

First Federal of Northern Michigan Bancorp, Inc.
Form DEF 14A
April 15, 2011

SCHEDULE 14-A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

First Federal of Northern Michigan 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.
- \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(j)(2).
- \$500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

4) Proposed maximum aggregate value of transaction:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

April 15, 2011

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of First Federal of Northern Michigan Bancorp, Inc. (the "Company"). The Annual Meeting will be held at the Thunder Bay National Marine Sanctuary, 500 W. Fletcher Street, Alpena, Michigan, at 1:00 p.m. Michigan time on May 18, 2011.

The enclosed Notice of Annual Meeting and proxy statement describe the formal business to be transacted. During the Annual Meeting we will also report on our operations. Our directors and officers will be present to respond to any questions that stockholders may have. Also enclosed for your review is our Annual Report to Stockholders, which contains detailed information concerning our activities and operating performance.

The Annual Meeting is being held so that stockholders will be given an opportunity to elect two directors and ratify the appointment of Plante & Moran, PLLC as our independent registered public accountants for the year ending December 31, 2011.

For the reasons set forth in the proxy statement, the Board of Directors unanimously recommends a vote "FOR" the election of each of the directors and "FOR" the ratification of the appointment of Plante & Moran, PLLC as our independent registered public accountants for the 2011 fiscal year.

On behalf of the Board of Directors, we urge you to sign, date and return the enclosed proxy card as soon as possible even if you currently plan to attend the Annual Meeting. Your vote is important, regardless of the number of shares that you own. Voting by proxy will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the meeting.

Sincerely,

Michael W. Mahler
President and Chief Executive Officer

First Federal of Northern Michigan Bancorp, Inc.
100 South Second Avenue
Alpena, Michigan 49707
(989) 356-9041

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On May 18, 2011

Notice is hereby given that the Annual Meeting of Stockholders (the "Meeting") of First Federal of Northern Michigan Bancorp, Inc. will be held at the Thunder Bay National Marine Sanctuary, 500 W. Fletcher Street, Alpena, Michigan, on May 18, 2011 at 1:00 p.m., Michigan time.

A proxy statement and proxy card for the Meeting are enclosed.

The Meeting is for the purpose of considering and acting upon:

1. The election of two directors of First Federal of Northern Michigan Bancorp, Inc.;
2. The ratification of the appointment of Plante & Moran, PLLC as our independent registered public accountants for the year ending December 31, 2011; and

such other matters as may properly come before the Meeting, or any adjournments thereof. The Board of Directors is not aware of any other business to come before the Meeting.

Any action may be taken on the foregoing proposals at the Meeting on the date specified above, or on any date or dates to which the Meeting may be adjourned. Stockholders of record at the close of business on March 31, 2010 are the stockholders entitled to vote at the Meeting, and any adjournments thereof.

EACH STOCKHOLDER, WHETHER HE OR SHE PLANS TO ATTEND THE MEETING, IS REQUESTED TO SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD WITHOUT DELAY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. ANY PROXY GIVEN BY THE STOCKHOLDER MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED. A PROXY MAY BE REVOKED BY FILING WITH OUR SECRETARY A WRITTEN REVOCATION OR A DULY EXECUTED PROXY BEARING A LATER DATE. ANY STOCKHOLDER PRESENT AT THE MEETING MAY REVOKE HIS OR HER PROXY AND VOTE PERSONALLY ON EACH MATTER BROUGHT BEFORE THE MEETING. HOWEVER, IF YOU ARE A STOCKHOLDER WHOSE SHARES ARE NOT REGISTERED IN YOUR OWN NAME, YOU WILL NEED ADDITIONAL DOCUMENTATION FROM YOUR RECORD HOLDER IN ORDER TO VOTE PERSONALLY AT THE MEETING.

By Order of the Board of Directors

Amy E. Essex
Chief Financial Officer, Treasurer and Corporate Secretary

Alpena, Michigan
April 15, 2011

IMPORTANT: A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 18, 2011: THIS PROXY STATEMENT, INCLUDING THE NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS, AND FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.'S 2010 ANNUAL REPORT TO STOCKHOLDERS ON FORM 10-K ARE EACH AVAILABLE ON THE INTERNET AT WWW.CFPProxy.COM/5807.

PROXY STATEMENT

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

100 South Second Avenue

Alpena, Michigan 49707

(989) 356-9041

ANNUAL MEETING OF STOCKHOLDERS

MAY 18, 2011

This proxy statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of First Federal of Northern Michigan Bancorp, Inc. to be used at our Annual Meeting of Stockholders (the "Meeting"), which will be held at the Thunder Bay National Marine Sanctuary, 500 W. Fletcher Street, Alpena, Michigan, on May 18, 2011 at 1:00 p.m., Michigan time, and all adjournments thereof. The accompanying Notice of Annual Meeting of Stockholders and this proxy statement are first being mailed to stockholders on or about April 15, 2011.

REVOCATION OF PROXIES

Stockholders who execute proxies in the form solicited hereby retain the right to revoke them in the manner described below. Unless so revoked, the shares represented by such proxies will be voted at the Meeting and all adjournments thereof. Proxies solicited on behalf of our Board of Directors will be voted in accordance with the directions given thereon. Please sign and return your proxy to our corporate secretary at First Federal of Northern Michigan Bancorp, Inc. in order for your vote to be counted. Where no instructions are indicated, signed proxies will be voted "FOR" the proposals set forth in this proxy statement for consideration at the Meeting.

A proxy may be revoked at any time prior to its exercise by sending written notice of revocation to our Secretary, Amy E. Essex, at our address shown above, or by filing a duly executed proxy bearing a later date or by voting in person at the Meeting. The presence at the Meeting of any stockholder who had given a proxy shall not revoke such proxy unless the stockholder delivers his or her ballot in person at the Meeting or delivers a written revocation to our Secretary prior to the voting of such proxy.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Except as otherwise noted below, holders of record of our common stock ("common stock") at the close of business on March 31, 2011 (the "Voting Record Date") are entitled to one vote for each share held. As of the Voting Record Date, there were 2,884,049 shares of common stock outstanding. The presence in person or by proxy of at least a majority of the outstanding shares of common stock entitled to vote is necessary to constitute a quorum at the Meeting.

In accordance with the provisions of our Articles of Incorporation, record holders of common stock who beneficially own in excess of 10% of the outstanding shares of common stock (the "Limit") are not entitled to any vote with respect to the shares held in excess of the Limit. Our Articles of Incorporation authorize the Board of Directors (i) to make all determinations necessary to implement and apply the Limit, including determining whether persons or entities are acting in concert, and (ii) to demand that any person who is reasonably believed to beneficially own stock in excess of the Limit supply information to us to enable the Board of Directors to implement and apply the Limit.

Persons and groups who beneficially own in excess of five percent of our common stock are required to file certain reports with the Securities and Exchange Commission (the "SEC") regarding such ownership pursuant to the Exchange Act.

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The following table sets forth the beneficial ownership of our common stock held by our directors and executive officers, individually and as a group, and all individuals known to management to own more than 5% of our common stock as of the Voting Record Date. The business address of each director and executive officer and of the First Federal of Northern Michigan Employee Stock Ownership Plan is 100 South Second Avenue, Alpena, Michigan 49707.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)	Percent of All Common Stock Outstanding(13)
Five Percent Stockholders:		
Investors of America Limited Partnership (2) 135 North Meramec Clayton, Missouri 63105	149,000	5.17 %
Financial & Investment Management Group Ltd (3) 111 Cass Street Traverse City, Michigan 49684	273,454	9.48
First Federal of Northern Michigan Employee Stock Ownership Plan	152,156	5.28
Directors and Executive Officers:		
James C. Rapin	33,802 (4)	1.17
Martin A. Thomson	101,871 (5)	3.53
Thomas R. Townsend	24,611 (6)	*
Gary C. VanMassenhove	25,900 (7)	*
Keith D. Wallace	33,033 (8)	1.15
Michael W. Mahler	61,009 (9)	2.12
Amy E. Essex	28,912 (10)	1.00
Jerome W. Tracey	46,918 (11)	1.63
All directors and executive officers as a group (8 persons)	356,056 (12) (13)	12.35 %

* Less than 1%.

(1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner for purposes of this table of any shares of common stock if he has sole or shared voting or investment power with respect to such security, or has a right to acquire beneficial ownership at any time within 60 days from the date as of which beneficial ownership is being determined. As used herein, "voting power" is the power to vote or direct the voting of shares and "investment power" is the power to dispose or direct the disposition of shares.

(2) Based on a Schedule 13G filed with the Securities and Exchange Commission on January 22, 2008.

(3) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 16, 2011.

(4) Includes 8,400 shares that may be acquired pursuant to presently exercisable stock options.

(5) Includes 26,448 shares that may be acquired pursuant to presently exercisable stock options.

(6) Includes 8,400 shares that may be acquired pursuant to presently exercisable stock options.

(7) Includes 8,400 shares that may be acquired pursuant to presently exercisable stock options.

- (8) Includes 8,400 shares that may be acquired pursuant to presently exercisable stock options.
- (9) Includes 20,900 shares that may be acquired pursuant to presently exercisable stock options.
- (10) Includes 14,290 shares that may be acquired pursuant to presently exercisable stock options.
- (11) Includes 16,138 shares that may be acquired pursuant to presently exercisable stock options.
- (12) Includes 79,987 shares held indirectly by executive officers in Bank-sponsored qualified retirement plans, which consists of 61,270 shares allocated to the accounts of executive officers under the 401(k) Plan and excludes the remaining 35,242 shares owned by the 401(k) Plan for the benefit of employees, and 18,717 shares allocated to the accounts of executive officers under the ESOP and excludes the remaining 133,439 shares owned by the ESOP for the benefit of employees. Under the terms of the 401(k) Plan and the ESOP, shares of common stock allocated to the accounts of employees are voted in accordance with the instructions of the respective employees. Unallocated shares in the ESOP are voted by the ESOP trustee in a manner calculated to most accurately reflect the instructions it has received from participants regarding the allocated shares, unless its fiduciary duty requires otherwise.
- (13) Includes 111,376 shares that may be acquired pursuant to presently exercisable stock options; calculation of percentage reflects the inclusion of such shares in the numerator but not the denominator.

* Less than 1%

VOTING PROCEDURES AND METHOD OF COUNTING VOTES

As to the election of the directors, the proxy card provided by the Board of Directors enables a stockholder to vote “FOR” the election of the nominees proposed by the Board of Directors or to “WITHHOLD AUTHORITY” to vote for the nominees being proposed. Under Maryland law and our Articles of Incorporation and Bylaws, directors are elected by a plurality of the shares voted at the Meeting without regard to either broker non-votes or proxies as to which the authority to vote for the nominee is withheld. Plurality means that individuals who receive the largest number of votes cast are elected, up to the maximum number of directors to be elected at the Meeting.

As to the ratification of Plante & Moran, PLLC as our independent registered public accountants, by checking the appropriate box a stockholder may vote “FOR” the item, vote “AGAINST” the item or “ABSTAIN” from voting on the item. The ratification of independent registered public accountants must be approved by a majority of the shares voted at the Meeting without regard to broker non-votes or proxies marked “ABSTAIN.”

In the event at the time of the Meeting there are not sufficient votes for a quorum or to approve or ratify any matter being presented, the Meeting may be adjourned in order to permit the further solicitation of proxies.

Proxies solicited hereby will be returned to us and will be tabulated by the Internal Auditor of First Federal of Northern Michigan, the inspector of election designated by our Board of Directors.

PROPOSAL I—ELECTION OF DIRECTORS

Our Board of Directors is comprised of six persons, and is divided into three classes with one class of directors elected each year. Directors are generally elected to serve for a three-year period or until their respective successors shall have been elected and shall qualify. Our Nominating Committee, which is comprised of all of our independent directors, has nominated James C. Rapin and Martin A. Thomson to serve as directors for three-year terms. Messrs. Rapin and Thomson are currently members of the Board of Directors and have agreed to serve, if elected.

The table below sets forth certain information, as of the Voting Record Date, regarding the Board of Directors and executive officers. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to the nominees) will be voted at the Meeting for the election of the nominees identified below. If a nominee is unable to serve, the shares represented by all such proxies will be voted for the election of such substitute as the Board of Directors may recommend. At this time, the Board of Directors knows of no reason why either of the nominees might be unable to serve, if elected. There are no arrangements or understandings between either of the nominees and any other person pursuant to which the nominees were selected.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE NOMINEES LISTED IN THIS PROXY STATEMENT.

Name	Age	Positions Held	Director Since	Term Expires
NOMINEES				
James C. Rapin	70	Director	1985	2011
Martin A. Thomson	62	Chairman of the Board	1986	2011
DIRECTORS				
Keith D. Wallace	69	Director	1988	2013
Michael W. Mahler	47	President and Chief Executive Officer and Director	2008	2013
Gary C. VanMassenhove	64	Director	2001	2012
Thomas R. Townsend	59	Director	2002	2012
EXECUTIVE OFFICERS				
Amy E. Essex	47	Chief Financial Officer, Treasurer and Corporate Secretary	N/A	N/A
Jerome W. Tracey	51	Executive Vice President, Chief Lending Officer	N/A	N/A

The business experience for the past five years of each of our directors and executive officers is set forth below. Unless otherwise indicated, directors and executive officers have held their positions for the past five years.

Directors

James C. Rapin was Chairman of the Board of Directors until his retirement as Chairman in May 2008. Mr. Rapin remains a director, and has been a director of First Federal of Northern Michigan since 1985. Mr. Rapin retired as a pharmacist with LeFave Pharmacy, Alpena, Michigan in 2004.

Martin A. Thomson was our Chief Executive Officer until his retirement from that position in May 2008. From 2001 until 2006, he was also our President. Upon his retirement as Chief Executive Officer, Mr. Thomson was appointed Chairman of the Board. Mr. Thomson previously held the position of President and Chief Executive Officer of Presque Isle Electric and Gas Cooperative, Inc., Onaway, Michigan. Mr. Thomson has been a director of First Federal of Northern Michigan since 1986.

Thomas R. Townsend is the President of R.A. Townsend Co., a plumbing, heating and air conditioning distributor located in Alpena, Michigan, where he has been employed for the past 34 years. Mr. Townsend has been a director since 2002.

Gary C. VanMassenhove is a partner in VanMassenhove, Kearly, Taphouse & Faulman, CPAs. Mr. VanMassenhove has been a Certified Public Accountant for 40 years. He has been a director since 2001.

Keith D. Wallace is a senior attorney in the law firm of Isackson, Wallace and Pfeifer, P.C., located in Alpena, Michigan and local counsel to First Federal of Northern Michigan. Mr. Wallace has been a practicing attorney for 43 years. He has been a director since 1988.

Michael W. Mahler was appointed as a director and our Chief Executive Officer in May 2008. He had previously served as our President and Chief Operating Officer from January 2006. Prior to his appointment as President and Chief Operating Officer, Mr. Mahler was our Executive Vice President since November 2004. Prior to that appointment, since November 2002, Mr. Mahler was our Chief Financial Officer. Mr. Mahler was named as a

director of the Bank in June 2007. From September 2000 until November 2002, Mr. Mahler was Corporate Controller at Besser Company, Alpena, Michigan, an international producer of concrete products equipment. From 1990 until 2000, Mr. Mahler was employed at LTV Steel Company, East Chicago, Indiana where he served in financial roles of increasing responsibility and served, from 1997 until 2000, as Controller for a northeast Michigan division.

Executive Officers Who Are Not Directors

Amy E. Essex was appointed as our Chief Financial Officer, Treasurer and Corporate Secretary in January 2006. Prior to this appointment, Ms. Essex was our Chief Financial Officer since November 2004. From March 2003 until November 2004, Ms. Essex was our Internal Auditor and Compliance Officer. Prior to March 2003, Ms. Essex spent eight years as the Director of Tax and Risk for Besser Company, Alpena, Michigan, an international producer of concrete products equipment. Ms. Essex is a certified public accountant.

Jerome W. Tracey was appointed as our Executive Vice President and Chief Lending Officer in January 2006. Prior to this appointment, Mr. Tracey was Senior Vice President, Senior Lender since September 2001. Prior to joining First Federal of Northern Michigan, Mr. Tracey served as Vice President of Commercial Lending for National City Bank, Alpena, Michigan, a position he held since 1996. Mr. Tracey has been in the banking profession since 1981.

Attributes / Skills of Directors

When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively, the Nominating Committee and the Board of Directors focused primarily on the information included in each of the directors' individual biographies set forth above. The particular experience, qualifications, attributes or skills that led the Board of Directors to conclude that each person could serve as a director of the Company are summarized below.

Martin A. Thomson – Mr. Thomson has had extensive business experience with two successful small businesses in the Alpena community. He was the owner/operator of a building construction company for 20 years and a gas station/convenience store for 10 years. Mr. Thomson also served as President and Chief Executive Officer of a gas and electric utility for nine years, and served as the utility's board chairman for 16 years. He served for several years on the boards of associated national and state trade organizations. He also has served on numerous governmental and community boards and committees. At these enterprises and community organizations, Mr. Thomson was responsible for business development, strategic planning, and mergers and acquisitions, where he has drawn on his strong financial analysis, organizational modeling and strategic planning skills. This expertise has been valuable to the Company as it considers and evaluates its own strategic opportunities.

James C. Rapin – Mr. Rapin worked in the Alpena community for 47 years as a pharmacist until his retirement in 2004. As the former manager of this small business, Mr. Rapin provides the Board of Directors with considerable knowledge and expertise concerning the risks associated with lending to commercial companies and small businesses in the Alpena community. His long-time involvement with and business contacts in the Alpena business community also enables Mr. Rapin to refer business opportunities to the Company and helps the Company understand trends in the local economy.

Keith D. Wallace – Mr. Wallace has been an attorney in private practice successfully managing his law firm as an active, involved business entity serving the Alpena community and surrounding area for 43 years. He has also served as Alpena City Attorney for 40 years representing and advising the City on all aspects of legal and administrative affairs. His legal training and experience in the area of business transactions and all areas of real estate matters, including foreclosure actions, creditor protection issues, secured transactions and collection remedies, specifically has contributed to the Board and management in its consideration of legal, administrative and other issues affecting the Company.

Gary C. VanMassenhove – Mr. VanMassenhove is a CPA and partner with an Alpena-based public accounting firm, where he has a varied client base and has extensive experience in all phases of public accounting. Early in his career, Mr. VanMassenhove was employed by an international accounting firm, where he was responsible for the audits of

several corporations subject to the public company reporting requirements of the Securities Exchange Act of 1934. His skills and experience in this area are important to the Board, particularly in his service on the Audit Committee.

Thomas R. Townsend – Mr. Townsend is the President of a plumbing, heating and air conditioning distributor located in Alpena, Michigan, where he has been employed for the past 34 years. Mr. Townsend also serves as vice-chair of the Board of Directors of Alpena Community College. His experiences in his corporate leadership role as well as his community service history bring a unique and insightful perspective to the Board.

Michael W. Mahler – Mr. Mahler has a background in the financial and operational aspects of several large companies. He has served as the Chief Financial Officer and Executive Vice-President of the Bank and the Company before assuming the role of President and Chief Executive Officer in 2008. He provides the Board of Directors with broad perspective on the Company’s strategies, challenges and opportunities as a result of his role as the Chief Executive Officer of the Company.

The Nominating Committee and the Board of Directors do not have a formal diversity policy in identifying nominees for director. However, in considering all of the attributes of an effective director in the context of existing members of the Board, the Committee and the Board do consider differences of viewpoint (including different viewpoints derived from diverse race, gender and national origin), professional experience, education and skills so as to achieve balance and heterogeneity in backgrounds and experiences on the Board.

Board Independence, Leadership Structure and Risk Oversight

The Board of Directors has determined that, except for Mr. Mahler, each member of the Board is an “independent director” within the meaning of the Nasdaq corporate governance listing standards. Mr. Mahler is not considered independent because he is a current executive officer.

In determining the independence of the directors, the Board of Directors reviewed and considered legal fees of approximately \$16,951 paid to the law firm of Isackson, Wallace and Pfeifer, P.C., in which Director Wallace is a senior attorney, for legal work for First Federal of Northern Michigan.

In addition, the following loans by First Federal of Northern Michigan to directors were reviewed by the Board of Directors in determining the independence of directors. All such loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to First Federal of Northern Michigan Bancorp, Inc., and, in the judgment of management, did not involve more than the normal risk of collectibility or present other unfavorable features.

Independent Director	Aggregate Amount Outstanding at December 31, 2010
James C. Rapin	\$ 15,209
Martin A. Thomson	\$ 107,180
Keith D. Wallace	\$ 102,211
Gary C. VanMassenhove	\$ 135,880
Thomas R. Townsend	\$ 2,273,961

To assure effective and independent oversight of management, in 2002, the Board of Directors separated the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between these two roles in management of the Company. The Chief Executive Officer is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company, while the Chairman of the Board provides guidance to the Chief Executive Officer, sets the agenda for Board meetings and presides over meetings of the full Board. The Chairman of the Board is an independent, non-management role.

The Board of Directors has an active role, as a whole and also at the committee level, in overseeing management of the Company's risks. The Board regularly reviews reports from members of senior management on areas of material risk to the Company, including credit, financial, operational, liquidity, legal and regulatory risks. In reviewing the reports, the full Board, or the appropriate Committee in the case of risks that are under the purview of a particular Committee, discuss with the members of senior management responsible for the areas covered by the reports how risks have been identified and what strategies and procedures have been put in place to mitigate risks. When a Committee receives a report, the Chairman of the relevant Committee communicates the results of the report review to the full Board at the next Board meeting. This enables the Board and its Committees to coordinate the risk oversight role, particularly with respect to risk interrelationships.

References to our Website Address

References to our website address throughout this proxy statement and the accompanying materials are for informational purposes only, or to fulfill specific disclosure requirements of the Securities and Exchange Commission's rules or the listing standards of the Nasdaq Stock Market. These references are not intended to, and do not, incorporate the contents of our website by reference into this proxy statement or the accompanying materials.

Meetings and Committees of the Board of Directors

General. Our Board of Directors meets on a monthly basis and may hold additional special meetings.

During the year ended December 31, 2010, our Board of Directors held 12 regular meetings and one special meeting. No member of the Board or any committee thereof attended fewer than 75% of the aggregate of: (i) the total number of meetings of the Board of Directors (held during the period for which he has been a director); and (ii) the total number of meetings held by all committees of the board on which he served (during the periods that he served). Executive sessions of the independent directors are held on a regularly scheduled basis.

Our standing board committees include the Executive, Audit, Nominating and Compensation Committees. The Board of Directors appoints all committee members.

Executive Committee. The Executive Committee is authorized to act with the same authority as the Board of Directors between meetings of the Board, and is comprised of the full Board. The Executive Committee met four times during 2010.

Compensation Committee. The Compensation Committee meets periodically to review the performance of officers and to determine compensation of officers to be recommended to the Board. It is comprised of Messrs. Rapin, Townsend, VanMassenhove and Wallace, each of whom is considered independent as defined in the Nasdaq corporate governance listing standards. Our Board of Directors has adopted a written charter for the Compensation Committee, which is available on our website at www.first-federal.com. The Compensation Committee met one time in 2010.

The Compensation Committee reviews annually the compensation levels of the executive officers and the fee level of directors and recommends compensation and fee changes to the full Board of Directors. The Committee intends that executive compensation be structured so as to attract, develop and retain talented executive officers and directors who are capable of maximizing our performance for the benefit of our stockholders. The Committee also seeks to set compensation and fee levels that are competitive in the markets in which we operate.

As described immediately below, our compensation program is primarily comprised of two fundamental components: (1) base salary and (2) annual performance-based cash bonuses. In addition to these two primary elements, we have adopted a stock-based compensation plan, an employee stock ownership plan (ESOP) and Bank-wide retirement benefits.

Base Salary – Base salaries for all employees, including executive officers, are based on pay ranges that are first recommended by Clark Consulting and then approved by the Compensation Committee. Clark Consulting is an employee compensation consulting firm engaged by us at the recommendation of management and with the concurrence of the Compensation Committee. In general, these pay ranges are re-evaluated by the Committee every two years. However, they are also reviewed if a new job classification is added or if the responsibilities of a job classification are change substantially. Actual base salaries within those ranges are then established by the Compensation Committee after performance reviews by the Committee and consideration of management recommendations for base salary levels. The Compensation Committee conducts a performance review of the

President and Chief Executive Officer. The President and Chief Executive Officer, in turn, conducts the performance reviews of the Executive Vice President and the Chief Financial Officer. However, the Compensation Committee retains complete authority to establish base salaries, after such performance reviews and management recommendations.

Annual Cash Bonuses – All employees, including executive officers, are eligible to receive annual cash bonuses pursuant to our “Staff Incentive Plan” if the Bank meets a net after-tax income goal, which is established annually by the Board of Directors based on the recommendation of management. No executive officer received a bonus in 2010 because we did not meet our financial performance targets for the year.

Stock-Based Compensation – Our 2006 Stock-Based Incentive Plan, which was approved by our shareholders on May 17, 2006, permits the award of up to 173,386 stock options and 69,354 restricted shares of common stock. Individual awards of options and restricted stock to executive officers and directors, reported on elsewhere in this proxy statement, were established by the Committee based on the relative positions of the executive officers within our organization, as well as a review of awards made at similarly sized institutions.

Employee Stock Ownership Plan – We have established an employee stock ownership plan that covers substantially all employees who have completed one year of service, attained age 21, and worked at least 1,000 hours during the year. Shares of common stock are allocated annually to employees based on each employee’s relative compensation for each year.

Retirement Benefits – Like all employees, each executive officer is covered under our defined benefit retirement plan, which was frozen effective July 1, 2005. In addition, each executive officer is eligible to participate in our 401(k) plan.

We encourage directors, officers and employees to own shares of our common stock, as their means permit. However, we do not currently have any stock ownership guidelines for our executive officers or directors.

Nominating Committee. The Nominating Committee, which consists of Directors Rapin, Townsend, VanMassenhove and Wallace, nominates individuals for election as directors. Each member of the Nominating Committee is considered “independent” as defined in the Nasdaq corporate governance listing standards. Our Board of Directors has adopted a written charter for the Nominating Committee, which is available on our website at www.first-federal.com. The Committee met once during 2010.

The functions of the Nominating Committee include the following:

- to lead the search for individuals qualified to become members of the Board and to select director nominees to be presented for stockholder approval;
- to review and monitor compliance with the requirements for Board independence;
- to review the committee structure and make recommendations to the Board regarding committee membership;
- to develop and recommend to the Board for its approval a set of corporate governance guidelines; and
- to develop and recommend to the Board for its approval a self-evaluation process for the Board and its committees.

The Nominating Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are first considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service, or if the Committee or the Board decides not to re-nominate a member for re-election, or if the size of the Board is increased, the Committee would solicit suggestions for director candidates from all Board members. In addition, the Committee is authorized by its charter to engage a third party to assist in the identification of director nominees. The Nominating Committee would seek to identify a candidate who at a minimum satisfies the following criteria:

- has the highest personal and professional ethics and integrity;

- has had experiences and achievements that have given him or her the ability to exercise and develop good business judgment;

- is willing to devote the necessary time to the work of the Board and its committees, which includes being available for Board and committee meetings;
 - is familiar with the communities in which we operate and/or is actively engaged in community activities;
- is involved in other activities or interests that do not create a conflict with his or her responsibilities to the us and our stockholders; and
- has the capacity and desire to represent the balanced, best interests of our stockholders as a group, and not primarily a special interest group or constituency.

In addition, the Nominating Committee will determine whether a candidate satisfies the qualifications requirements of our Bylaws, which require any person appointed or elected to the Board of Directors to reside or work in a county in which First Federal of Northern Michigan maintains an office (at the time of appointment or election) or in a county contiguous to a county in which we maintain an office.

Finally, the Nominating Committee will take into account whether a candidate satisfies the criteria for “independence” under the Nasdaq corporate governance listing standards, and if a nominee is sought for service on the audit committee, the financial and accounting expertise of a candidate, including whether the individual qualifies as independent for audit committee standards under the federal securities rules and as an audit committee financial expert.

Procedures for the Nomination of Directors by Stockholders. The Nominating Committee has adopted procedures for the submission of director nominees by stockholders. There have been no material changes to these procedures since they were previously disclosed in the proxy statement for our last annual meeting of stockholders. If a determination is made that an additional candidate is needed for the Board, the Nominating Committee will consider candidates submitted by our stockholders. Stockholders can submit qualified names of candidates for director by writing to our Corporate Secretary at 100 South Second Avenue, Alpena, Michigan 49707. The Corporate Secretary must receive a submission not less than ninety (90) days prior to the anniversary date of our proxy materials for the preceding year’s annual meeting for a candidate to be considered for next year’s annual meeting of stockholders. The submission must include the following information:

- a statement that the writer is a stockholder and is proposing a candidate for consideration by the Nominating Committee;
 - the qualifications of the candidate and why the candidate is being proposed;
- the name and address of the stockholder as they appear on our books, and number of shares of our common stock that are owned beneficially by such stockholder (if the stockholder is not a holder of record, appropriate evidence of the stockholder’s ownership will be required);
- the name, address and contact information for the candidate, and the number of shares of our common stock that are owned by the candidate (if the candidate is not a holder of record, appropriate evidence of the stockholder’s ownership will be required);
 - a statement of the candidate’s business and educational experience;
- such other information regarding the candidate as would be required to be included in the proxy statement pursuant to SEC Rule 14A;

- a statement detailing any relationship between the candidate and us;
- a statement detailing any relationship between the candidate and any of our customers, suppliers or competitors;

- detailed information about any relationship or understanding between the proposing stockholder and the candidate; and
- a statement that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

Submissions that are received and that meet the criteria outlined above are forwarded to the Chairman of the Nominating Committee for further review and consideration. A nomination submitted by a stockholder for presentation by the stockholder at an annual meeting of stockholders must comply with the procedural and informational requirements described in this proxy statement under the heading "Stockholder Proposals." We did not receive any outside submissions for Board nominees for the Meeting.

Stockholder Communications with the Board. Any of our stockholders who wish to communicate with the Board or with any individual director may write to our Corporate Secretary, 100 South Second Avenue, Alpena, Michigan 49707, Attention: Board Administration. The letter should indicate that the author is a stockholder and if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, management will:

- forward the communication to the director or directors to whom it is addressed;
- attempt to handle the inquiry directly, for example where it is a request for information about us or a stock-related matter; or
- not forward the communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

At each Board meeting, management will present a summary of all communications received since the last meeting that were not forwarded and make those communications available to the directors.

The Audit Committee. The Audit Committee reviews our records and affairs to determine our financial condition, reviews with management and the independent auditors the systems of internal control, and monitors adherence in accounting and financial reporting to accounting principles generally accepted in the United States of America. The Audit Committee consists of Directors Rapin, Townsend and VanMassenhove. Each member of the Audit Committee is considered "independent" as defined in the Nasdaq corporate governance listing standards and under SEC Rule 10A-3. The Board of Directors has determined that Gary C. VanMassenhove, a certified public accountant, qualifies as an "audit committee financial expert" as that term is defined by the rules and regulations of the SEC. The Audit Committee met four times during the year ended December 31, 2010. The Audit Committee reports to the Board on its activities and findings. The duties and responsibilities of the Audit Committee include, among other things:

- retaining, overseeing and evaluating a firm of independent certified public accountants to audit our annual financial statements;
- in consultation with the independent registered public accountants and the internal auditor, reviewing the integrity of our financial reporting processes, both internal and external;
- approving the scope of the audit in advance;
- reviewing the financial statements and the audit report with management and the independent registered public accountants;

- considering whether the provision by the external independent registered public accountants of services not related to the annual audit and quarterly reviews is consistent with maintaining the independent registered public accounting firm's independence;

- reviewing earnings and financial releases and quarterly reports filed with the SEC;

- consulting with the internal audit staff and reviewing management's administration of the system of internal accounting controls;
- approving all engagements for audit and non-audit services in excess of \$5,000 by the independent registered public accountants; and
 - reviewing the adequacy of the audit committee charter.

The Audit Committee operates under a written charter adopted by the Board of Directors which is available on our website at www.first-federal.com.

Audit Committee Report

Management has the primary responsibility for our internal controls and financial reporting processes. The independent registered public accountants are responsible for performing an independent audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

As part of its ongoing activities, the Audit Committee has:

- reviewed and discussed with management, and the independent registered public accountants, our audited consolidated financial statements for the year ended December 31, 2010;
- discussed with the independent registered public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, Communications with Audit Committees, as amended; and
- received the written disclosures and the letter from the independent registered public accountants required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with the independent registered public accountants their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2010 and be filed with the SEC. In addition, the Audit Committee engaged Plante & Moran, PLLC as our independent registered public accountants for the year ending December 31, 2011, subject to the ratification of this appointment by our stockholders.

Plante & Moran, PLLC did not use the services of any persons other than its full-time permanent employees on its audit of our 2010 consolidated financial statements.

This report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

The Audit Committee
James C. Rapin (Chairman)
Gary C. VanMassenhove
Thomas R. Townsend

Code of Ethics

We have adopted a Code of Ethics that is applicable to our officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics is available on our website at www.first-federal.com. Amendments to and waivers from the Code of Ethics will also be disclosed on our website. There were no such amendments or waivers in 2010.

Attendance at Annual Meetings of Stockholders

We do not have a policy regarding director attendance at annual meetings of stockholders, although directors are requested to attend these meetings absent unavoidable conflicts. All of our directors attended our 2010 annual meeting of stockholders.

Executive Compensation

The following table sets forth for the years ended December 31, 2010 and 2009 certain information as to the total remuneration paid by us to Michael W. Mahler, our President and Chief Executive Officer, and our two most highly compensated executive officers other than Mr. Mahler (the "Named Executive Officers"). For a narrative description of information included in this table, please see the discussion in this proxy statement under the heading "Benefit Plans."

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Nonqualified Non-equity deferred compensation			All other compensation (\$)	Total (\$)
					Option awards (\$)	Incentive plan compensation (\$)	Earnings (\$)		
Michael W. Mahler President and Chief Executive Officer	2010	\$ 156,806	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10,700 ³	\$ 167,506
	2009	156,806	—	—	—	—	—	20,954	177,760
Amy E. Essex Chief Financial Officer, Treasurer and Corporate Secretary	2010	106,064	—	—	—	—	—	1,900 ⁴	107,964
	2009	105,014	—	—	—	—	—	6,045	111,059
Jerome W. Tracey Executive Vice President and Chief Lending Officer	2010	105,076	—	—	—	—	—	1,500 ⁵	106,576
	2009	104,052	—	—	—	—	—	5,595	109,647

¹ All stock awards to the Named Executive Officers were made on May 17, 2006 and were valued under SFAS 123R at the grant date market value of \$9.65 per share. The stock awards vest over five years commencing one year from the grant date.

² Option awards to the Named Executive Officers were made on March 14, 2006 and on May 17, 2006 and were valued at \$1.94 and \$2.15 per option, respectively, based upon the Black-Scholes valuation model using the following assumptions: (1) expected term of option, eight years; (2) annual volatility of common stock, 13.9%; (3) expected dividend yield of common stock, 2.16%; and (4) risk-free interest rate, 4.70% and 5.08%, respectively, per annum. The options vest over five years commencing one year from the grant date.

³ Consists of \$10,300 and \$400, respectively, of director fees for service on the Board of Directors of First Federal of Northern Michigan and for service on the Board of First Federal Community Foundation, a foundation established and funded by First Federal of Northern Michigan ("FFCF"). Mr. Mahler did not receive perquisites or personal benefits that exceeded \$10,000.

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Consists of \$400 of director fees for service on the FFCF and a \$1,500 automobile allowance. Ms. Essex did not receive perquisites or personal benefits that exceeded \$10,000.

5 Consists of a \$1,500 automobile allowance. Mr. Tracey did not receive perquisites or personal benefits that exceeded \$10,000.

Outstanding Equity Awards at Year End. The following table sets forth information with respect to outstanding equity awards as of December 31, 2010 for the Named Executive Officers. All awards of common stock and options vest at a rate of 20% per year beginning on the first anniversary of the grants. The other terms of the awards are described in this proxy statement under the heading "Benefit Plans."

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2010

Name	Option awards			Stock awards				
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) exercisable	Equity incentive plan awards: number of securities underlying unexercised options (#)	Option price (\$)	Option expiration date	Number of shares or units that have not vested (#)	Market value of unearned shares or units that have not vested (\$)	Equity incentive awards: market or payout value of unearned shares, units or other rights that have not vested (\$)
Michael W. Mahler President and Chief Executive Officer March 27, 2002								
Options	—	—		N/A	N/A			N/A
March 14, 2006					March 14, 2016			N/A
Options	2,500	—		\$ 9.20	2016			
May 17, 2006					May 17, 2016			
Options	14,720	3,680		\$ 9.65	2016			
May 17, 2006								
Awards						1,660	\$ 4,648	
Amy E. Essex Chief Financial Officer March 27, 2002								
Options	—	—		N/A	N/A			N/A
March 14, 2006					March 14, 2016			N/A
Options	2,500	—		\$ 9.20	2016			
	9,432	2,358		\$ 9.65				

May 17, 2006				May 17, 2016			
Options							
May 17, 2006 Share Awards					1,415	\$ 3,962	

Jerome W. Tracey Executive Vice President and Chief Lending Officer							
March 27, 2002				March 27, 2012			
Options	1,848		\$ 7.44			N/A	N/A
March 14, 2006				March 14, 2016			
Options	2,500	—	\$ 9.20				
May 17, 2006				May 17, 2016			
Options	9,432	2,358	\$ 9.65				