

FENTURA FINANCIAL INC
Form 8-K
October 21, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: October 20, 2004

FENTURA FINANCIAL, INC.

(Exact Name of Registrant as Specified in Charter)

Michigan
(State or Other Jurisdiction
of Incorporation)

000-23550
(Commission
File Number)

38-2806518
(IRS Employer
Identification No.)

175 North Leroy Street
P.O. Box 725
Adrian, Michigan
(Address of principal executive office)

48430-0725
(Zip Code)

Registrant's telephone number, including area code: (810) 629-2263

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Section Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12).

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240-14d-2(b)).

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)).

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Section 2.02 Results of Operations and Financial Conditions

On October 20, 2004, Fentura Financial, Inc. issued a press release announcing results for the 2004 third quarter. A copy of the press release is attached as Exhibit 99.1 to this Form 8-K.

On October 20, 2004, Fentura Financial, Inc. sent a third quarter report to their shareholders. A copy of that report is attached as Exhibit 99.2 to this Form 8-K.

The information in this Form 8-K and the attached Exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Section 9.01 Financial Statements and Exhibits

(c) Exhibit

99.1 Press Release Dated October 20, 2004.

99.2 Report to Shareholders for Third Quarter 2004

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SIGNATURE

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.

Dated: October 21, 2004

FENTURA FINANCIAL, INC.
(Registrant)

By: /s/ Donald L. Grill

Donald L. Grill
President and Chief Executive Officer

EXHIBIT INDEX

- 99.1 Press Release Dated October 20, 2004
 - 99.2 Report to Shareholders for Third Quarter 2004
-

FENTURA FINANCIAL, INC.
P.O. BOX 725
FENTON, MI 48430-0725

Contact: Donald Grill
The State Bank
(810) 714-3985

October 20, 2004

For Immediate Release

FENTURA FINANCIAL, INC. ANNOUNCES THIRD QUARTER EARNINGS

Fentura Financial, Inc. achieved net income of \$856,000 or \$.45 per diluted share for the three months ended September 30, 2004 compared to net income of \$1,167,000 or \$.62 per diluted share reported for the third quarter of 2003. A \$1,355,000 increase in net-interest income was offset by a \$1,400,000 increase in non-interest expense, both of which were due principally to the addition of West Michigan Community Bank net-interest income and operating expenses. Non-interest income dropped \$110,000 or 6% while the provision for loan losses increased \$261,000 compared to the prior quarter.

Year to date earnings of \$2,498,000 or \$1.32 per diluted share reflect a 13.8% decrease compared to the \$2,898,000 or \$1.53 per diluted share reported for the first nine months of 2003. Operating expenses, acquisition and funding costs associated with the acquisition of West Michigan Financial Corporation and West Michigan Community Bank, and a substantial decline in the gain on sale of residential mortgage loans were the principal reasons behind the year-to-year decline in net-income.

Total assets of \$593,271,000 reflect an increase of \$168,381,000 over the level reported at September 30, 2003. The total includes West Michigan Community Bank assets of \$143,704,000 at September 30, 2004. The State Bank and Davison State Bank experienced positive year-to-year growth trends as combined assets for the two banks increased 5.7%, driven principally by a \$51,925,000 increase in commercial loans and a \$25,069,000 increase in total deposits.

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Fentura is a bank holding company headquartered in Fenton, Michigan. Subsidiary banks include The State Bank headquartered in Fenton with offices serving Fenton, Linden, Holly and Grand Blanc; Davison State Bank with offices servicing Davison and Goodrich and West Michigan Community Bank headquartered in Hudsonville with offices serving Hudsonville, Holland, Jenison and Grandville. Fentura Financial, Inc. shares are traded over the counter under the FETM trading symbol.

**Third Quarter
Report to
Shareholders**

September 30, 2004

Letter to Shareholders

Fentura Financial, Inc. achieved net income of \$856,000 or \$.45 per diluted share for the three months ended September 30, 2004 compared to net income of \$1,167,000 or \$.62 per diluted share reported for the third quarter of 2003. A \$1,355,000 increase in net-interest income was offset by a \$1,400,000 increase in non-interest expense, both of which were due principally to the addition of West Michigan Community Bank net-interest income and operating expenses. Non-interest income dropped \$110,000 or 6% while the provision for loan losses increased \$261,000 compared to the prior quarter.

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Total assets of \$593,271,000 reflect an increase of \$168,381,000 over the level reported at September 30, 2003. The total includes West Michigan Community Bank assets of \$143,704,000 at September 30, 2004. Both The State Bank and Davison State Bank experienced positive year- to-year growth trends as combined assets for the two banks increased 5.7%, driven principally by a \$51,925,000 increase in commercial loans and a \$25,069,000 increase in total deposits.

While the growth and profitability of West Michigan Community Bank have been modest following the acquisition, asset quality problems which have had a negative impact on that bank's performance during recent quarters have substantially been eliminated. A major staff reorganization was completed during the quarter along with a conversion of the core operating systems designed to improve operating efficiency. All three banks have experienced improvement in the net-interest margin during the quarter following increases in the Fed discount rate and prime rate. Coupled with other aggressive asset and liability management strategies, further improvement in the net-interest margin is anticipated as external rates continue to rise.

All three banks are currently completing their annual business plans and budgets for the coming year. The process is aimed at enhancing the net-interest margin, identifying new sources of fee income and improving operating efficiency during the coming year.

As always, I want to thank you for your continued support of Fentura Financial, Inc., Davison State Bank, West Michigan Community Bank and The State Bank.

Donald L. Grill
President & CEO

Consolidated Statements of Income
Three Months Ended September 30
(Unaudited)

(000 s omitted except per share data)

| | <u>2004</u> | <u>2003</u> |
|---|---------------|-----------------|
| <i>INTEREST INCOME</i> | | |
| Interest and fees on loans | \$ 5,969 | \$ 3,925 |
| Interest and dividends on securities: | | |
| Taxable | 699 | 587 |
| Tax-exempt | 188 | 175 |
| Interest on short-term securities | 50 | 86 |
| | <hr/> | <hr/> |
| Total interest income | 6,906 | 4,773 |
| <i>INTEREST EXPENSE</i> | | |
| Deposits | 1,896 | 1,368 |
| Borrowings | 331 | 81 |
| | <hr/> | <hr/> |
| Total interest expense | 2,227 | 1,449 |
| <i>NET INTEREST INCOME</i> | | |
| Provision for loan losses | 4,679 | 3,324 |
| | <hr/> | <hr/> |
| Net interest income after provision for loan losses | 383 | 122 |
| | <hr/> | <hr/> |
| Net interest income after provision for loan losses | 4,296 | 3,202 |
| <i>NON INTEREST INCOME</i> | | |
| Service charges on deposit accounts | 995 | 964 |
| Trust income | 254 | 140 |
| Gain on sale of loans | 124 | 373 |
| Other operating income | 324 | 330 |
| Gain (loss) on sale of securities | - | - |
| | <hr/> | <hr/> |
| | 1,697 | 1,807 |
| <i>NON INTEREST EXPENSE</i> | | |
| Salaries and benefits | 2,675 | 1,818 |
| Occupancy of bank premises | 425 | 275 |
| Equipment expense | 572 | 365 |
| Other operating expenses | 1,153 | 967 |
| | <hr/> | <hr/> |
| Total non interest expense | 4,825 | 3,425 |
| | <hr/> | <hr/> |
| Net income before taxes | 1,168 | 1,584 |
| Federal income taxes | 312 | 417 |
| | <hr/> | <hr/> |
| NET INCOME | \$ 856 | \$ 1,167 |
| | <hr/> | <hr/> |

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| | 2004 | | 2003 | |
|---|------|------|------|------|
| *Per share amounts: | | | | |
| Net income - basic | \$ | 0.45 | \$ | 0.62 |
| Net income - diluted | \$ | 0.45 | \$ | 0.62 |
| *Per share data adjusted for 10% stock dividend paid February 13, 2004 | | | | |

Consolidated Statements of Income
Nine Months Ended September 30
(Unaudited)

(000 s omitted except per share data)

| | <u>2004</u> | <u>2003</u> |
|---|-----------------|-----------------|
| <i>INTEREST INCOME</i> | | |
| Interest and fees on loans | \$ 15,799 | \$ 11,827 |
| Interest and dividends on securities: | | |
| Taxable | 2,275 | 1,247 |
| Tax-exempt | 531 | 515 |
| Interest on short-term securities | 71 | 147 |
| | <u>18,676</u> | <u>13,736</u> |
| Total interest income | 18,676 | 13,736 |
| <i>INTEREST EXPENSE</i> | | |
| Deposits | 5,110 | 3,957 |
| Borrowings | 893 | 131 |
| | <u>6,003</u> | <u>4,088</u> |
| Total interest expense | 6,003 | 4,088 |
| <i>NET INTEREST INCOME</i> | | |
| Provision for loan losses | 12,673 | 9,648 |
| | <u>1,019</u> | <u>1,086</u> |
| Net interest income after provision for loan losses | 11,654 | 8,562 |
| <i>NONINTEREST INCOME</i> | | |
| Service charges on deposit accounts | 2,847 | 2,706 |
| Trust income | 703 | 373 |
| Gain on sale of loans | 365 | 1,161 |
| Other operating income | 1,226 | 1,164 |
| Gain (loss) on sale of securities | (2) | 31 |
| | <u>5,139</u> | <u>5,435</u> |
| Total noninterest income | 5,139 | 5,435 |
| <i>NONINTEREST EXPENSE</i> | | |
| Salaries and benefits | 7,332 | 5,416 |
| Occupancy of bank premises | 1,193 | 836 |
| Equipment expense | 1,559 | 1,088 |
| Other operating expenses | 3,329 | 2,753 |
| | <u>13,413</u> | <u>10,093</u> |
| Total non interest expense | 13,413 | 10,093 |
| Net income before taxes | 3,380 | 3,904 |
| Federal income taxes | 882 | 1,006 |
| | <u>2,498</u> | <u>2,898</u> |
| NET INCOME | \$ 2,498 | \$ 2,898 |

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| | <u>2004</u> | | <u>2003</u> |
|---|-------------|----|-------------|
| *Per share amounts: | | | |
| Net income - basic | \$ 1.33 | \$ | 1.54 |
| Net income - diluted | \$ 1.32 | \$ | 1.53 |
| *Per share data adjusted for 10% stock dividend paid February 13, 2004 | | | |

Consolidated Statements of Condition
September 30
Unaudited

(000 s omitted except per share data)

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and due from banks | \$ 23,619 | \$ 18,989 |
| Federal funds sold | 17,500 | 25,250 |
| | <hr/> | <hr/> |
| Total cash and cash equivalents | 41,119 | 44,239 |
| Securities available for sale, at fair value | 106,085 | 112,255 |
| Securities held to maturity (fair value of \$18,856 at Sept 30, 2004 and \$12,063 at Sept 30, 2003) | 18,583 | 11,692 |
| | <hr/> | <hr/> |
| Total securities | 124,668 | 123,947 |
| Loans held for sale | 497 | 2,174 |
| Commercial loans | 291,482 | 164,449 |
| Consumer loans | 74,489 | 54,486 |
| Real estate loans | 28,586 | 17,275 |
| | <hr/> | <hr/> |
| Total loans | 394,557 | 236,210 |
| Less: Allowance for loan losses | (5,173) | (3,244) |
| | <hr/> | <hr/> |
| Net loans | 389,384 | 232,966 |
| Bank premises and equipment | 14,034 | 9,271 |
| Accrued interest receivable | 2,270 | 1,845 |
| Other assets | 21,299 | 10,448 |
| | <hr/> | <hr/> |
| Total assets | <u>\$ 593,271</u> | <u>\$ 424,890</u> |
| LIABILITIES | | |
| Non Interest bearing deposits | \$ 83,041 | \$ 57,791 |
| Interest bearing deposits | 421,793 | 309,603 |
| | <hr/> | <hr/> |
| Total deposits | 504,834 | 367,394 |
| Short-term borrowings | 12,012 | 13,917 |
| Other borrowings | 19,841 | 1,108 |
| Subordinated debt | 12,000 | - |
| Accrued taxes, interest and other liabilities | 2,565 | 2,033 |
| | <hr/> | <hr/> |
| Total liabilities | <u>551,252</u> | <u>384,452</u> |

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| | 2004 | 2003 |
|--|------------|------------|
| <i>STOCKHOLDERS' EQUITY</i> | | |
| Common stock - 1,885,662 issued (1,879,911 in 2003) # | 32,961 | 29,671 |
| Retained earnings | 9,431 | 10,711 |
| Accumulated other comprehensive income (loss) | (373) | 56 |
| | <hr/> | <hr/> |
| Total stockholders' equity | 42,019 | 40,438 |
| | <hr/> | <hr/> |
| Total liabilities and stockholder's equity | \$ 593,271 | \$ 424,890 |
| | <hr/> | <hr/> |

Shares adjusted for 10% stock dividend paid February 13, 2004

Financial Highlights
Nine Months Ended September 30
Unaudited

(000's omitted)

| | 2004 | 2003 | % Change |
|-----------------------------------|-------------|-------------|-----------------|
| Net Income | \$ 2,498 | \$ 2,898 | -13.80% |
| Return on average total equity | 8.05% | 9.58% | -15.97% |
| Return on average assets | 0.62% | 1.05% | -40.95% |
| Net interest margin | 3.60% | 4.02% | -10.45% |
| Efficiency ratio | 75.30% | 66.92% | -12.52% |
| Per common share: | | | |
| Net Income-basic | \$ 1.33 | \$ 1.54 | -13.64% |
| Net Income-diluted | \$ 1.32 | \$ 1.53 | -13.73% |
| Book value | \$ 22.29 | \$ 23.71 | -5.99% |
| Market price: (last trade) | \$ 40.25 | \$ 33.85 | 18.91% |