earnings per share	\$ 0.26	\$ 0.24
Diluted earnings per share	\$ 0.25	\$ 0.24
Dividends declared per share	\$ 0.09	\$ 0.07

Table of Contents**STURGIS BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF INCOME**

	Nine Months Ended September 30,	
	2003	2002
Interest income		
Loans	\$ 10,561,047	\$ 11,885,050
Mortgage-backed securities	199,664	152,655
Investments	418,165	375,381
Interest-bearing deposits	460,461	659,112
Overnight deposits at FHLB	22,565	43,942
	<hr/>	<hr/>
Total interest income	11,661,902	13,116,140
Interest expense		
Deposits	3,220,757	3,770,415
FHLB advances	2,166,497	2,558,437
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Total interest expense	5,387,254	6,328,852
	<hr/>	<hr/>
Net interest income	6,274,648	6,787,288
Provision for loan losses	1,083,075	1,063,892
	<hr/>	<hr/>
Net interest income after provision for loan losses	5,191,573	5,723,396
Noninterest income:		
Service charges and other fees	1,073,941	1,135,094
Commission income	913,459	715,504
Mortgage banking activities	2,027,662	1,284,935
Trust fee income	367,224	364,114
Increase in cash surrender value of life insurance	222,721	248,087
Other income	256,232	51,952
	<hr/>	<hr/>
Total noninterest income	4,861,239	3,799,686
Noninterest expenses:		
Salaries and employee benefits	3,780,283	3,458,164
Office occupancy and equipment	1,024,313	963,859
Deposit account expenses	149,730	147,162
Service bureau expense	594,821	471,608
Professional fees and services	241,558	274,358
Other	1,381,763	1,357,548
	<hr/>	<hr/>
Total noninterest expenses	7,172,468	6,672,699
	<hr/>	<hr/>
Income before provision for federal income tax	2,880,344	2,850,383
Provision for federal income tax	840,508	854,411
	<hr/>	<hr/>
Net income	\$ 2,039,836	\$ 1,995,972
	<hr/>	<hr/>
Basic earnings per share	\$ 0.73	\$ 0.67
Diluted earnings per share	\$ 0.73	\$ 0.67
Dividends declared per share	\$ 0.26	\$ 0.21

Table of Contents**STURGIS BANCORP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Nine Months Ended September 30,	
	2003	2002
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities		
Net Income	\$ 2,039,836	\$ 1,995,972
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	478,662	445,152
Amortization of intangibles	825,541	527,186
Provision for loan losses	1,083,075	1,063,892
Loss on sale of fixed assets	4,785	
Premiums and discounts on investment securities	71,562	37,508
Gain on sale of loans	(1,358,252)	(721,197)
Gain on sale of real estate owned	(9,122)	(44,283)
Proceeds from the sale of loans held for sale	110,911,535	61,498,898
Loans originated for sale	(107,133,339)	(59,917,326)
Loss of equity in limited partnership	23,400	13,500
Increase in cash value of bank owned life insurance	(222,721)	(248,087)
Changes in assets and liabilities:		
Increase in accrued interest and other assets	(1,461,080)	(165,169)
Decrease (increase) in accrued interest and other liabilities	256,857	(148,845)
Net cash provided by operating activities	5,510,739	4,337,201
Cash Flows from Investing Activities		
Net decrease (increase) in interest-bearing deposits in banks	12,409,550	(11,564,025)
Proceeds from maturities of securities held-to-maturity	1,187,138	1,381,735
Purchase of securities held-to-maturity		(10,213,698)
Purchase of other securities	(9,075,367)	(1,044,096)
Purchase of FHLB stock	(106,300)	
Purchase of investment in limited partnership	(1,050,000)	
Net decrease (increase) in loans	984,937	(5,099,931)
Proceeds from sale of real estate owned	1,024,564	653,311
Purchases of premises and equipment	(622,225)	(392,151)
Net cash provided by (used in) investing activities	4,752,297	(26,278,855)
Cash Flows from Financing Activities		
Net increase in demand and savings account deposits	8,294,519	7,831,776
Net (decrease) increase in certificates of deposits	(11,969,393)	20,692,450
Repayment of FHLB advances	(10,349,373)	(26,401,560)
Proceeds from FHLB advances	4,343,860	23,375,887
Dividends paid	(730,220)	(631,139)
Exercise of stock options	81,000	
Stock Redemption		(2,235,074)
Net cash (used in) provided by financing activities	(10,329,607)	22,632,340
Net (decrease) increase in Cash and Cash Equivalents	(66,571)	690,686
Cash and Cash Equivalents - Beginning of Period	13,071,284	10,629,027
Cash and Cash Equivalents - End of Period	\$ 13,004,713	\$ 11,319,713

Table of Contents

STURGIS BANCORP, INC. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

Note A: FINANCIAL STATEMENTS.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Bancorp's Annual Report on Form 10-K for the year ended December 31, 2002.

Note B: ORGANIZATION AND ACCOUNTING POLICIES.

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements of Sturgis Bancorp and subsidiaries (individually and collectively referred to as Banco