

First Federal of Northern Michigan Bancorp, Inc.
Form 10-Q
May 15, 2009

**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 March 31, 2009

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

(Address of principal executive offices)

49707

(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. (Check one):

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 May 13, 2009
2,884,249 shares

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-Q
Quarter Ended March 31, 2009
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<p>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," similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.</p> <p>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.</p> <p>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.</p>	

PART I FINANCIAL INFORMATION**ITEM 1 FINANCIAL STATEMENTS****First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries****Consolidated Balance Sheet**

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and cash equivalents:		
Cash on hand and due from banks	\$ 2,048,952	\$ 3,097,788
Overnight deposits with FHLB	460,858	372,523
Total cash and cash equivalents	2,509,810	3,470,311
Securities AFS	29,365,064	25,665,178
Securities HTM	4,019,968	4,022,235
Loans held for sale	1,396,684	107,000
Loans receivable, net of allowance for loan losses of \$5,765,561 and \$5,647,055 as of March 31, 2009 and December 31, 2008, respectively	191,642,968	192,270,714
Foreclosed real estate and other repossessed assets	1,424,033	1,637,923
Federal Home Loan Bank stock, at cost	4,196,900	4,196,900
Premises and equipment	6,951,582	7,089,746
Accrued interest receivable	1,483,700	1,469,176
Intangible assets	1,139,095	1,192,853
Other assets	5,627,613	4,939,523
Assets of discontinued operations		1,610,734
Total assets	\$ 249,757,417	\$ 247,672,293
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 164,397,207	165,778,598
Advances from borrowers for taxes and insurance	275,176	\$ 104,475
Federal Home Loan Bank advances	44,350,000	40,200,000
Note payable	768,651	768,651
REPO sweep accounts	7,571,905	9,447,415
Accrued expenses and other liabilities	2,844,648	1,877,600
Liabilities of discontinued operations		76,792
Total liabilities	220,207,587	218,253,531
Stockholders' equity:		
Common stock (\$0.01 par value 20,000,000 shares authorized 3,191,999 shares issued)	31,920	31,920
Additional paid-in capital	24,300,037	24,302,102
Retained earnings	8,863,053	8,762,412

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Treasury stock at cost (307,750 shares)	(2,963,918)	(2,963,918)
Unallocated ESOP	(737,861)	(764,861)
Unearned compensation	(255,163)	(286,324)
Accumulated other comprehensive income	311,762	337,431
Total stockholders' equity	29,549,830	29,418,762
Total liabilities and stockholders' equity	\$ 249,757,417	\$ 247,672,293

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 March 31,	
	2009	2008
	(Unaudited)	
Interest income:		
Interest and fees on loans	\$ 2,942,340	\$ 3,274,547
Interest and dividends on investments	197,398	276,577
Interest on mortgage-backed securities	150,826	38,400
Total interest income	3,290,564	3,589,524
Interest expense:		
Interest on deposits	1,060,286	1,294,452
Interest on borrowings	428,559	572,919
Total interest expense	1,488,845	1,867,371
Net interest income	1,801,719	1,722,153
Provision for loan losses	264,230	24,970
Net interest income after provision for loan losses	1,537,489	1,697,183
Non-interest income:		
Service charges and other fees	214,872	226,175
Mortgage banking activities	449,205	104,806
Gain on sale of available-for-sale investments		16,052
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	71,542	(2,801)
Other	32,595	23,030
Insurance & Brokerage Commissions	30,022	45,000
Total non-interest income	798,236	412,262
Non-interest expense:		
Compensation and employee benefits	1,147,802	1,226,860
FDIC Insurance Premiums	79,564	19,188
Advertising	17,550	30,140
Occupancy	302,418	307,518
Amortization of intangible assets	89,117	77,122
Service bureau charges	91,959	82,369
Professional services	102,904	89,656
Other	306,500	297,363

Total non-interest expense	2,137,814	2,130,216
Income (loss) from continuing operations before income tax expense (benefit)	197,911	(20,771)
Income tax expense (benefit) from continuing operations	51,412	(6,808)
Net income (loss) from continuing operations	146,499	(13,963)
Discontinued Operations:		
Loss from discontinued operations, net of income tax benefit of \$43,209 and \$9,115	(83,875)	(17,693)
Gain on sale of discontinued operations, net of income tax expense of of \$19,585 and \$0	38,017	
Loss from discontinued operations	(45,858)	(17,693)
Net Income (loss)	\$ 100,641	\$ (31,656)
Per share data:		
Income (loss) per share from continuing operations		
Basic	\$ 0.05	\$ (0.00)
Diluted	\$ 0.05	\$ (0.00)
Loss per share from discontinued operations		
Basic	\$ (0.02)	\$ (0.01)
Diluted	\$ (0.02)	\$ (0.01)
Net income (loss) per share		
Basic	\$ 0.03	\$ (0.01)
Diuted	\$ 0.03	\$ (0.01)
Weighted average number of shares outstanding		
Basic	2,884,249	2,884,249
Including dilutive stock options	2,884,249	2,884,249
Dividends per common share	\$	\$ 0.05
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	Unallocated ESOP	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2008	\$ 31,920	\$ (2,963,918)	\$ 24,302,102	\$ (286,324)	\$ 8,762,412	\$ (764,861)	\$ 337,431	\$ 29,418,762
Stock Options/Awards Expensed			21,641	31,161				52,802
ESOP common stock committed to be released			(23,706)			27,000		3,294
Net income for the period					100,641			100,641
Changes in unrealized gain : on available-for-sale securities net of tax of \$13,223)							(25,669)	(25,669)
Total comprehensive income								74,972
Balance at March 31, 2009	\$ 31,920	\$ (2,963,918)	\$ 24,300,037	\$ (255,163)	\$ 8,863,053	\$ (737,861)	\$ 311,762	\$ 29,549,830

See accompanying notes to consolidated financial statements.

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

	For Three Months Ended March 31,	
	2009	2008
	(Unaudited)	
Cash Flows from Operating Activities:		
Net income (loss)	\$ 100,641	\$ (31,656)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	198,114	273,742
Provision for loan loss	264,230	24,970
Amortization and accretion on securities	12,471	3,018
Gain on sale of investment securities		(16,052)
ESOP contribution	3,294	19,033
Stock awards/options	52,803	51,001
Gain on sale of loans held for sale	(195,778)	(34,115)
Originations of loans held for sale	(17,351,274)	(2,960,216)
Proceeds from sale of loans held for sale	16,257,368	2,492,612
(Gain) loss on fixed assets	(43,807)	
Change in accrued interest receivable	(14,524)	58,600
Change in other assets	(674,867)	(269,080)
Change in accrued expenses and other liabilities	967,048	(336,747)
Net cash provided by (used in) operating activities	(424,281)	(724,890)
Cash Flows from Investing Activities:		
Net decrease in loans	319,016	5,750,188
Proceeds from maturity and sale of available-for-sale securities	1,423,900	11,633,088
Proceeds from sale of property and equipment	306,772	554,979
Net change in discontinued operations	1,533,942	48,970
Purchase of securities	(5,172,882)	(11,321,671)
Purchase of premises and equipment	(10,768)	(29,063)
Net cash (used for) provided by investing activities	(1,600,020)	6,636,491
Cash Flows from Financing Activities:		
Net decrease in deposits	(1,381,391)	(513,349)
Dividend paid on common stock		(144,212)
Net decrease in Repo Sweep accounts	(1,875,510)	(809,901)
Net increase in advances from borrowers	170,701	173,029
Additions to advances from Federal Home Loan Bank and notes payable	8,600,000	5,000,000
Repayments of Federal Home Loan Bank advances and notes payable	(4,450,000)	(9,584,600)
Net cash provided by (used for) financing activities	1,063,800	(5,879,033)

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Net increase (decrease) in cash and cash equivalents	(960,501)	32,568
Cash and cash equivalents at beginning of period	3,470,311	5,340,857
Cash and cash equivalents at end of period	\$ 2,509,810	\$ 5,373,425
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	\$	\$
Cash paid during the period for interest	\$ 1,479,994	\$ 1,983,895

See accompanying notes to the consolidated financial statements.

**FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

Note 1 BASIS OF FINANCIAL STATEMENT PRESENTATION.

The accompanying unaudited condensed consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The interim financial statements should be read in conjunction with the financial statements of First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

All adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of financial position, results of operations and cash flows, have been made. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

Note 2 PRINCIPLES OF CONSOLIDATION AND DISCONTINUED OPERATIONS.

The consolidated financial statements include the accounts of First Federal of Northern Michigan Bancorp, Inc., First Federal of Northern Michigan, and the Bank's wholly owned subsidiary, Financial Services & Mortgage Corporation (FSMC). FSMC invests in real estate, which includes leasing, selling, developing, and maintaining real estate properties. All significant intercompany balances and transactions have been eliminated in the consolidation.

In accordance with Statement of Financial Accounting Standards No. 144, on February 27, 2009 First Federal of Northern Michigan Bancorp, Inc. announced that it had sold the InsuranCenter of Alpena (ICA) for \$1,635,000. In accordance with Financial Accounting Standard 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which became effective for the Company on January 1, 2002, the financial position and results of operations of ICA are removed from the detail line items in the Company's condensed consolidated financial statements and presented separately as discontinued operations. For further information, please refer to Note 15 of the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

As a result of the transaction, the Company reduced its full-time employees by 14 positions, or 13% of the Company's workforce. The Company expects the sale will reduce its non-interest expense by approximately \$1.2 million in fiscal year 2009.

The Company recorded a gain of approximately \$58,000 upon the closing of the sale. ICA retained the residual income stream associated with the April 2008 sale of its wholesale Blue Cross/Blue Shield override business to the Grotenhuis Group.

Note 3 LOANS.

The following table sets forth the composition of our loan portfolio by loan type at the dates indicated.

	At March 31, 2009	At December 31, 2008
	(in thousands)	
Real estate loans:		
Residential mortgage	\$ 88,556	\$ 92,364
Commercial loans:		
Secured by real estate	60,974	49,787
Other	23,578	30,173
Total commercial loans	84,552	79,960
Consumer loans:		
Secured by real estate	21,340	22,303
Other	3,237	3,564
Total consumer loans	24,577	25,867
Total gross loans	\$ 197,685	\$ 198,191
Less:		
Net deferred loan fees	(276)	(274)
Allowance for loan losses	(5,766)	(5,647)
Total loans, net	\$ 191,643	\$ 192,270

Note 4 DIVIDENDS.

We suspended our quarterly dividend effective for the quarter ended December 31, 2008. We are dependent primarily upon the Bank for our earnings and funds to pay dividends on our common stock. The payment of dividends also is subject to legal and regulatory restrictions. Any reinstatement of dividends in the future will depend, in large part, on the Bank's earnings, capital requirements, financial condition and other factors considered by our Board of Directors.

Note 5 STOCK-BASED COMPENSATION.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123 (Revised) Shareholder Based Payments, which requires that the grant-date fair value of awarded stock options be expensed over the requisite service period. The Company's 1996 Stock Option Plan (the 1996 Plan), which was approved by shareholders, permits the grant of share options to its employees for up to 127,491 shares of common stock (retroactively adjusted for the exchange ratio applied in the Company's 2005 stock offering and related second-step conversion). The Company's 2006 Stock-Based Incentive Plan (the 2006 Plan), which was approved by shareholders on May 17, 2006, permits the award of up to 242,740 shares of common stock of which the maximum number to be granted as Stock Options is 173,386 and the maximum that can be granted as Restricted Stock Awards is

69,354. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on five years of continual service and have ten year contractual terms. Certain options provide for accelerated vesting if there is a change in control (as defined in the Plans).

During the three months ended March 31, 2009 no shares were awarded under the Recognition and Retention Plan (RRP). Shares issued under the RRP and exercised pursuant to the exercise of the stock option plan may be either authorized but unissued shares or reacquired shares held by the Company as treasury stock.

Stock Options A summary of option activity under the Plans during the three months ended March 31, 2009 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	192,132	\$ 9.48		
Granted	0	N/A		
Exercised	0	N/A		
Forfeited or expired	(950)	\$ 9.41		
Oustanding at March 31, 2009	191,182	\$ 9.48	7.27	\$ 0
Options Exercisable at March 31, 2009	87,118	\$ 9.39	7.10	\$ 0

A summary of the status of the Company's non-vested shares as of March 31, 2009, and changes during the quarter ended March 31, 2009, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2009	111,774	\$ 2.11
Granted	0	N/A