STURGIS BANCORP INC
Form PRER14A
December 17, 2004

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. 2)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2)).

[ ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material under § 240.14a-11(c) of § 240.14a-12.

STURGIS BANCORP, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[ ] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date filed:

PRELIMINARY COPY DATED DECEMBER 17, 2004

STURGIS BANCORP, INC.
125 East Chicago Road, P.O. Box 600
Sturgis, Michigan 49091

December __, 2004

Dear Fellow Shareholder:

A special meeting of shareholders will be January __, 2005, at the Sturges-Young Auditorium, 201 N. Nottawa Road, Sturgis, Michigan.

The purpose of the special meeting is to consider and vote on a proposed transaction that would allow us to terminate the registration of Sturgis common stock under the Securities Exchange Act of 1934 and eliminate significant burdens, risks and expense related to that registration. Referred to as "going private," the proposed transaction is expected to reduce the number of our shareholders of record to fewer than 300 persons, as required for termination of the registration. The reduction in the number of shareholders would be accomplished by a merger of a newly-formed, wholly-owned subsidiary of Sturgis with and into Sturgis.

Under the terms of the Agreement and Plan of Merger, each share of common stock owned by a record holder of fewer than 500 shares immediately prior to the effective time of the merger would be converted into the right to receive $16.00 per share in cash, and each share of common stock owned by a record holder of 500 or more shares would remain outstanding as Sturgis common stock after the merger. In general, a record shareholder is a shareholder who has paper stock certificates issued and registered in the shareholder's name on the company's stock records. Shareholders who hold shares in "street name" through banks and brokers are not record holders of those shares. Shares held for customers by banks and brokers are typically held through a depository nominee which is the holder of record of more than 500 shares, and those shares are expected to remain outstanding after the merger.

At the special meeting, shareholders will also consider and vote on a proposed amendment to Sturgis' Articles of Incorporation. The amendment would prohibit certain future transfers of shares of Sturgis common stock unless after the transfer the receiving shareholder would own 100 or more shares of record. This amendment is intended to slow the growth in the number of our shareholders in the future, thus avoiding or delaying the need to again register. Approval of the amendment is contingent upon shareholder approval of the Agreement and Plan of Merger. As a result, the amendment will not become effective unless the merger is approved and is effective.

Our Board of Directors has approved the going private transaction and the amendment and believes they are in the best interest of all Sturgis shareholders. The board recommends that you vote FOR the proposed transaction and FOR the amendment.

Sincerely,

Brian P. Hoggatt
Secretary

It is important that your shares be represented at the meeting. We urge you to sign and return the enclosed proxy as promptly as possible, regardless of whether you plan to attend the meeting in person. If you do attend the meeting, you may revoke your proxy and vote in person.

STURGIS BANCORP, INC.

125 East Chicago Road, P.O. Box 600
Sturgis, Michigan 49091

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

A Special Meeting of Shareholders of Sturgis Bancorp, Inc. will be held at _:00 a.m. on ________, January __, 2005, at the Sturges-Young Auditorium, 201 N. Nottawa Road, Sturgis, Michigan, for the purpose of considering and voting on the following matters:

(1) A proposal to approve the Agreement and Plan of Merger, attached as Appendix A to the enclosed proxy statement. Pursuant to the terms of the Agreement and Plan of Merger: (a) each share of Sturgis common stock owned by a record holder of fewer than 500 shares of common stock immediately before the effective time of the merger will be converted into the right to receive from Sturgis $16.00 cash per share; and (b) each share of Sturgis common stock owned by a record holder of 500 or more shares of common stock immediately before the effective time of the merger would continue to be one share of Sturgis common stock after the merger. This proposal is not contingent on shareholder approval of the amendment proposal.

(2) A proposal to approve an amendment to Sturgis' articles of incorporation, the text of which can be found in Appendix B to the enclosed proxy statement. This amendment would prohibit transfers of the surviving corporation's stock if, as a result of the transfer, the receiving shareholder would own of record fewer than 100 shares of the surviving corporation. The amendment is contingent on shareholder approval of the Agreement and Plan of Merger.

(3) Any other business that may properly come before the meeting.

Shareholders of record at the close of business on December ___, 2004, are entitled to notice of and to vote at the meeting and any adjournment of the meeting.

Those shareholders who will receive cash if the merger is approved are entitled to dissent and be paid the fair value of their shares by complying with the procedures detailed in Sections 764 to 772 of the Michigan Business Corporation Act (see pages 31-33).

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger or the amendment, passed upon the merits or fairness of the merger or the amendment or passed upon the adequacy or accuracy of the information disclosed in this notice of special meeting of shareholders and the accompanying proxy statement. Any representation to the contrary is a criminal offense.

By Order of the Board of Directors,

Brian P. Hoggatt, Secretary

Date: December __, 2004

It is important that your shares be represented at the meeting. Even if you expect to attend the meeting,

PLEASE SIGN, DATE AND RETURN YOUR PROXY PROMPTLY.

PRELIMINARY COPY DATED DECEMBER 17, 2004

STURGIS BANCORP, INC.

125 East Chicago Road, P.O. Box 600
Sturgis, Michigan 49091

PROXY STATEMENT

SPECIAL MEETING OF SHAREHOLDERS

To be held January ___, 2005

GENERAL INFORMATION

This proxy statement and the accompanying notice to holders of common stock of Sturgis Bancorp, Inc., a Michigan corporation, are furnished in connection with the solicitation of proxies on behalf of the Board of Directors, to be voted at a special meeting of Sturgis' shareholders to be held at __: 00 a.m. on __________, January ___, 2005, at the Sturges-Young Auditorium, located at 201 N. Nottawa Road, Sturgis, Michigan, or any adjournment of that meeting. This proxy statement and accompanying proxy card were first sent or given to shareholders on December ___, 2004.

Holders of record of common stock at the close of business on November __, 2004, will be entitled to vote at the special meeting on January __, 2005, and any adjournment of that meeting. The purpose of the meeting is to consider and vote on (i) a proposal to approve the Agreement and Plan of Merger, dated as of September 21, 2004, which will result in the merger of Sturgis and SB Merger Company, a newly-formed subsidiary of Sturgis organized for the sole purpose of facilitating this proposed transaction; (ii) a proposal to approve an amendment to Sturgis' articles of incorporation; and (iii) any other business that may properly come before the meeting. The Agreement and Plan of Merger is attached to this proxy statement as Appendix A. The text of the proposed amendment is attached to this proxy statement as Appendix B.

Pursuant to the Agreement and Plan of Merger, SB Merger Company will merge with and into Sturgis, with Sturgis continuing as the surviving corporation after the merger. If Sturgis shareholders approve the Agreement and Plan of Merger, each shareholder holding of record fewer than 500 shares of common stock immediately before the effective time of the merger will be entitled to receive $16.00 per share in cash, without interest, and each shareholder holding of record 500 or more shares immediately before the effective time of the merger will continue to hold the same number of shares after the merger and will not receive any cash. The proposed amendment would prohibit future transfers of common stock if, as a result of the transfer, the receiving shareholder in the transaction would own of record fewer than 100 shares of common stock. The proposed amendment is contingent on shareholder approval of the Agreement and Plan of Merger.

The merger will be effective when Sturgis files a certificate of merger with the Michigan Department of Labor and Economic Growth or as otherwise specified on the certificate of merger. After the effective time of the merger, Sturgis anticipates it will have fewer than 300 shareholders of record. As a result, Sturgis would be able to terminate the registration of its common stock under the Securities Exchange Act of 1934 and eliminate significant related expenses.

This document provides you with detailed information about the merger and the proposed amendment. Please see "Where You Can Find More Information" on page 45 for additional information about Sturgis on file with the Securities and Exchange Commission.

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SUMMARY

This summary briefly describes material terms of the merger and the amendment. To fully understand the proposed merger and amendment, we encourage you to read carefully the entire proxy statement. The actual terms of the merger are found in the Agreement and Plan of Merger, which is attached to this proxy statement as Appendix A. The text of the proposed amendment is located in Appendix B.

The amendment will not take effect unless the shareholders approve the merger. *(See page 35.)*

The merger would result in a reduction in the number of Sturgis shareholders of record. This reduction is expected to permit Sturgis to terminate the registration of its common stock under the Securities Exchange Act of 1934. *(See pages 29-31.)*

The merger would be effective when a certificate of merger is filed with the Michigan Department of Labor and Economic Growth, or as otherwise specified on the certificate of merger. Sturgis intends to file the certificate of merger promptly following shareholder approval of the merger proposal. *(See pages 27-28.)*

Each holder of record of 500 or more shares of common stock immediately prior to the effective time of the merger will continue to be a holder of the same number of shares he or she owned prior to the effective time. *(See page 7.)*

Continuing Sturgis shareholders following the effective time will not be entitled to any cash payment as a result of the merger.

Each holder of record of fewer than 500 shares of common stock immediately prior to the effective time of the merger will be entitled to receive only cash, without interest, in the amount of $16.00 for each share of common stock held immediately prior to the effective time. *(See pages 6-7.)*

Following the effective time of the merger, shareholders who are entitled to be paid cash for their shares will no longer be shareholders of Sturgis. *(See page 6.)*

Each holder of record of fewer than 500 shares of common stock immediately prior to the effective time of the merger may elect to dissent from the merger. *(See pages 31-33.)*

Shareholders who own fewer than 500 shares in "street name" through an institutional record holder (that is, a broker, bank, etc.) will not be cashed out as a result of the merger if the institutional record holder holds of record 500 or more shares. *(See page 7.)*

The proposed amendment is expected to help slow the growth in the number of shareholders, thus avoiding or delaying the need to again register the common stock under the Securities Exchange Act of 1934. The amendment would be effective when Sturgis files a certificate of amendment with the Michigan Department of Labor and Economic Growth. Sturgis intends to file the certificate of amendment promptly following shareholder approval of the amendment proposal. The amendment is contingent on shareholder approval of the Agreement and Plan of Merger. *(See pages 35-36.)*

As a result of the merger, Sturgis anticipates that it will be able to terminate the registration of its common stock under the Securities Exchange Act of 1934. This means Sturgis would no longer

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publicly file financial information nor incur the burdens, risks and expense associated with being subject to this act. *(See pages 29-31.)*

Following the completion of the merger, Sturgis' common stock would no longer be traded on the NASDAQ Small Cap Market and the public would have less access to information about Sturgis. *(See pages 29-31.)*

Sturgis' directors and officers may have, or appear to have, a conflict of interest in voting for and recommending the approval of the merger. *(See page 31.)*

The merger may be taxable to those shareholders who receive cash for their shares. These shareholders are expected to recognize gain or loss for federal, and possibly state and local, income tax purposes when they receive cash for their shares. They will generally recognize gain or loss equal to the difference between the amount of cash received and their tax basis in their shares of common stock. **These shareholders should consult their personal tax advisors for a full understanding of the merger's consequences.** *(See pages 33-35.)*

Sturgis' financial advisor, Donnelly Penman & Partners, has given the Board of Directors a written opinion dated September 23, 2004, that states the cash consideration to be paid to shareholders who receive cash is fair from a financial point of view. *(See pages 17-26.)* A copy of this opinion is attached to this proxy statement as Appendix C.

The Board of Directors has determined that the proposed merger and amendment are each substantively and procedurally fair to and in the best interests of Sturgis and its unaffiliated shareholders. The board has also determined that the price of $16.00 per share paid to those holders receiving cash for their shares after the effective time is a fair price.

Your Board of Directors recommends that you vote FOR the Agreement and Plan of Merger proposal and FOR the amendment proposal.

This proxy statement contains forward-looking statements. The forward-looking statements are based on management's beliefs, assumptions, current expectations, estimates and projections about the merger, the Agreement and Plan of Merger, the proposed amendment, Sturgis itself, the economy and the banking industry generally. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Actual results and outcomes may materially differ from what may be expressed or forecasted. Risk factors include, but are not limited to, changes in banking laws and regulations; changes in securities and tax laws; changes in governmental and regulatory policy; changes in the national and local economy; changes in costs and other assumptions used in forecasting management's expectations concerning the costs and cost savings associated with the merger; the ability of Sturgis to implement effectively the merger; and the ability to and speed with which Sturgis may achieve all cost savings anticipated from the merger. These are representative of the risk factors that could cause a difference between an ultimate actual outcome and a forward-looking statement.

QUESTIONS AND ANSWERS

The questions and answers below are a summary of items described in this proxy statement. To fully understand the merger and the amendment, you are encouraged to read carefully the entire proxy statement.

Why has the Board of Directors chosen this course of action?

The Board of Directors has recommended the merger so that Sturgis will no longer incur the burdens, risks and expense associated with its obligations as a reporting company under the Securities Exchange Act of 1934.

What is a merger?

A merger is a mechanism by which two companies are effectively combined into a single, surviving company. One company "survives" (i.e., exists following) a merger. Sturgis will be the company that survives the proposed merger.

When will this happen?

If the shareholders approve the merger and the amendment, the effective time of the merger and the amendment is expected to be shortly after the special meeting of shareholders.

What is "going private?"

The term "going private" is used within this proxy statement to mean the transformation of Sturgis from a company that is obligated to file detailed, periodic reports and comply with other requirements under the Securities Exchange Act of 1934 (a "reporting company") to a company with less than 300 shareholders that is no longer subject to those requirements. This transformation will take place after the effective time of the merger. Sturgis has decided to go private to eliminate the burdens, risks and expense associated with being a reporting company.

What will happen if I own fewer than 500 shares?

What if I own 500 or more shares?

Shareholders who hold of record 500 or more shares immediately prior to the effective time of the merger will continue to hold the same number of shares following the effective time of the merger. These shareholders will not receive cash in connection with the merger.

How will I receive my cash following the merger?

After the effective time of the merger, Sturgis will send transmittal documents to former shareholders entitled to receive cash. These documents explain how you should turn in your old share certificates in exchange for cash. If applicable, Sturgis will pay you for your old shares after you have surrendered your old share certificates.

Should I send in my share certificates now?

No. After the merger is complete, Sturgis will send written transmittal materials for surrendering share certificates to persons who held of record fewer than 500 shares of common stock immediately before the effective time of the merger.

What is the purpose of the amendment?

The amendment will allow Sturgis to slow the future growth of its shareholder base by not allowing transfers of shares to "odd lot" shareholders (i.e., those holding fewer than 100 shares).

Will the Merger affect Sturgis Bank & Trust Company?

No. Sturgis Bank & Trust Company will continue to operate as a wholly owned subsidiary of Sturgis following the merger.

Shareholders who hold of record fewer than 500 shares immediately prior to the effective time of the merger will, as a result of the merger, no longer will be shareholders of Sturgis. This means that they will no longer have voting rights or the right to receive dividends or distributions from Sturgis. They will be paid $16.00 in cash for each pre-merger share they held.

If I have additional questions, who can I contact?

If you have additional questions regarding the proxy, this proxy statement, the merger, the amendment or related matters, you should contact: Eric L. Eishen, President and CEO of the company at (269) 651-9345.

SPECIAL FACTORS

Reasons for the Merger

The Board of Directors believes that the benefits derived by Sturgis Bancorp, Inc. (the "Company" or "Sturgis") and its shareholders from being a reporting company are outweighed by the substantial burdens, risks and expense associated with being a reporting company. The purpose of the proposed merger (the "Merger") with SB Merger Company ("SB Merger Co.") is to permit the Company to terminate the registration of its common stock (the "Common Stock") under the Securities Exchange Act of 1934 (the "Exchange Act") and thus eliminate its reporting and other obligations under Exchange Act. The Merger is expected to make that possible by causing the Company to have fewer than 300 shareholders of record.

Management estimates that being subject to the Exchange Act presently causes the Company to incur incremental expense for legal, accounting and other direct and indirect costs. Anticipated external expenses and internal costs for 2005 associated with being a reporting company (including one-time expenses relating to compliance with the Sarbanes-Oxley Act of 2002 estimated to be approximately $143,000) are expected to be approximately $429,000. Bases for these estimated costs include management projections and information provided by the Company's accountants. Management's estimates were based on its own assessment of anticipated costs, widely distributed information from the 2003 America's Community Bankers Annual Convention and the information from accountants, which was general in nature. Costs for 2003 were approximately $100,000. *See* "The Transaction-Termination of Exchange Act Registration" (*pages 29-31*).

Passage of the Sarbanes-Oxley Act of 2002 has subjected, and will subject, the Company and its directors and officers to additional burdens and expense that are substantial in scope. The new corporate governance, accounting, internal control and liability provisions of the Sarbanes-Oxley Act, while arguably appropriate for large public companies such as Enron and WorldCom, are believed by the Board of Directors to place a disproportionately high burden on the management and financial resources of relatively small companies such as Sturgis. Bank holding companies and banks, such as the Company and its subsidiary, are already subject to a comparatively high degree of supervision, regulation and examination by state and federal bank regulatory agencies. Some of these requirements are intended to achieve objectives similar to those of Sarbanes-Oxley. However, Sarbanes imposes additional requirements on the Company that neither the Company nor its bank are subjected to under banking regulations. The additional Sarbanes requirements include, among others, management certification and external auditor attestation of internal control functions under Rule 404 of Sarbanes-Oxley, and the obligation to file reports with the Securities and Exchange Commission ("SEC").

The Company would be able to terminate the registration of its Common Stock and relieve itself of some of the legal duties, risks and expense associated with being a reporting company if it had fewer than 300 shareholders of record. See "The Transaction-Termination of Exchange Act Registration (*pages 29-31*). As of September 14, 2004, the Company had 428 shareholders of record. Of those shareholders, approximately 200 shareholders held fewer than 500 shares. Those numbers changed after the going private transaction was made public. As of November 22, 2004, the Company had 448 shareholders of record. Of those shareholders, approximately 220 shareholders held fewer than 500 shares. The shares held by holders of fewer than 500 shares represent in the aggregate approximately 46,000 shares, or 1.7% of the Company's outstanding shares. Ownership of the 98.3% of the Company's shares held by holders of 500 or more shares is well dispersed, with one shareholder beneficially owning 7.2% of the shares, one shareholder owning 5.6% of the shares, one shareholder owning 5.2% of the shares and no other single shareholder beneficially owning more than 5% of the shares.

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The Board of Directors recognizes and has carefully considered the possibility that some holders of fewer than 500 shares would prefer to keep their shares. The Board of Directors is mindful of the fact that some of its smaller shareholders are both shareholders and Sturgis Bank & Trust Company (the "Bank") customers of long standing. It is expected that some holders of fewer than 500 shares will be able to retain their shares by acquiring additional shares or consolidating family holdings so that they hold of record 500 or more shares. The Board of Directors sincerely regrets the fact that some smaller shareholders who would prefer to retain their shares will be paid cash for their shares. The Board of Directors selected the price to be paid for shares in the Merger, which significantly exceeds recent reported trading prices, in part with the intention of compensating small shareholders for having their shares purchased against their wishes.

SB Merger Co. is a wholly owned subsidiary of the Company and was organized solely for the purpose of facilitating the Merger. As a result SB Merger Co.'s purpose and reasons for engaging in the merger transaction are the same as those set forth above.

Effects of the Merger

The Merger is a going private transaction because it is intended to and, if completed, will likely enable the Company to terminate the registration of its Common Stock and thus eliminate the Company's reporting requirements and the other burdens, risks and expenses associated with being a reporting company under the Exchange Act. As a result of the Merger, it is expected that the Company will no longer be subject to the provisions of the Sarbanes-Oxley Act of 2002 or the liability provisions of the Exchange Act. In addition, officers of the Company will be longer be required to certify the accuracy of the Company's financial statements. For more information regarding this registration termination and associated effects, see "The Transaction-Termination of Exchange Act Registration" (*pages 29-31*). The Merger has been structured with the expectation that upon consummation of the Merger the Company will have fewer than 300 record holders of its shares of Common Stock. The Company organized SB Merger Co. solely to facilitate the Merger. SB Merger Co. will be merged with and into the Company pursuant to the terms of the Agreement and Plan of Merger (the "Plan of Merger"). The Company will be the surviving corporation to the Merger; SB Merger Co. will cease to exist following the Merger and its outstanding shares of common stock (all of which are held by the Company) will be cancelled for no consideration. The Merger will be effective when Sturgis files a certificate of merger with the Michigan Department of Labor and Economic Growth or as otherwise specified on the certificate of merger (the "Effective Time").

The Merger is expected to benefit the Company by reducing the burdens, risks and expenses associated with being a reporting company. However, the Merger is also expected to have adverse effects. The Common Stock would no longer be traded on the NASDAQ Small Cap Market, resulting in a potential reduction of liquidity in the Company's stock. Following deregistration, shareholders would have decreased access to information about the Company. Those shareholders being cashed-out may not wish to do so and would not have the opportunity to participate in the Company's future growth and earnings (if any). The Merger may negatively affect the good will of some of the Bank's customers. *See* "Special Factors - Fairness; Recommendation of Board of Directors" (*pages 12-17*).

If completed, the Merger will have the following effects.

Shareholders Owning Fewer than 500 Shares. Each share of Common Stock owned of record by a holder of fewer than 500 shares immediately prior to the Effective Time will be converted, pursuant to the terms of the Plan of Merger, into the right to receive a cash payment of $16.00 per share. As of the Effective Time, holders of these shares will have no further interest in the Company. These shareholders

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will not have to pay any service charges or brokerage commissions in connection with the Merger or the cash payments to them, unless a bond is required in the event of a lost stock certificate.

Shareholders Owning 500 or More Shares. Each share of Common Stock owned of record by a holder of 500 or more shares immediately prior to the Effective Time will remain outstanding and continue to represent one share of Common Stock following the Merger.

Beneficial owners of shares held in "street name." Some beneficial owners of shares hold shares in accounts with banks, brokerage firms and other investment institutions. Typically, shares held in such accounts are registered in the name of the bank, broker, investment institution, or in the name of its depository or nominee. Shares held in this way are referred to as shares held in "street name". Typically, these institutions co-mingle the shares held for multiple customers and hold all of them registered in the name of a depository nominee. The right to retain stock or receive cash as a result of the Merger will be determined with reference to the size of the stock holding as it appears on the company's list of record shareholders as of the Effective Time. Thus, the rights of a beneficial owner of shares held in street name will be determined with reference to the size of the aggregate record holding of their bank, broker, financial institution or its depository or nominee as that holding appears on the stock records of the Company, and not with reference to the number of shares in the beneficial owner's street name account. It is likely that shares held in "street name" will be registered in the name of a nominee that is a record holder of more than 500 shares. Therefore, it is likely that those shares will remain outstanding following the Effective Time. Shareholders holding Common Stock in "street name" should contact their nominees to determine how they will be affected by the Merger.

Background of the Merger Proposal

Prior to the formation of the Company as the holding company for the Bank in 2001, the Bank had been a reporting company, filing reports with the SEC under Section 12(g) of the Exchange Act. Upon the Company's formation in 2001, it became a reporting company filing with the SEC under Section 12(g) of the Exchange Act, as the successor to the Bank. As an SEC reporting company, Sturgis is required to prepare and file with the SEC, among other items, the following:

Annual Reports on Form 10-K

Quarterly Reports on Form 10-Q

Periodic Reports on 8-K

Proxy Statements and related materials as required by Regulation 14A under the Exchange Act

The costs associated with these reports and other filing obligations comprise a significant corporate expense. These costs include counsel fees, auditor fees, cost of printing and mailing the SEC documents and the word processing, specialized software and filing costs associated with the SEC reports and other filings. These SEC registration-related expenses have been increasing over the years, and the Company believes that they will continue to increase.

In November 1988, the Bank converted from a mutual savings bank to a publicly held stock savings bank. The conversion was initiated to allow the Bank the opportunity for public capital formation. This conversion allowed the Bank to enjoy several years of growth in its primary market and to expand into two new markets. The Bank raised additional capital through two additional public offerings. One offering was made in October, 1994 and a second offering was made in October of 1998.

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After the October, 1998 offering, the Bank's stock price declined and it appeared to management that the Bank had saturated the market. In December of 2001, the Bank formed a financial holding corporation in an effort to provide a more flexible company structure and the Company instituted a repurchase program. The goals of the repurchase program were to reduce the apparent over-saturation of the stock, to improve the liquidity of the stock and to repurchase stock. In 2002, the Company also chose to list its securities on the NASDAQ Small Cap Market. The NASDAQ listing was intended to further improve the liquidity of the stock. Unfortunately, management believes that neither the repurchase program nor the NASDAQ listing has resulted in the desired level of liquidity for the shareholders.

The Company has evaluated the need to raise additional capital in the future and has determined that additional public offerings do not presently appear to be necessary to raise capital. The Company is reluctant to issue additional shares. The Board of Directors has determined that other equity formation alternatives appear to be more attractive for future needs. These include retaining earnings and private placements of trust preferred securities. The Company believes these methods of capital formation will meet the presently foreseen needs created by the Company's strategic plan.

Following the enactment of the Sarbanes-Oxley Act of 2002 (the "Act"), the board decided to add the Act to its monthly meeting agenda for discussion on an on-going basis. The discussion involved the requirements under the Act and the implications for the Company as a public company. The board felt it was necessary to obtain additional information on the Act. In November, 2002, the board attended the Americas Community Bankers Convention. Many of the sessions at this meeting were related to the Act and its implications for the Company. The independent directors of the Company attended all of the sessions available on this subject and began to analyze the need for the Company to remain public versus the ongoing cost of being a public company. Discussion was held on the needs for future capital formation and the alternatives available. It was determined that the Bank had sufficient retained earnings to fund the growth necessary to implement its strategic plan.

The directors decided to continue to monitor the Act and how it may impact the Company. It was noted the Bank is in a highly regulated industry and that many of the changes required by the Act would impose operational procedures similar to those already required of banks and bank holding companies. However, it was also determined that the cost of compliance with certain provisions of the Act would significantly increase the cost of remaining public. These costs include both hard dollar costs and time costs related to implementation and compliance. The board asked the Bank's chief financial officer to evaluate the hard dollar costs related specifically to remaining a public company under the Act.

Plante & Moran, PLLC requested a meeting with the Audit Committee on March 15, 2004 (in the morning) in connection with the year ended December 31, 2003, and to present a fee proposal for the 2004 audit work. Members of the Audit Committee included Donald L. Frost, James A. Goethals and Philip G. Ward. Plante & Moran also wished to introduce the Company's new partner assignment as required under their partner rotation requirements. During this meeting, Brady J. Nitchman of Plante & Moran reviewed the requirements of the Act. This review included a discussion of Section 404 and the level of management time that would be needed for compliance (no specific estimates of management time were offered, however), the need for external "experts" to help implement the requirements of Section 404 and the likely cost that would need to be incurred. This comment lead to a discussion during which the alternative of going private was discussed. This discussion included a question and answer period. Plante & Moran was asked to attend the board meeting in the afternoon of March 15, 2004, where this discussion continued.

During the regularly scheduled board meeting of March 15, 2004, the board asked for a cost estimate of remaining public. Mr. Nitchman gave a verbal estimated range. (*See page 30* for detailed cost estimates.) He also indicated that his firm could not be engaged as a consultant to analyze, document

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and test internal controls for the Company. His firm, as external auditor, needed to offer an opinion on management's controls. He suggested the Company communicate with another accounting firm on this issue. Directors asked Mr. Nitchman about his experience with going private and the resources that would be required to remain public. Mr. Nitchman indicated there would be an increase in his firm's fees as a result of Section 404. He did not provide a specific estimate of Section 404 compliance costs. Nor did he provide a specific estimate of management time necessary for compliance with Section 404, although he noted that Section 404 required extensive documentation and testing. There was also a general discussion on the benefits of remaining public versus the cost of compliance. Benefits discussed included stock liquidity and flexible capital formation. Costs focused on the increased internal and external expenses.

The board discussed the benefits of using management's time to develop additional business opportunities if they did not have to devote this time to complying with Section 404. The board discussed the need to raise additional capital, the lack of liquidity of the Company's stock and the use of common stock as consideration in future acquisitions. Management noted that the Company could utilize trust preferred securities as a potential capital source if the need presented itself. Management did not anticipate a need for additional capitalization. Retained earnings had been sufficient to support the most recent growth of the company and management was not aware of any significant growth opportunities available in the current market. Management also noted the low trading volume of common stock and the limited liquidity advantages that have so far been provided by being a public company. The board also reviewed information provided by Mr. Hoggatt on estimated costs for compliance with Section 404, which are summarized in the following table*:

	Fees	**Legal**	**Ext. Auditors**	**Int. Auditors**	**Printing**	**EDGAR**	**Total**
Misc. SEC reporting issues		$2,700.00				$1,481.00	$ 4,181.00
Form 10K, Annual Rpt., Proxy Stmt		8,000.00	$5,000.00			2,662.00	15,662.00
Annual printing					$727.97		727.97
Form 10Q review (4 qtrs.)		4,500.00	14,000.00			6,130.00	24,630.00
NASDAQ	$15,000.00						15,000.00
Public Company Accounting Oversight Board	300.00						300.00
FASB Public Co. assessment	150.00						150.00
	15,450.00	15,200.00	19,000.00	0.00	727.97	10,273.00	60,650.97
Sarbanes-Oxley 404 Estimates			30,000.00	40,000.00			70,000.00
	$15,450.00	$15,200.00	$49,000.00	$40,000.00	$727.97	$10,273.00	$130,650.97

* All costs stated in this table were early, preliminary estimates (which have subsequently been adjusted), and do not include all one-time costs associated with Section 404 compliance, as well as other costs related to being a public company. Therefore, this information should not be relied upon as an accurate forecast as of the date of this proxy statement. For a more complete and accurate description of all of such costs, see page 30.

The board asked President and CEO Eric L. Eishen to obtain additional information on the process and costs of going private. At the April 19, 2004 meeting, President and CEO Eishen provided additional information to the board on going private. He reviewed with the Board of Directors a presentation received at the 2003 America's Community Bankers Annual Convention in Las Vegas, Nevada entitled "Should You Consider Going Private?".

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This presentation included information on the positives and negatives of remaining public. The positive factors for remaining public included: stock liquidity; flexibility for capital formation; higher public awareness; more flexibility for benefit plan structuring; shareholders can obtain Company information more easily; and public confidence may be greater if the Company is an SEC registrant. The negative factors considered for remaining public included: reporting expenses are high and increasing; the increased expense of compliance with Section 404 of the Act; management time may be better used for "value added" activities instead of compliance; investors with short-term goals are less interested; the Company's increased profile as a potential acquisition target; competitive companies have greater access to information; higher risks of legal liability; management may be more focused on short-term results; and there is not a current need for capital formation.

At the April 19 meeting, the chief financial officer provided a report on the number of shareholders and the breakdown of shareholders by number of shares held. President and CEO Eishen provided an estimate of legal costs for the going private process. Extensive discussion was held and the board asked President and CEO Eishen to obtain information from additional investment banking firms on the alternatives, process and costs of going private for discussion at the Board of Directors meeting to be held on April 27, 2004.

At the Board of Directors meeting on April 27, 2004, President and CEO Eishen summarized information in literature he had received from investment banking firms on the advantages, disadvantages and process of going private. The literature was general in nature and was not specifically directed to the Company. Extensive discussion was held and the board determined this issue should be assigned to the Executive Committee of the Board of Directors to investigate. This committee was to determine the direction for further investigation and report the results of this investigation to the full Board of Directors on a monthly basis. The Executive Committee is comprised entirely of independent directors and reserves time at each meeting to hold an executive session with officers excused. The members of the Executive Committee were Lawrence A. Franks, James A. Goethals and Philip G. Ward.

The Chairman, Lawrence A. Franks, called an Executive Committee meeting on May 13, 2004. During this meeting, the committee met with representatives of two law firms, the Company's general counsel and a national law firm that has in the past represented the Bank in connection with certain security law matters. The Committee met with each firm, independently, to discuss the process, implications and alternatives for going private. The committee also reviewed information obtained during the 2003 Americas Community Bankers conference relating to going private. Chairman Franks added director Donald L. Frost, the Chairman of the Audit Committee, to this group for purpose of the going private discussion. With Mr. Frost, the group now included all of the board's independent directors.

The Executive Committee meeting of June 21, 2004 included a discussion of the positive and negative factors outlined at the April 19, 2004, Board of Directors meeting. During this meeting the Executive Committee had separate presentations on the legal aspects of going private from two law firms, Dresser, Dresser, Haas & Caywood, P.C. and Silver, Freedman & Taff. The attorneys for these two firms discussed the different options for going private and possible litigation issues that could arise. Each option for going private was discussed. They also discussed the impact, both positive and negative, of proceeding with a going private transaction.

At the regularly scheduled meeting of the board on June 21, 2004, Chairman Lawrence A. Franks reported the results of the Executive Committee meeting. Chairman Franks invited the entire board to attend an Audit Committee meeting scheduled for June 22, 2004. Representatives of Crowe Chizek and Company LLP attended the meeting to discuss Section 404 of the Act. Crowe Chizek is the Company's internal audit firm and the Company intended to engage them to assist in the review and implementation of Section 404. All directors were present. At that meeting, representatives of Crowe Chizek made a

presentation on the requirements, process and costs of a program which would lead to compliance with Section 404 of the Act. Such a program would require evaluation, documentation and assessment of the Company's internal control over financial reporting to support management's certification on internal control over financial reporting and the independent auditor's attestation on management's assessment which would be required in 2005 under SEC rules adopted under Section 404 of the Act. Crowe Chizek did not provide a specific estimate of Section 404 compliance costs, although it did provide information relating to estimated one-time expenses, as shown in the table on page 31. Nor did Crowe Chizek provide an estimate of management time necessary to comply with Section 404. There was further discussion with Crowe Chizek and among directors on the process and implications of going private. During this meeting, the representatives of Crowe Chizek advised the directors that several community bank holding companies in Michigan had completed a going private transaction and that several others were known to them to be in the process of considering or implementing going private proposals.

On July 7, 2004, the Executive Committee and Donald L. Frost, chairman of the Audit Committee, met with another attorney, Gordon R. Lewis of Warner Norcross & Judd LLP, who had been identified to them as having experience in advising community bank holding companies on going private proposals. The directors received an extensive written and oral presentation on the alternative mechanisms for going private transactions. Written materials were distributed and reviewed in advance. There was an extensive discussion of the feasibility, legal and regulatory requirements, procedural issues and timeline for a possible going private transaction by the Company. There was also a discussion of the board's fiduciary duties to the Company and its shareholders, fairness issues, the approximate cost of a possible going private transaction, and possible effects of such a transaction on the Company and its remaining shareholders. The Executive Committee determined that it would recommend to the full Board of Directors that the Company engage special counsel to work with the Company's general counsel to proceed with further investigation of a transaction which would enable the Company to terminate the registration of its Common Stock.

At the board's regularly scheduled meeting on July 19, 2004, Chairman Franks reported on the Executive Committee meeting of July 7, 2004. At that meeting, after extensive discussion, the Board of Directors authorized the Executive Committee, each member of which is an independent director, and the officers of the corporation to further investigate the feasibility and advisability of a transaction which would permit the Company to discontinue its registration under the Exchange Act; to select, engage and incur expenses for financial advisors, accountants, and legal professionals; to make a presentation to the full board on its findings and recommendations; and to formulate and present specific proposals for later action by the Board of Directors on such a transaction.

On September 21, 2004, all board members attended a special board meeting. The officers of the Company and Mr. Lewis presented to the Board of Directors a proposed transaction intended to reduce the number of shareholders to a level which would permit it to terminate its SEC reporting obligations. The officers presented estimates of the direct and indirect costs to the Company of remaining a registered company. The board agreed that the burden on management and the expense of the SEC reporting and other filing obligations outweighed any benefit from the SEC registration.

Donnelly Penman & Partners presented a valuation report and opinion at the September 21 special meeting, a detailed description of an updated version of which is contained in this proxy statement under the caption "Opinion of Financial Advisor." Donnelly Penman & Partners explained the detailed procedures performed and the financial analyses supporting the range of values. The board members discussed the different factors involved in these procedures and Donnelly Penman & Partners described the assumptions utilized in its valuation report. Discussion took place, the substance of which is described in this proxy statement under the caption "Special Factors - Fairness; Recommendation of Board of Directors" *(pages 12-17)*. The Board of Directors received from Donnelly Penman & Partners a

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written opinion that, as of June 30, 2004, the fair market value of the Company's common stock was $13.97 per share.

President and CEO Eishen then asked legal counsel to discuss the fiduciary duties of the board in considering the proposed transaction. The board and counsel then discussed the steps necessary to complete a transaction. The board considered the alternative structures for a going private transaction. After considerable discussion, the Board of Directors unanimously voted in favor of proceeding with the proposed "going private" merger transaction. The board reviewed the shareholder records and determined that shares held of record by shareholders owning fewer than 500 shares should be converted to the right to receive cash in the merger. The Board of Directors determined that $16.00 per share would be paid for the shares of Common Stock converted to the right to receive cash in the Merger and that the proposed merger transaction would be fair to the Company and its shareholders (including unaffiliated shareholders).

At the September 21 meeting, the board received the verbal opinion of Donnelly Penman & Partners that the $16.00 per share price was fair, from a financial point of view, to shareholders owning fewer than 500 shares, who would receive cash in the merger. Donnelly Penman & Partners later delivered a written fairness opinion confirming its oral opinion. This opinion is presented in Appendix C to this proxy statement.

At the September 21 meeting, the board reviewed a proposed Agreement and Plan of Merger and unanimously approved resolutions adopting the Plan of Merger agreement, authorizing management to proceed with the merger transaction and to seek shareholder approval of the merger proposal. Legal counsel presented a draft proxy statement and transaction statement on Schedule 13E-3 and discussed the necessary SEC disclosures. The board approved the form of proxy statement and Schedule 13E-3 and authorized management to make all necessary filings with the SEC or otherwise to consummate the proposed going private transaction. Each director indicated his or her intent to vote as a shareholder in favor of the Plan of Merger.

At the Company's request, Donnelly Penman & Partners' written opinion was later updated to reflect a more recent valuation date. The updated valuation reflected a fair market value of $13.75 per share of Common Stock as of September 20, 2004.At its regular meeting on October 18, 2004, the Board of Directors received the updated valuation report and opinion from Donnelly Penman & Partners and ratified the action taken at the September 21, 2004 meeting. The Board of Directors also expressly adopted the analyses of Donnelly Penman & Partners in the updated valuation report and opinion as its own.

Your Board of Directors unanimously recommends that you vote "FOR" approval of the Plan of Merger and "FOR" approval of the Amendment.

Fairness; Recommendation of Board of Directors

The structure and terms of the Merger were determined by current management and the Board of Directors. The Board of Directors consists of seven persons, four of whom are independent directors, and only one of whom is an officer of the Company. The board retained Donnelly Penman & Partners, an independent financial advisor experienced in the financial analysis and valuation of financial institutions, to value the Common Stock. The cash consideration to be paid for the Common Stock under the Merger was determined by the Board of Directors, in part, based on Donnelly Penman & Partners' valuation report.

Based in part on the valuation report and fairness opinion prepared by Donnelly Penman & Partners and the considerations set forth below, the Board of Directors has determined and reasonably believes that the Plan of Merger proposal is in the best interests of, and substantively and procedurally fair to, the Company and its unaffiliated shareholders and that the Merger consideration of $16.00 per share payable to the shareholders who will receive the cash in the Merger is fair to those shareholders. The board and SB Merger Co.'s board believe the Merger is substantively and procedurally fair both to unaffiliated shareholders who will retain their interest in the Company and to those who will be cashed out in the Merger. All directors of SB Merger Co. are also directors of the Company. The SB Merger Co. Board of Directors specifically adopted Sturgis' Board of Director's analyses and conclusions underlying its fairness determination. Accordingly, the Company's Board of Directors, including all of the directors who are not employees of the Company or the Bank, unanimously approved the Merger, and recommends that the shareholders vote in favor of the Merger and the Plan of Merger. All of the members of the Board of Directors have expressed an intention to vote in favor of the Plan of Merger, including all of the board members who are not employees of either the Company or the Bank.

In reaching its decision to approve the Merger and in making its recommendation, the Board of Directors considered a number of material factors as described below.

Positive Factors for Shareholders who Receive Cash in the Merger. The factors that the board considered positive for the unaffiliated shareholders who receive cash in the Merger included:

The cash price per share of $16.00 offered in the Merger represents a premium of $5.66 per share (54.7%) over the June 30, 2004 book value per share of $10.34, a premium of $2.39 over the most recent trading price immediately before the board action of $13.61 and a premium of $2.25 per share (16.4%) over the $13.75 fair market value determined in the updated valuation opinion of Donnelly Penman & Partners.

The Merger consideration is all cash, which provides certainty of value to those shareholders and immediate liquidity for the shareholders who receive cash in the Merger.

No brokerage or other transaction costs are to be incurred by shareholders who receive cash in the Merger, unless a bond is required in the event of a lost stock certificate.

Positive Factors for Remaining Shareholders. The factors that the board considered as positive for the unaffiliated shareholders who will remain shareholders following the Merger included:

Remaining shareholders would realize the potential benefits of the termination of the registration of the Common Stock under the Exchange Act, including reduced expenses as a result of deregistration with the SEC.

Remaining shareholders would have the opportunity to participate in the Company's future growth and earnings, if any.

The Merger is expected to result in accretion to net income, earnings per share and return on equity; this is a function of the decrease in the number of shares of Common Stock as a result of the Merger as well as cost savings.

Remaining shareholders would not be required to pay income taxes as a result of the Merger.

Negative Factors for Shareholders Receiving Cash in the Merger. The factors that the board considered negative for the unaffiliated shareholders who would receive cash in the Merger included:

These shareholders would not have the opportunity to participate in the Company's future growth and earnings, if any.

These shareholders will not be able to sell their shares at a time and for a price of their choosing.

These shareholders may be required to pay income tax on the receipt of cash in the Merger.

Negative Factors for Remaining Shareholders. The factors that the board considered negative for the unaffiliated shareholders who will retain their shares in the Merger included:

The Merger may negatively affect good will of certain of the Bank's customers.

After the Common Stock is deregistered, the shareholders will have decreased access to information about the Company.

Donnelly Penman & Partners' valuation opinion, on which the board relied, did not utilize a marketability or minority interest discount for its analyses.

After the completion of the Merger the Company's stock will not be traded on the NASDAQ Small Cap Market, which may reduce liquidity in the Company's stock. However, trading of the Common Stock on the NASDAQ Small Cap Market is limited and sporadic, and the Common Stock may be quoted in the over the counter market on the Pink Sheets following the Effective Time.

Although the board considered the negative factors described above, it concluded that the benefits of the positive factors outweighed the detriments of the negative factors and that the proposed transaction was substantively and procedurally fair to and in the best interest of the Company's unaffiliated shareholders.

Fair Price Considerations. The Board of Directors selected a price of $16.00 per share as the amount to be paid to shareholders who receive cash for their shares of Common Stock as a result of the Merger. The Board of Directors selected a price that it believed to be in excess of the fair market value of the shares, intending to at least partially compensate shareholders who receive cash for the fact that they are being required to dispose of their shares when some would probably prefer to keep their shares and that shareholders who receive cash would probably incur some tax as a result of the Merger.

The Board of Directors considered the following factors when selecting the purchase price and determining that it is fair:

Donnelly Penman & Partners' valuation opinion that the fair market value of shares of Common Stock was $13.75 per share as of September 20, 2004. The board adopted, as part of its analysis, the analyses of Donnelly Penman & Partners.

There is a limited trading market for the Common Stock and not all transactions in the Company's stock are reported to the Company.

Prices in stock sale transactions reported to the Company in the second quarter of 2004 ranged from $14.80 to $12.41 per share; historical prices since January 1, 2001 ranged from $7.57 to $15.87 per share. The most recent trade involving the Common Stock prior to the

September 21, 2004 Board of Directors meeting was for $13.61 per share.

The net book value of the Common Stock was $10.34 per share at June 30, 2004.

The perceived going concern value of the Company, as provided by Donnelly Penman & Partners, was $13.88 per share.

The Company repurchased shares during 2004 at an average price of $14.55 per share.

The Company has not received any offers during the last two years for mergers or acquisitions of the Company or its assets or a controlling interesting in the Company's stock.

"Liquidation value" was not a factor in the board's determination of the purchase price or fairness. Liquidation value was discussed. However, the board was advised by management and the Company's advisors that they were not aware of a single instance in which a solvent, profitable U.S. bank has ever been liquidated. The Board of Directors did not consider a liquidation analysis as a relevant factor because the liquidation of a solvent, profitable bank or discontinuance of a bank's operations is an extremely unlikely event, and neither the Company's management nor the board has any intention of liquidating the bank. The Company believes that because substantially all of the assets on the Company's balance sheet are financial assets, book value (which the Company considered) roughly approximates liquidation value.

Your Board of Directors has unanimously determined that the purchase price of $16.00 per share is a fair price.

Fair Process Considerations. The Board of Directors delegated to the Executive Committee, which consists entirely of independent directors, and the Company's officers, authority to (i) investigate the feasibility of going private transactions and (ii) select, engage and incur expenses by financial advisors, accountants and legal professionals (and authorize management to do the same) in order to develop a presentation for the entire Board of Directors and present specific proposals. The Plan of Merger proposal has been approved and recommended by the independent Executive Committee as well as the entire Board of Directors.

Because the proposed transaction is a merger of the Company and a wholly-owned subsidiary of the Company, Michigan law would have allowed the Board of Directors to approve the Plan of Merger without a vote of shareholders. The Board of Directors has chosen to submit the Plan of Merger to the shareholders for approval and has conditioned the Merger on approval of the Plan of Merger by holders of a majority of the issued and outstanding shares of Common Stock. The Board of Directors has not, however, chosen to condition the Merger on approval of a majority of the shareholders who will receive cash in the transaction because they represent a small minority of shares (less than 1.5%). Submitting the Plan of Merger to the shareholders is expected to reduce the risk that the Company will be subject to litigation involving the Merger.

The Board of Directors has chosen to include in the Plan of Merger a provision that will give shareholders who receive cash in the Merger the right to dissent from the Merger and petition a court to determine the fair value of their shares. This right would not have been available to shareholders in this transaction if the Board of Directors had not chosen to include it. (Shareholders considering exercising this right are cautioned, however, that exercising this right is likely to entail certain costs and risks, and such shareholders should carefully consider the full discussion of dissenter's rights appearing on pages 31-33.)

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Alternatives Considered. The 500 share level was chosen by management and recommended to the Board of Directors based on an analysis of the company's shareholder list as of September 14, 2004. Lower share ownership thresholds were also considered. However, shareholders are free to buy or transfer shares until the Effective Time. It is expected that some shareholders will acquire additional shares before the Effective Time through market purchases or other transactions in order to be a holder of more than the threshold number of shares and thus remain a shareholder after the Merger. Because the number of shareholders above the threshold could increase before the Effective Time, it was necessary to select a threshold sufficiently high to make reasonable allowance for changes in the composition of the shareholder list without defeating the purpose of the proposed transaction. Other lower numbers were considered and rejected as it was believed they would have resulted in an unacceptably high risk that the transaction would not yield the desired result of having less than 300 record shareholders.

The Executive Committee considered the following alternatives to the Merger format:

Reverse Stock Split. The Executive Committee considered the use of a process known as a reverse stock split as an alternative to the Merger. A reverse stock split would have involved a mechanism that proportionately decreased the number of shares of stock held by shareholders. In a reverse stock split, shareholders receive one share of stock for every 500 (for example) shares owned; those shareholders holding only fractional share interests following the split are cashed out. As a result, there are fewer shareholders. The Executive Committee did not choose this alternative because it would have resulted in a post-split stock price that would be undesirably high, and because it would have been necessary to require all remaining shareholders to surrender their existing stock certificates to be exchanged for new stock certificates, which would be relatively burdensome for both shareholders and the Company.

Tender Offer. The Executive Committee also considered making a tender offer to purchase outstanding shares of Common Stock from the Company's shareholders. This alternative could have reduced the number of shareholders through their sale of Common Stock. However, it is uncertain whether this process would result in the Company having fewer than 300 shareholders-a threshold that the Company must meet in order to go private and reduce the burdens associated with being a reporting company. For this reason, the Executive Committee decided not to use this alternative.

Sturgis' non-employee directors did not retain an unaffiliated representative to act solely on behalf of unaffiliated shareholders for purposes of negotiating the terms of the Plan of Merger or preparing a report on the fairness of the Merger. The Board of Directors did not consider other methods to reduce expenses other than going private. Nor did the board consider the possibility of a third party buy-out. The board did not consider these options because (i) it relied in part upon the assessment and recommendation of independent directors; (ii) it was not aware of other methods of achieving expense reductions that were comparable with those reductions possible through the Merger and (iii) no third party expression of interest in acquiring the Company is presently before the board.

Approval of the transaction was recommended by the Executive Committee of the Board of Directors. The Executive Committee based its independent analyses on the same information and analyses provided to the Board of Directors, and considered the same factors as the board when making its recommendation. The Executive Committee is comprised entirely of independent directors. Shareholders who are expected to receive cash in the Merger represent approximately 1.7% of the Common Stock. The Merger requires approval by shareholders holding a majority of the outstanding stock. Directors and officers as a group beneficially own approximately 17.3% of the outstanding common stock of Sturgis. Because (i) the shares held by directors and officers represent a relatively small percentage of votes required to approve the transaction, (ii) the small percentage of shareholders receiving

cash in the Merger, and (iii) the board relied in part upon the assessment and recommendation of independent directors, the board concluded that having an unaffiliated representative act solely on behalf of shareholders who are not directors or officers of Sturgis and requiring a majority of unaffiliated shareholders to approve the transaction were not necessary to assure fairness. The only appraisal the Company sought in connection with the Merger was the valuation report provided by Donnelly Penman & Partners. Neither the Company nor SB Merger Co. has made any provision in connection with the Merger to grant unaffiliated shareholders access to the Company's or SB Merger Co.'s corporate files or to obtain counsel or appraisal services for such shareholders at the Company's or SB Merger Co.'s expense.

Other Considerations. It could be argued that directors may have, or appear to have, a conflict of interest in approving and recommending the proposed Merger transaction. The transaction will result in a slight increase in the percentage of ownership of all directors and officers. As a group, directors and officers own approximately 17.3% of the outstanding shares of Common Stock; following the Effective Time, the directors and officers would own approximately 17.6% of the shares. However, this benefit is shared proportionally by all remaining shareholders. In addition, it is expected that the transaction will, after it is concluded, reduce the risk of litigation and liability to which directors and officers of public companies are exposed.

The foregoing discussion of the factors considered by the Board of Directors is intended to discuss in reasonable detail the material factors on which the Board of Directors relied; it does not necessarily reflect all factors involved in the process. In view of the variety of factors considered in connection with their evaluation of the Merger proposal, the Board of Directors did not find it practicable to, and did not quantify or otherwise assign relative weights to the specific factors considered in reaching its determination. The board considered all the factors as a whole in reaching its determination. In addition, individual members of the Board of Directors may have given different weights to different factors.

Opinion of Financial Advisor

The Company engaged Donnelly Penman & Partners to render its report and opinion with respect to the fair market per share value of the Company's Common Stock for purposes of evaluating the proposed transaction and the fairness of the proposed transaction. At the September 21, 2004 meeting of the Board of Directors, Donnelly Penman & Partners presented a valuation report and opinion that reflected the fair value per share of the Common Stock as of June 30, 2004, and gave an oral opinion on the fairness of the proposed $16.00 per share price offered in the Merger. Donnelly Penman & Partners did not recommend the $16.00 per share price offered in the Merger. The only instructions given to Donnelly Penman & Partners were to provide the board with a valuation report and opinion, followed by a fairness opinion. Pursuant to the Company's request for a more current valuation, on September 23, 2004, Donnelly Penman & Partners delivered an updated valuation report and opinion to reflect the fair value per share of the Common Stock as of September 20, 2004 (the "Opinion"). The information contained in the preliminary valuation report, which valued the Company's common stock as of June 30, 2004, is substantially the same as the updated valuation report, which valued the Company's common stock as of September 20, 2004, except for updates resulting from the use of a later valuation date. During the process of updating the report Donnelly Penman & Partners:

- Updated the discount timing on the Discounted Cash Flow Analysis through September 20, 2004, which resulted in a valuation change from $13.93 to $13.88.

- Updated the recent trading analysis to reflect trading through September 20, 2004, which resulted in changes from $14.00 to $13.95, $13.96 to $14.03 and $14.93 to $13.67 for the 30-

day, 90-day and one-year trading periods, respectively.

Updated the current stock prices in the Comparable Company Analysis through September 20, 2004, which resulted in changes from $12.85 to $12.83, $11.56 to $11.32 and $13.54 to $12.51 for the implied value based on Book Value, Tangible Book Value and Earnings per Share metrics, respectively. When weighted these changes resulted in a change in the valuation conclusion from $13.97 to $13.75, a change of $.22 or 1.6%.

Donnelly Penman & Partners confirmed its verbal fairness opinion with a written fairness opinion dated September 23, 2004, in which it stated that, as of September 21, 2004, the $16.00 per share price offered in the Merger was fair from a financial point of view to Sturgis' shareholders. This fairness opinion is attached to this proxy statement as Appendix C.

Donnelly Penman & Partners is a regional investment banking firm of recognized standing. As part of its investment banking services, they are regularly engaged in the valuation of corporate entities on a stand-alone basis or in connection with capital raising and merger and acquisition transactions. No limitations were imposed by the Company upon Donnelly Penman & Partners with respect to the investigations made or procedures followed by Donnelly Penman & Partners in rendering its Opinion.

Donnelly Penman & Partners was selected by the Company's management, in consultation with the Executive Committee of the Board of Directors. The Executive Committee reviewed 5 proposals from investment banking firms. Donnelly Penman & Partners was selected based on the firm's reputation, experience (including particularly the prior experience of members of the firm with the Company and the firm's general experience with community banks in the state of Michigan) and price. No material relationship has existed during the past two years or is mutually understood to be contemplated, or compensation received or to be received, as a result of the relationship between Donnelly Penman & Partners and its affiliates and the Company and its affiliates except for the engagement described in this proxy statement. Donnelly Penman & Partners has been paid a fee of $25,000, plus reimbursement of its expenses, and has received indemnification rights for performing the valuation and providing its fairness opinion.

In arriving at its Opinion, Donnelly Penman & Partners has:

Reviewed the Annual Reports of the Company for the years ended December 31, 2002 through 2003 as well as interim financial statements for the eight months ended August 31, 2004;

Reviewed reports from the Board of Directors meetings for the Company and the Bank held during the month of August, 2004;

Reviewed the Company's Strategic Plan and 2004 through 2006 forecast;

Compared certain financial characteristics of the Company to certain publicly held companies they deemed relevant;

Reviewed current banking industry conditions and trends concerning the valuation of recent mergers and acquisitions;

Conducted discussions with the senior management of the Company concerning the

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business and future prospects of the Company;

Prepared a discounted cash flow analysis of the Company based on a financial forecast derived from discussions with and deemed reasonable by management of the Company; and

Reviewed such other data, including financial and industry data, performed such other analyses and taken into account such other matters as they deemed necessary or appropriate.

In connection with rendering its Opinion to the Company, Donnelly Penman & Partners performed a variety of financial analyses, which are summarized below. Donnelly Penman & Partners believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without consideration of all factors and analyses, could create a misleading view of the analyses and the processes underlying Donnelly Penman & Partners' Opinion. Donnelly Penman & Partners arrived at its Opinion based on the results of all the analyses it undertook, assessed as a whole, and it did not draw conclusions from or with regard to any one method of analysis. The preparation of a valuation is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description.

Donnelly Penman & Partners did not make or obtain any independent evaluation, valuation or appraisal of the assets or liabilities of the Company, nor was it furnished with such materials. Donnelly Penman & Partners has not reviewed any individual credit files of the Company and has assumed, without independent verification, that the reported allowances for credit losses are adequate to cover such losses.

With respect to the comparable company analysis and comparable acquisition transaction analysis summarized below, no public company utilized as a comparison is identical to the Company, and such analyses necessarily involve complex considerations and judgments concerning the differences in financial and operating characteristics of the financial institutions and other factors that could affect the acquisition or public trading values of the financial institutions concerned. The forecasted financial information furnished by the Company's management contained in or underlying Donnelly Penman & Partners' analyses is not necessarily indicative of future results or values, which may be significantly more or less favorable than such forecasts and estimates. The forecasts and estimates were based on numerous variables and assumptions that are inherently uncertain, including without limitation factors related to general economic and competitive conditions. In that regard, Donnelly Penman & Partners assumed, with the Company's consent, that the financial forecasts had been reasonably prepared by management on a basis reflecting the best currently available judgments of management, and that such forecasts will be realized in the amounts and at the times contemplated thereby.

Estimates of values of financial institutions or assets do not purport to be appraisals or necessarily reflect the prices at which financial institutions or their securities actually may be sold. Accordingly, actual results could vary significantly from those assumed in the financial forecasts and related analyses. The analyses performed by Donnelly Penman & Partners were assigned a weighting based on Donnelly Penman & Partners' opinion of their relative comparability and significance with regard to the specific characteristics of the Company.

In its analyses, Donnelly Penman & Partners made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of the Company. These assumptions include: the expectation that interest rates will trend gradually upward through 2006 and remain constant thereafter; the expectation that general economic conditions will neither deteriorate nor improve significantly relative to their current state; the expectation

that no significant industry regulations or events that would impair the Company's ability to earn income at projected levels will occur; and the expectation that industry trading and transaction multiples will not change significantly from current values.

The following is a brief summary of the analyses performed by Donnelly Penman & Partners in connection with its Opinion:

Analysis of Comparable Acquisition Transactions. Donnelly Penman & Partners analyzed thrift acquisition transactions announced and/or completed since January 1, 2001. None of the comparable transactions identified represent "going-private" transactions. Donnelly Penman & Partners considers the comparable transactions approach a relevant analysis in the valuation of a business. The purpose of this analysis in this Opinion is not to compare any "going-private" transaction proposed by Sturgis to similar transactions undertaken by other financial institutions, but rather to determine an implied value for the Company based on the deal pricing metrics of recent acquisitions. Donnelly Penman & Partners considers the transactions identified as relevant because the characteristics of the target companies are similar to those of Sturgis and thus approximate what the fair value of Sturgis may be in an acquisition scenario. Each selling thrift identified had total assets less than $500 million and was headquartered in the Midwest. Donnelly Penman & Partners removed any transactions in which the target was determined to be overcapitalized, defined as having an equity to assets ratio of greater than 12%. Donnelly Penman & Partners also removed any transactions where the target was sold for less than book value as this may be an indication that the institution was in troubled status prior to the transaction. This analysis provided an approximate median multiple of 1.422 times price to book value, 1.422 times price to tangible book value, 25.0 times the last 12 months ("LTM") earnings per share, and a premium to core deposit metric of 7.1%. Applying the median multiple for price to book value of 1.422 times to the Company's June 30, 2004 book value per share of $10.34 results in an implied value per share of $14.70 on a control, marketable basis. Using the same methodology, the values implied by applying the relevant multiples to the Company's tangible book value per share at June 30, 2004 of $8.47 and earnings per share for the twelve months ended June 30, 2004 of $.74 were found to be $12.04 per share and $18.50 per share, respectively. Applying the median premium to core deposits of 7.1% to the Company's $176.1 million in core deposits as of June 30, 2004 resulted in a calculated value of $12.5 million. When added to the Company's book value of $28.2 million as of June 30, 2004 and divided by the 2,730,385 shares outstanding at the same date, the result is an implied value per share of $14.82. Core deposits are defined as all deposits less CDs over $100,000 and brokered deposits.

In this analysis, Donnelly Penman & Partners reviewed the following transactions, identified by buyer and seller: Park National Corp./First Federal Bancorp, Inc., Northbrook Investments, LLC/North Bancshares, Inc., WesBanco, Inc./Western Ohio Financial Corporation, Landmark Bancorp, Inc./First Kansas Financial Corporation, Garfield Acquisition Corp./Lenox Bancorp, Inc., Blue River Bancshares, Inc./Unified Banking Company, NS&L Acquisition Corp./NS&L Bancorp, Inc., Salin Bancshares, Inc./Blue River Federal Savings Bank, Garfield Acquisition Corp./Findlay Savings Bank, National Bancshares Corp./Peoples Financial Corp., Unified Community Financial Corp./Potters Financial Corporation, Peoples Community Bancorp, Inc./Kenwood Bancorp, Inc., Union Community Bancorp/Montgomery Financial Corp, Chemical Financial Corp./Bank West Financial Corp and Robertson Holding Company, L.P./Cumberland Mountain Bancshares Inc.

Donnelly Penman & Partners notes that no selling thrift reviewed was identical to the Company and that, accordingly, any analysis of comparable transactions necessarily involves complex

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considerations and judgments concerning differences in financial and operating characteristics of the parties to the transactions being compared. In addition, Donnelly Penman & Partners considered the fact that the proposed transaction does not represent the sale of a control position and the values associated with the Analysis of Comparable Acquisition Transactions do include a control premium.

Analysis of Selected Comparable Companies Donnelly Penman & Partners compared selected operating results of the Company to a select group of publicly traded thrifts headquartered in Michigan. The comparable set had total assets of between $200 and $500 million. Some companies meeting these criteria may have been eliminated based on lack of data as generated by SNL Financial - the source for the comparable transactions data.

Thrifts typically trade at different multiples than commercial banks in the same market because of differences in asset profiles resulting in part from historical restrictions on commercial loans and a historical specialization in mortgage lending; thus resulting in overall lower net interest margins as compared with commercial banks. The Bank operates under a savings bank charter, which is classified as a thrift, and therefore faces similar restrictions to those of other area thrifts. Donnelly Penman & Partners noted the loan composition and net interest margin of the Bank was very similar to that of the selected comparable thrift group.

The selected group had approximately the following median values: $278.7 million in total assets, $33.9 million in total equity, a tier one risk-based capital ratio of 14.09%, LTM return on average assets of .74%, LTM return on average equity of 7.05% and a LTM efficiency ratio of 62.94%. This analysis provided valuation benchmarks including the median price multiples of 1.241 times book value, 1.337 times tangible book value and 16.9 times LTM earnings per share. Applying the median price to book value multiple to the Company's book value per share as of June 30, 2004 of $10.34 resulted in an implied per share value of $12.83 on a marketable basis. Using the same methodology, the implied values provided by application of the relevant multiples to the Company's June 30, 2004 tangible book value and LTM earnings per share of $8.47 and $.74 were found to be $11.32 per share and $12.51 per share, respectively.

In this analysis, Donnelly Penman & Partners reviewed the following companies: Alpena Bancshares, Inc. (ALPN), Ameriana Bancorp (ASBI), Blue River Bankshares, Inc. (BRBI), Cheviot Financial Corp. (CHEV), FFW Corp. (FFWC), First Capital, Inc. (FCAP), First Federal Bancorp, Inc. (FFBZ), First Franklin Corp. (FFHS), HFS Bank, FSB (HFSK), LSB Financial Corp. (LSBI), MFB Corp. (MFBC), Monarch Community Bancorp, Inc. (MCBF), Northeast Indiana Bancorp, Inc. (NEIB), Peoples Bancorp (PFDC), Perpetual Federal Savings Bank (PFOH), River Valley Bancorp (RIVR), The Northern Savings & Loan Company (NLVS), Union Community Bancorp (UCBC) and Wayne Savings Bancshares, Inc. (WAYN).

No thrift used in the above analyses as a comparison is identical to the Company. Accordingly, an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the trading values of the Company and the thrifts to which it is being compared.

Discounted Cash Flow Analysis. Donnelly Penman & Partners prepared a discounted dividend stream analysis of the Company, which estimated the future after tax cash flows that the Company might produce over the period from September 20, 2004 through December 31, 2008. These estimates were derived from discussions with and deemed reasonable by the

Company's management team, and are reflected in the table that follows this discussion. The estimates assumed that the Company's pre-tax earnings would grow at a compound annual growth rate of approximately 27.7% throughout the projection period. This assumes that the Company continues to grow its business in its home markets with gradual expansion into new areas. A 27.7% earnings growth rate is greater than the Company's historical growth rate. However, this growth rate would be computed from an earnings decline in 2003 and a projected earnings decline in 2004. If viewed in the longer term, and ignoring the decline in 2003 and 2004, the compound annual earning growth rate from 2002 through the projection period is 9.6%. Earnings growth was not specifically forecasted. Rather, it is the result of multiple balance sheet growth and yield assumptions in addition to assumptions regarding non-interest expense and income growth. Donnelly Penman & Partners has, with the guidance of management, used the key assumption that the yields on earning assets grow by 100 basis points in 2005 and 2006 and costs of deposits and borrowings grow by 75 basis points in 2005 and 2006. Donnelly Penman & Partners further assumed, with management's guidance, that the Company would increase dividend payments by 10% per year, which resulted in a dividend payout ratio of 32% to 57% of earnings through the projection period. (The Company has no formal dividend policy. Dividends are independently determined by the Board of Directors quarterly. This determination has generally taken into account earnings and dividend history. The annual 10% increase in dividend payments assumed in the projections was based on management's estimates, which were based on the history of Sturgis' dividends and projected earnings. Management provided an estimate that attempted to reflect dividend declarations the board might make. Shareholders are cautioned that these figures reflect estimates and are based on many assumptions; shareholders should not have the expectation that these dividends will actually be declared. Future dividend performance may differ materially from these projections.) The resulting cash flows were then discounted to a present value using a discount rate of 10.5%, based on Ibbotson Associates (Ibbotson Associates, "Stocks, Bonds, Bills, and Inflation," Valuation Edition 2003 Yearbook) build up method with an industry discount applicable to commercial banks and thrifts. Based on the most recent Ibbotson's data the riskless rate is 4.8%, market risk premium is 7.0% and industry specific premium was -1.3%, resulting in a discount rate of 10.5%, which Donnelly Penman & Partners regards as appropriate given the nature of the Company, industry risk and general economic conditions. Donnelly Penman & Partners also estimated the residual value for the Company's common stock using a price to tangible book value multiple of 1.422 times, which is derived from the analysis of tangible book value multiples in comparable transactions *(see Analysis of Comparable Acquisition Transactions).* This multiple is applied to the Company's estimated tangible book value at December 31, 2008 of $36.1 million. The discounted dividend analysis implied a value of $13.88 per share for the Company's common stock on a marketable basis. This analysis does not purport to be indicative of actual values or actual future results and does not purport to reflect the prices at which any security may trade at the present or at any time in the future. Donnelly Penman & Partners included this analysis because it is a widely used valuation methodology, but noted that the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings growth rates, dividend payout rates, terminal values and discount rates.

Donnelly Penman & Partners utilized, with guidance from management, the following material assumptions to produce its financial forecast from September 20, 2004 to December 31, 2008: