

First Federal of Northern Michigan Bancorp, Inc.  
Form 10-Q  
August 11, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-31957

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

32-0135202  
(I.R.S. Employer  
Identification No.)

100 S. Second Avenue, Alpena, Michigan 49707  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (989) 356-9041

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, Par Value \$0.01 (Title of Class)	Outstanding at August 10, 2011 2,884,049 shares
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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.  
FORM 10-Q  
Quarter Ended June 30, 2011

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When used in this Form 10-Q or future filings by First Federal of Northern Michigan Bancorp, Inc. (the "Company") with the Securities and Exchange Commission ("SEC"), in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.



## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries  
Consolidated Balance Sheet

	June 30, 2011	December 31, 2010
	(Unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash on hand and due from banks	\$3,951,713	\$ 1,889,999
Overnight deposits with FHLB	34,756	72,658
Total cash and cash equivalents	3,986,469	1,962,657
Securities AFS	47,671,712	35,301,238
Securities HTM	2,485,000	2,520,000
Loans held for sale	550,613	-
Loans receivable, net of allowance for loan losses of \$2,190,949 and \$2,831,332 as of June 30, 2011 and December 31, 2010, respectively	144,825,894	157,143,918
Foreclosed real estate and other repossessed assets	4,625,417	2,818,343
Federal Home Loan Bank stock, at cost	3,266,100	3,775,400
Premises and equipment	5,924,907	6,026,793
Accrued interest receivable	1,158,565	1,230,938
Intangible assets	481,081	627,306
Prepaid FDIC premiums	852,890	967,143
Deferred tax asset	471,751	659,194
Other assets	2,623,837	2,700,034
Total assets	\$218,924,236	\$ 215,732,964
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits	\$156,110,486	\$ 155,465,896
Advances from borrowers for taxes and insurance	370,215	130,030
Federal Home Loan Bank Advances	32,000,000	29,000,000
REPO Sweep Accounts	4,847,231	6,172,362
Accrued expenses and other liabilities	1,530,196	1,728,735
Total liabilities	194,858,128	192,497,023
Stockholders' equity:		
Common stock (\$0.01 par value 20,000,000 shares authorized 3,191,799 shares issued)	31,918	31,918
Additional paid-in capital	23,851,341	23,822,152
Retained earnings	2,661,488	2,238,064
Treasury stock at cost (307,750 shares)	(2,963,918 )	(2,963,918 )
Unearned compensation	(556 )	(38,382 )
Accumulated other comprehensive income	485,835	146,107
Total stockholders' equity	24,066,108	23,235,941

Total liabilities and stockholders' equity	\$218,924,236	\$ 215,732,964
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See accompanying notes to consolidated financial statements.

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries  
Consolidated Statement of Income

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
<b>Interest income:</b>				
Interest and fees on loans	\$2,317,197	\$2,552,986	\$4,590,517	\$5,093,399
<b>Interest and dividends on investments</b>				
Taxable	134,402	106,843	229,217	239,406
Tax-exempt	40,011	58,455	80,339	111,267
Interest on mortgage-backed securities	199,702	165,313	383,068	321,846
Total interest income	2,691,312	2,883,597	5,283,141	5,765,918
<b>Interest expense:</b>				
Interest on deposits	407,875	601,733	845,128	1,239,557
Interest on borrowings	172,681	298,657	340,755	617,239
Total interest expense	580,556	900,390	1,185,883	1,856,796
Net interest income	2,110,756	1,983,207	4,097,258	3,909,122
Provision for loan losses	(19,238 )	594,840	48,120	605,928
Net interest income after provision for loan losses	2,129,994	1,388,367	4,049,138	3,303,194
<b>Non-interest income:</b>				
Service charges and other fees	181,228	199,340	345,719	403,514
Mortgage banking activities	182,463	315,223	418,446	563,315
Gain on sale of investments	-	447,387	-	496,817
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	(37,756 )	42,691	(46,431 )	53,867
Other	67,048	260,723	124,601	326,336
Total non-interest income	392,983	1,265,364	842,335	1,843,849
<b>Non-interest expense:</b>				
Compensation and employee benefits	1,159,252	1,194,299	2,328,188	2,365,241
FDIC Insurance Premiums	51,170	94,348	122,387	188,548
Advertising	33,817	36,103	56,838	55,992
Occupancy	267,652	288,237	537,694	600,813
Amortization of intangible assets	73,112	73,112	146,225	146,225
Service bureau charges	79,292	86,114	155,498	165,696
Professional services	133,570	149,091	221,147	252,202
Other	462,389	515,103	900,072	850,786
Total non-interest expense	2,260,254	2,436,407	4,468,049	4,625,503
Income before income tax benefit	262,723	217,324	423,424	521,540
Income tax benefit	-	(101,913 )	-	-
Net Income	\$262,723	\$319,237	\$423,424	\$521,540

Per share data:

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Net income per share				
Basic	\$0.09	\$0.11	\$0.15	\$0.18
Diluted	\$0.09	\$0.11	\$0.15	\$0.18
Weighted average number of shares outstanding				
Basic and diluted	2,884,049	2,884,249	2,884,049	2,884,249
Dividends per common share	\$-	\$-	\$-	\$-
See accompanying notes to consolidated financial statements.				



First Federal of Northern Michigan Bancorp Inc. and Subsidiaries  
Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2010	\$ 31,918	\$(2,963,918)	\$23,822,152	\$ (38,382 )	\$2,238,064	\$ 146,107	\$23,235,941
Treasury Stock at Cost	-	-	-	-	-	-	-
Stock-based compensation	-	-	29,189	37,826	-	-	67,015
Net income for the period	-	-	-	-	423,424	-	423,424
Change in unrealized gain: on available-for-sale securities (net of tax of \$175,011)	-	-	-	-	-	339,728	339,728
Total comprehensive income	-	-	-	-	-	-	763,152
Balance at June 30, 2011	\$ 31,918	\$(2,963,918)	\$23,851,341	\$ (556 )	\$2,661,488	\$ 485,835	\$24,066,108

See accompanying notes to the consolidated financial statements.

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries  
Consolidated Statement of Cash Flows

	For Six Months Ended June 30,	
	2011	2010
	(Unaudited)	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$423,424	\$521,540
<b>Adjustments to reconcile net income to net cash from operating activities:</b>		
Depreciation and amortization	360,115	410,565
Provision for loan loss	48,120	605,928
Amortization and accretion on securities	133,688	60,794
Gain on sale of investment securities	-	(496,817 )
Stock-based compensation	67,015	109,429
Gain on sale of loans held for sale	(162,421 )	(225,014 )
Originations of loans held for sale	(11,516,189)	(17,133,098)
Proceeds from sale of loans held for sale	11,127,997	16,639,206
Gain on sale of fixed assets	(990 )	(9,423 )
<b>Net change in</b>		
Accrued interest receivable	72,373	132,706
Other assets	568,753	867,161
Prepaid FDIC insurance premiums	114,253	179,338
Deferred income tax expense (benefit)	187,443	(84,193 )
Accrued expenses and other liabilities	(198,539 )	194,306
Net cash provided by operating activities	1,225,042	1,772,428
<b>Cash Flows from Investing Activities:</b>		
Net decrease in loans (loans originated, net of principal payments)	9,795,262	6,787,517
Proceeds from maturity and sale of available-for-sale securities	3,374,182	19,558,755
Proceeds from sale of property and equipment	1,480	30,874
Purchase of securities	(15,328,604)	(18,604,083)
Purchase of premises and equipment	(112,494 )	(11,086 )
Proceeds from sale of Federal Home Loan Bank Stock	509,300	-
Net cash (used for) provided by investing activities	(1,760,874 )	7,761,977
<b>Cash Flows from Financing Activities:</b>		
Net increase/(decrease) in deposits	644,590	(273,222 )
Net decrease in Repo Sweep accounts	(1,325,131 )	(162,167 )
Net increase in advances from borrowers	240,185	268,295
Advances from Federal Home Loan Bank and notes payable	7,350,000	11,925,000
Repayments of Federal Home Loan Bank advances and notes payable	(4,350,000 )	