FENTURA FINANCIAL INC
Form 10-Q
November 13, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from __________ to __________

Commission file number 000-23550

Fentura Financial, Inc.

(Exact name of registrant as specified in its charter)

Michigan	**38-2806518**
(State or other jurisdiction of incorporation or organization)	(IRS Employee Identification No.)

175 N Leroy, P.O. Box 725, Fenton, Michigan 48430

(Address of Principal Executive Offices)

(810) 629-2263

(Registrant s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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. þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: October 19, 2007

Class Common Stock Shares Outstanding 2,156,453

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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Fentura Financial, Inc.

Consolidated Balance Sheets

(000 s omitted except per share data)	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and due from banks	$ 22,122	$ 19,946
Federal funds sold	350	9,500
Total cash & cash equivalents	22,472	29,446
Securities-available for sale	80,250	91,104
Securities-held to maturity, (fair value of $8,821 at September 30, 2007 and $11,821 at December 31, 2006)	8,856	11,899
Total securities	89,106	103,003
Loans held for sale	2,368	2,226
Loans:		
Commercial	303,533	272,402
Real estate loans construction	62,787	78,927
Real estate loans mortgage	40,907	36,867
Consumer loans	59,800	62,797
Total loans	467,027	450,993
Less: Allowance for loan losses	(11,425)	(6,692)
Net loans	455,602	444,301
Bank Owned Life Insurance	6,974	6,815
Bank premises and equipment	19,442	16,854
Federal Home Loan Bank stock	2,032	2,032
Accrued interest receivable	3,362	2,985
Goodwill	7,955	7,955
Acquisition intangibles	551	759
Other assets	9,682	5,922
Total assets	$619,546	$622,298
LIABILITIES		
Deposits:		
Non-interest bearing deposits	$ 75,279	$ 74,886
Interest bearing deposits	454,655	453,669
Total deposits	529,934	528,555
Short term borrowings	5,250	1,500

Federal Home Loan Bank Advances	11,030	11,052
Repurchase Agreements	5,000	10,000
Subordinated debentures	14,000	14,000
Accrued taxes, interest and other liabilities	4,269	5,873
Total liabilities	569,483	570,980
SHAREHOLDERS EQUITY		
Common stock no par value 2,156,453 shares issued (2,152,862 at Dec. 31, 2006)	42,304	42,158
Retained earnings	8,180	10,118
Accumulated other comprehensive income (loss)	(421)	(958)
Total shareholders equity	50,063	51,318
Total Liabilities and Shareholders Equity	$619,546	$622,298

See notes to consolidated financial statements.

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Fentura Financial, Inc.
Consolidated Statements of Income (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(000 s omitted except per share data)	**2007**	**2006**	**2007**	**2006**
INTEREST INCOME				
Interest and fees on loans	$ 8,796	$ 8,929	$ 26,360	$ 26,211
Interest and dividends on securities:				
Taxable	786	860	2,504	2,595
Tax-exempt	169	205	564	608
Interest on federal funds sold	40	218	251	391
Total interest income	9,791	10,212	29,679	29,805
INTEREST EXPENSE				
Deposits	4,147	3,943	12,098	10,778
Borrowings	547	567	1,692	1,614
Total interest expense	4,694	4,510	13,790	12,392
NET INTEREST INCOME	5,097	5,702	15,889	17,413
Provision for loan losses	5,144	240	6,232	880
Net interest income (loss) after Provision for loan losses	(47)	5,462	9,657	16,533
NON-INTEREST INCOME				
Service charges on deposit accounts	860	989	2,547	2,750
Gain on sale of mortgage loans	65	124	268	444
Trust and investment services income	471	372	1,439	1,172
Gain (Loss) on sale of securities	0	(2)	0	(2)
Other income and fees	574	457	1,609	1,261
Total non-interest income	1,970	1,940	5,863	5,625
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,868	3,197	9,308	9,844
Occupancy	543	457	1,556	1,399
Furniture and equipment	532	541	1,591	1,600
Loan and collection	111	72	287	227
Advertising and promotional	125	140	396	494
Other operating expenses	1,057	1,096	3,192	3,221
Total non-interest expense	5,236	5,503	16,330	16,785
INCOME (LOSS) BEFORE TAXES	(3,313)	1,899	(810)	5,373

Federal income taxes	(1,206)	563	(495)	1,572
NET INCOME (LOSS)	$ (2,107)	$ 1,336	$ (315)	$ 3,801
Per share: (adjusted for 10% stock dividend paid on August 4, 2006)				
Net income (loss) basic	$ (0.98)	$ 0.62	$ (0.15)	$ 1.78
Net income (loss) diluted	$ (0.98)	$ 0.62	$ (0.15)	$ 1.77
Cash Dividends declared	$ 0.25	$ 0.25	$ 0.75	$ 0.71

See notes to consolidated financial statements.

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Fentura Financial, Inc.
Consolidated Statements of Changes in Shareholders Equity (Unaudited)

(000 s omitted)	Nine Months Ended September 30, 2007	2006
COMMON STOCK		
Balance, beginning of period	$ 42,158	$ 34,491
Issuance of shares under Stock Dividend (194,772 shares-2006)	0	6,850
Director stock purchase plan & Dividend reinvestment program (20,480 and 17,087 shares)	628	582
Stock repurchase (17,184 shares and 977 shares)	(520)	(32)
Stock options exercised (295 and 5,023 shares)	6	87
Stock compensation expense	32	0
Balance, end of period	42,304	41,978
RETAINED EARNINGS		
Balance, beginning of period	10,118	13,729
Net income	(315)	3,801
Stock dividend	0	(6,850)
Cash dividends declared	(1,623)	(1,531)
Balance, end of period	8,180	9,149
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of period	(958)	(1,325)
Change in unrealized gain (loss) on securities available for sale, net of tax	537	141
Balance, end of period	(421)	(1,184)
TOTAL SHAREHOLDERS EQUITY	$ 50,063	$ 49,943

See notes to consolidated financial statements.

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Fentura Financial, Inc.
Consolidated Statements of Cash Flows (Unaudited)

(000 s omitted)	Nine Months Ended September 30, 2007	2006
OPERATING ACTIVITIES:		
Net income	$ (315)	$ 3,801
Adjustments to reconcile net income to cash Provided by Operating Activities:		
Depreciation and amortization	1,396	1,600
Provision for loan losses	6,232	880
Loans originated for sale	(13,524)	(28,578)
Proceeds from the sale of loans	13,650	27,985
Loss on Sale of Securities	0	2
Gain on sales of loans	(268)	(444)
Stock compensation expense	32	0
Net (increase) decrease in bank owned life insurance	(159)	(157)
Net (increase) decrease in interest receivable & other assets	(3,971)	(1,356)
Net increase (decrease) in interest payable & other liabilities	(1,881)	647
Total Adjustments	1,507	579
Net Cash Provided By (Used In) Operating Activities	1,192	4,380
Cash Flows From Investing Activities:		
Proceeds from maturities of securities HTM	1,649	4,762
Proceeds from maturities of securities AFS	12,744	12,191
Proceeds from calls of securities HTM	140	925
Proceeds from calls of securities AFS	4,700	985
Proceeds from sales of securities AFS	0	1,101
Purchases of securities HTM	0	(3,051)
Purchases of securities AFS	(4,571)	(7,354)
Purchase of FHLB Stock	0	(132)
FHLB stock buy back	0	260
Net increase in loans	(17,680)	(14,972)
Acquisition of premises and equipment, net	(3,746)	(3,080)
Net Cash Provided By (Used in) Investing Activities	(6,764)	(8,365)
Cash Flows From Financing Activities:		
Net increase (decrease) in deposits	1,379	3,531
Net increase (decrease) in short term borrowings	3,750	(286)
Net increase (decrease) in repurchase agreements	(5,000)	0
Advances from FHLB	7,000	4,000
Repayments of advances from FHLB	(7,022)	(7,020)
Net proceeds from stock issuance and purchase	114	637
Cash dividends	(1,623)	(1,531)

Net Cash Provided By (Used In) Financing Activities	(1,402)	(669)
NET CHANGE IN CASH AND CASH EQUIVALENTS	$ (6,974)	$ (4,654)
CASH AND CASH EQUIVALENTS BEGINNING	$ 29,446	$ 31,077
CASH AND CASH EQUIVALENTS ENDING	$ 22,472	$ 26,423
CASH PAID FOR:		
INTEREST	$ 13,789	$ 12,074
INCOME TAXES	$ 450	$ 1,316
NONCASH DISCLOSURES:		
Transfers from loans to other real estate	$ 147	$ 927

See notes to consolidated financial statements

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Fentura Financial, Inc.
Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000 s Omitted)	**2007**	**2006**	**2007**	**2006**
Net Income (loss)	$(2,107)	$1,336	$(315)	$3,801
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) arising during period	275	942	537	143
Less: reclassification adjustment for gains/(losses) included in net income	0	(2)	0	(2)
Other comprehensive income (loss)	275	940	537	141
Comprehensive income (loss)	$(1,832)	$2,276	$ 222	$3,942

Fentura Financial, Inc.
Notes to Consolidated Financial Statements (Unaudited)
Note 1. Basis of Presentation

The consolidated financial statements at December 31, 2006 and September 30, 2007 include Fentura Financial, Inc. (the Corporation) and its wholly owned subsidiaries, The State Bank in Fenton, Michigan; Davison State Bank in Davison, Michigan; and West Michigan Community Bank in Hudsonville, Michigan (the Banks), as well as Fentura Mortgage Company, West Michigan Mortgage Company, LLC, and the other subsidiaries of the Banks. Intercompany transactions and balances are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation s annual report on Form 10-K for the year ended December 31, 2006.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgages and consumer, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Stock Option Plans

The Nonemployee Director Stock Option Plan provides for granting options to nonemployee directors to purchase the Corporation s common stock. No options have been granted in 2007 or 2006. The purchase price of the shares is the fair market value at the date of the grant, and there is a three-year vesting period before options may be exercised. Options to acquire no more than 8,131 shares of stock may be granted under the Plan in any calendar year and options to acquire not more than 73,967 shares in the aggregate may be outstanding at any one time.

The Employee Stock Option Plan grants options to eligible employees to purchase the Corporation s common stock at or above, the fair market value of the stock at the date of the grant. Awards granted under this plan are limited to an aggregate of 86,936 shares. The administrator of the plan is a committee of directors. The administrator has the power to determine the number of options to be granted, the exercise price of the options and other terms of the options, subject to consistency with the terms of the Plan.

The following table summarizes stock option activity (adjusted for the 10% stock dividend paid on August 4, 2006):

	Number of Options	**Weighted Average Price**
Options outstanding at December 31, 2006	40,523	$ 29.68
Options exercised in 2007	(295)	$ 21.90
Options outstanding at September 30, 2007	40,228	$ 29.74

Effect of Newly Issued but not yet Effective Accounting Standards

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

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Note 2. Earnings Per Common Share

A reconciliation of the numerators and denominators used in the computation of basic earnings per common share and diluted earnings per common share is presented below. Earnings per common share, adjusted for the 10% stock dividend paid on August 4, 2006, are presented below for the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Basic Net Income Per Common Share:				
Numerator				
Net Income (loss)	$ (2,107,000)	$ 1,336,000	$ (315,000)	$ 3,801,000
Denominator				
Weighted average common shares Outstanding	2,158,623	2,144,854	2,159,536	2,138,322
Basic Net Income (loss) per common share	$ (0.98)	$ 0.62	$ (0.15)	$ 1.78
Diluted Net Income Per Common Share:				
Numerator				
Net Income (loss)	$ (2,107,000)	$ 1,336,000	$ (315,000)	$ 3,801,000
Denominator				
Weighted average common shares Outstanding for basic earnings per Common share	2,158,623	2,144,854	2,159,536	2,138,322
Add: Dilutive effects of assumed exercises of stock options	0	4,909	0	4,611
Weighted average common shares and dilutive potential common shares outstanding	2,158,623	2,149,763	2,159,536	2,142,933
Diluted Net Income (loss) per common share	$ (0.98)	$ 0.62	$ (0.15)	$ 1.77

Stock options for 22,724 shares and 21,140 shares of common stock for the three month and nine month periods ended September 30, 2007 and stock options for 14,324 shares and 15,059 shares of common stock for the three and nine month periods ended September 30, 2006 were not considered in computing diluted earnings per common share because they were anti-dilutive.

Note 3. Commitments and Contingencies

There are various contingent liabilities that are not reflected in the financial statements including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Corporation s consolidated financial condition or results of operations.

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Note 4. Allowance for Loan Losses

The Corporation originates primarily residential and commercial real estate loans, commercial, construction and installment loans. The Corporation estimates that the majority of their loan portfolio is based in Genesee, Oakland and Livingston counties within southeast Michigan and Kent and Ottawa counties in west Michigan with the remainder of the portfolio distributed throughout Michigan. The ability of the Corporation s debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Activity in the allowance for loan losses for the three and nine month periods ended September 30, are: (in thousands):

	Three Months	Nine Months
Beginning Balance	$ 7,174	$ 6,692
Provision for loan losses	5,144	6,232
Loans charged off	(948)	(1,703)
Loan recoveries	55	204
Balance, September 30, 2007	$ 11,425	$ 11,425

Loan impairment is measured by estimating the expected future cash flows and discounting them at the respective effective interest rate or by valuing the underlying collateral. The recorded investment in these loans is as follows at September 30, 2007 and December 31, 2006, (in thousands):

	September 30, 2007	December 31, 2006
Loans not requiring allocation	$ 5,844	$ 1,365
Loans requiring allocation	24,507	3,397