

MACKINAC FINANCIAL CORP /MI/

Form 10-K

March 31, 2009

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**FORM 10-K**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2008**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number 0-20167**  
**MACKINAC FINANCIAL CORPORATION**  
(Exact name of registrant as specified in its charter)

MICHIGAN  
(State of other jurisdiction of  
incorporation or organization)  
38-2062816  
(I.R.S. Employer  
Identification No.)  
130 South Cedar Street, Manistique, Michigan 49854  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (888) 343-8147  
Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, no par value  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, based on a per share price of \$7.00 as of June 30, 2008, was \$10.6 million. As of March 30, 2009, there were outstanding, 3,419,736 shares of the

Corporation's Common Stock (no par value).

**Documents Incorporated by Reference:**

Portions of the Corporation's Annual Report to Shareholders for the year ended December 31, 2008, are incorporated by reference into Parts I and II of this Report.

Portions of the Corporation's Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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**PART I**

**ITEM 1. BUSINESS**

Mackinac Financial Corporation (the Corporation) was incorporated under the laws of the state of Michigan on December 16, 1974. The Corporation changed its name from First Manistique Corporation to North Country Financial Corporation on April 14, 1998. On December 16, 2004, the Corporation changed its name from North Country Financial Corporation to Mackinac Financial Corporation. The Corporation owns all of the outstanding stock of its banking subsidiary, mBank (the Bank). The Corporation also owns three non-bank subsidiaries: First Manistique Agency, presently inactive; First Rural Relending Company, a relending company for nonprofit organizations; and North Country Capital Trust, a statutory business trust which was formed solely for the issuance of trust preferred securities. The Bank also has four non-bank subsidiaries: NCB Real Estate Company, which owns real estate used by the Bank; mBank Mortgage Company, LLC, an entity engaged in the business of mortgage lending and brokering; and mBank Employee Services, LLC, a company that leases employees to mBank. The Bank represents the principal asset of the Corporation. The Corporation and its subsidiary Bank are engaged in a single industry segment, commercial banking, broadly defined to include commercial and retail banking activities, along with other permitted activities closely related to banking.

**HISTORY**

The Corporation became a registered bank holding company under the Bank Holding Company Act of 1956, as amended, on April 1, 1976, when it acquired First Northern Bank and Trust (First Northern). On May 1, 1986, Manistique Lakes Bank merged with First Northern. The Corporation acquired all of the outstanding stock of the Bank of Stephenson on February 8, 1994, in exchange for cash and common stock. The Bank of Stephenson was operated as a separate banking subsidiary of the Corporation until September 30, 1995, when it was merged into First Northern. First Northern acquired Newberry State Bank on December 8, 1994, in exchange for cash. On September 15, 1995, First Northern acquired the fixed assets and assumed the deposits of the Rudyard branch of First of America Bank, in exchange for cash. The Corporation acquired all of the outstanding stock of South Range State Bank (South Range) on January 31, 1996, in exchange for cash and notes. On August 12, 1996, First Northern and South Range changed their names to North Country Bank and Trust and North Country Bank, respectively. On February 4, 1997, the Corporation acquired all of the outstanding stock of UP Financial Inc., the parent holding company of First National Bank of Ontonagon (Ontonagon). Ontonagon was merged into North Country Bank. North Country Bank was operated as a separate banking subsidiary of the Corporation until March 10, 1998, when it was merged into North Country Bank and Trust. On June 25, 1999, North Country Bank and Trust acquired the fixed assets and assumed the deposits of the Kaleva and Mancelona branches of Huntington National Bank in exchange for cash. On July 23, 1999, North Country Bank and Trust sold the fixed assets and deposits of the Rudyard and Cedarville branches to Central Savings Bank in exchange for cash.

On January 14, 2000, North Country Bank and Trust sold the fixed assets and deposits of the Garden branch to First Bank, Upper Michigan in exchange for cash. On June 16, 2000, North Country Bank and Trust acquired the fixed assets and assumed the deposits of the Glen Arbor and Alanson branches of Old Kent Bank, in exchange for cash. On July 13, 2001, North Country

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Bank and Trust sold the fixed assets and deposits of the St. Ignace and Mackinac Island branches to Central Savings Bank in exchange for cash. On November 9, 2001, North Country Bank and Trust sold the fixed assets and deposits of the Curtis and Naubinway branches to State Savings Bank in exchange for cash. On November 22, 2002, North Country Bank and Trust sold the fixed assets and deposits of the Menominee branch to Stephenson National Bank and Trust in exchange for cash. During 2003, the Bank closed branch locations at Glen Arbor, Ishpeming, L Anse, and Petoskey.

In 2004, the Bank sold the fixed assets and deposits of the Mancelona and Alanson branches to First Federal of Northern Michigan in exchange for cash, the fixed assets and deposits of the Munising branch to People's State Bank in exchange for cash, and the fixed assets and deposits of the Iron Mountain and Escanaba branches to the State Bank of Escanaba in exchange for cash. The Bank also closed the branch locations of Boyne City, Cadillac, Calumet, Sault Ste. Marie Cascade, and one of its branch locations in Traverse City.

**RECAPITALIZATION RECENT HISTORY**

In December of 2004, the Corporation was recapitalized with the net proceeds, approximately \$26.2 million, from the issuance of \$30 million of common stock in a private placement. Commensurate with this recapitalization, the Corporation changed its name from North Country Financial Corporation to Mackinac Financial Corporation with the Bank adopting the mBank identity early in 2005.

In 2007, the Bank sold the fixed assets and deposits of the Ripley branch office located in Hancock, Michigan. The Bank currently has 8 branch offices located in the Upper Peninsula of Michigan and 4 branch offices located in Michigan's Lower Peninsula. The Bank maintains offices in Antrim, Chippewa, Emmet, Grand Traverse, Houghton, Luce, Manistee, Marquette, Menominee, Oakland, Ontonagon, Otsego, and Schoolcraft Counties. The Bank provides drive-in convenience at 10 branch locations and has 10 automated teller machines. The Bank has no foreign offices. The Corporation is headquartered and located in Manistique, Michigan. The mailing address of the Corporation is 130 South Cedar Street, Manistique, Michigan 49854.

**Operations**

The principal business the Corporation is engaged in, through the Bank, is the general commercial banking business, providing a full range of loan and deposit products. These banking services include customary retail and commercial banking services, including checking and savings accounts, time deposits, interest bearing transaction accounts, safe deposit facilities, real estate mortgage lending, commercial lending, commercial and governmental lease financing, and direct and indirect consumer financing. Funds for the Bank's operation are also provided by brokered deposits and through borrowings from the Federal Home Loan Bank ( FHLB ) system, proceeds from the sale of loans and mortgage-backed and other securities, funds from repayment of outstanding loans and earnings from operations. Earnings depend primarily upon the difference between (i) revenues from loans, investments, and other interest-bearing assets and (ii) expenses incurred in payment of interest on deposit accounts and borrowings, maintaining an adequate allowance for loan losses, and general operating expenses.

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**Competition**

Banking is a highly competitive business. The Bank competes for loans and deposits with other banks, savings and loan associations, credit unions, mortgage bankers, and investment firms in the scope and type of services offered, pricing of loans, interest rates paid on deposits, and number and location of branches, among other things. The Bank also faces competition for investors' funds from mutual funds and corporate and government securities.

The Bank competes for loans principally through interest rates and loan fees, the range and quality of the services it provides and the locations of its branches. In addition, the Bank actively solicits deposit-related clients and competes for deposits by offering depositors a variety of savings accounts, checking accounts, and other services.

**Employees**

As of December 31, 2008, the Corporation and its subsidiaries employed, in the aggregate, 104 employees equating to 100 full-time equivalents. The Corporation provides its employees with comprehensive medical and dental benefit plans, a life insurance plan, and a 401(k) plan. None of the Corporation's employees are covered by a collective bargaining agreement with the Corporation. Management believes its relationship with its employees to be good.

**Business**

The Bank makes mortgage, commercial, and installment loans to customers throughout Michigan. Fees may be charged for these services. The Bank's most prominent concentration in the loan portfolio relates to commercial loans to entities within the real estate operators of nonresidential buildings industry. This concentration represented \$41.299 million or 13.95% of the commercial loan portfolio at December 31, 2008. The Bank also supports the service industry, with its hospitality and related businesses, as well as gaming, forestry, restaurants, farming, fishing, and many other activities important to growth in Michigan. The economy of the Bank's market areas is affected by summer and winter tourism activities.

The Bank also offers various consumer loan products including installment, mortgages and home equity loans. In addition to making consumer portfolio loans, the Bank engages in the business of making residential mortgage loans for sale to the secondary market.

The Corporation may pursue new lease opportunities through unrelated entities, where the credit quality and rate of return on the transactions for its current business strategies. The Bank accounts for lease transactions as loans.

The Bank's primary source for lending, investments, and other general business purposes is deposits. The Bank offers a wide range of interest bearing and non-interest bearing accounts, including commercial and retail checking accounts, negotiable order of withdrawal (NOW) accounts, money market accounts with limited transactions, individual retirement accounts, regular interest-bearing statement savings accounts, certificates of deposit with a range of maturity date options, and accessibility to a customer's deposit relationship through online banking. The sources of deposits are residents, businesses and employees of businesses within the Bank's market areas, obtained through the personal solicitation of the Bank's officers and directors, direct mail solicitation and limited advertisements published in the local media. The

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Bank also utilizes the wholesale deposit market for any shortfalls in loan funding. No material portions of the Bank's deposits have been received from a single person, industry, group, or geographical location.

The Bank is a member of the FHLB. The FHLB provides an additional source of liquidity and long-term funds.

Membership in the FHLB has provided access to attractive rate advances, as well as advantageous lending programs.

The Community Investment Program makes advances to be used for funding community-oriented mortgage lending, and the Affordable Housing Program grants advances to fund lending for long-term low and moderate income owner occupied and affordable rental housing at subsidized interest rates.

The Bank has secondary borrowing lines of credit available to respond to deposit fluctuations and temporary loan demands. The unsecured lines totaled \$13.375 million at December 31, 2008, with an additional \$10.185 million available if collateralized.

As of December 31, 2008, the Bank had no material risks relative to foreign sources. See the Interest Rate Risk and Foreign Exchange Risk sections in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Corporation's 2008 Annual Report to Shareholders, which sections are incorporated herein by reference, for details on the Corporation's foreign account activity.

Compliance with federal, state, and local statutes and/or ordinances relating to the protection of the environment is not expected to have a material effect upon the Bank's capital expenditures, earnings, or competitive position.

**Supervision and Regulation**

As a registered bank holding company, the Corporation is subject to regulation and examination by the Board of Governors of the Federal Reserve System (Federal Reserve Board) under the Bank Holding Company Act, as amended (BHCA). The Bank is subject to regulation and examination by the Michigan Office of Financial and Insurance Services (OFIS) and the Federal Deposit Insurance Corporation (FDIC).

Under the BHCA, the Corporation is subject to periodic examination by the Federal Reserve Board, and is required to file with the Federal Reserve Board periodic reports of its operations and such additional information as the Federal Reserve Board may require. In accordance with Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Corporation might not do so absent such policy. In addition, there are numerous federal and state laws and regulations which regulate the activities of the Corporation, the Bank and the non-bank subsidiaries, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with affiliates, loan limits, mergers and acquisitions, issuances of securities, dividend payments, inter-affiliate liabilities, extensions of credit and branch banking.

Federal banking regulatory agencies have established risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies. The resulting capital ratios represent qualifying capital as a percentage of total risk-weighted assets and off-balance sheet items. The guidelines are minimums, and the federal regulators have noted that



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banks and bank holding companies contemplating expansion programs should not allow expansion to diminish their capital ratios and should maintain all ratios well in excess of the minimums. The current guidelines require all bank holding companies and federally-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital includes common shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and excludes the allowance for loan and lease losses. Tier 2 includes the excess of any preferred stock not included in Tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock, and general reserves for loan and lease losses up to 1.25% of risk-weighted assets.

FDICIA contains prompt corrective action provisions pursuant to which banks are to be classified into one of five categories based upon capital adequacy, ranging from well capitalized to critically undercapitalized and which require (subject to certain exceptions) the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes significantly undercapitalized or critically undercapitalized.

In general, the regulations define the five capital categories as follows: (i) an institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, has a Tier 1 risk-based capital ratio of 6% or greater, has a leverage ratio of 5% or greater and is not subject to any written capital order or directive to meet and maintain a specific capital level for any capital measures; (ii) an institution is adequately capitalized if it has a total risk-based capital ratio of 8% or greater, has Tier 1 risk-based capital ratio of 4% or greater, and has a leverage ratio of 4% or greater; (iii) an institution is undercapitalized if it has a total risk-based capital ratio of less than 8%, has a Tier 1 risk-based capital ratio that is less than 4% or has a leverage ratio that is less than 4%; (iv) an institution is significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier I risk-based capital ratio that is less than 3% or a leverage ratio that is less than 3%; (v) an institution is critically undercapitalized if its tangible equity is equal to or less than 2% of its total assets. The FDIC also, after an opportunity for a hearing, has authority to downgrade an institution from well capitalized to adequately capitalized or to subject an adequately capitalized or undercapitalized institution to the supervisory actions applicable to the next lower category, for supervisory concerns.

Information pertaining to the Corporation's capital is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption Capital and Regulatory in the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

Current federal law provides that adequately capitalized and managed bank holding companies from any state may acquire banks and bank holding companies located in any other state, subject to certain conditions.

In 1999, Congress enacted the Gramm-Leach-Bliley Act (GLBA), which eliminated certain barriers to and restrictions on affiliations between banks and securities firms, insurance companies and other financial service organizations.

Among other things, GLBA repealed certain Glass-Steagall Act restrictions on affiliations between banks and securities firms, and amended the BHCA to permit bank holding companies that qualify as financial holding companies to engage in a broad list of financial activities, and any non-financial activity that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines is

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complementary to a financial activity and poses no substantial risk to the safety and soundness of depository institutions or the financial system. GLBA treats lending, insurance underwriting, insurance company portfolio investment, financial advisory, securities underwriting, dealing and market-making, and merchant banking activities as financial in nature for this purpose.

Under GLBA, a bank holding company may become certified as a financial holding company by filing a notice with the Federal Reserve Board, together with a certification that the bank holding company meets certain criteria, including capital, management, and Community Reinvestment Act requirements. The Corporation does not qualify as a financial holding company at this time.

*Privacy Restrictions*

GLBA, in addition to the previous described changes in permissible non-banking activities permitted to banks, bank holding companies and financial holding companies, also requires financial institutions in the U.S. to provide certain privacy disclosures to customers and consumers, to comply with certain restrictions on sharing and usage of personally identifiable information, and to implement and maintain commercially reasonable customer information safeguarding standards. The Corporation believes that it complies with all provisions of GLBA and all implementing regulations, and the Bank has developed appropriate policies and procedures to meet its responsibilities in connection with the privacy provisions of GLBA.

*The USA PATRIOT Act*

In 2001, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act). The USA PATRIOT Act is designed to deny terrorists and criminals the ability to obtain access to the United States financial system, and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The USA PATRIOT Act mandates financial services companies to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, and currency crimes.

*Sarbanes-Oxley Act*

On July 30, 2002, President Bush signed into law The Sarbanes-Oxley Act of 2002. This legislation addresses accounting oversight and corporate governance matters, including:

- § The creation of a five-member oversight board that will set standards for accountants and have investigative and disciplinary powers;
- § The prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years;
- § Increased penalties for financial crimes;
- § Expanded disclosure of corporate operations and internal controls and certification of financial statements;
- § Enhanced controls on, and reporting of, insider trading; and
- § Prohibition on lending to officers and directors of public companies, although the Bank may continue to make these loans within the constraints of existing banking regulations.

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Among other provisions, Section 302(a) of the Sarbanes-Oxley Act requires that our Chief Executive Officer and Chief Financial Officer certify that our quarterly and annual reports do not contain any untrue statement or omission of a material fact. Specific requirements of the certifications include having these officers confirm that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our disclosure controls and procedures; they have made certain disclosures to our auditors and Audit Committee about our internal controls; and they have included information in our quarterly and annual reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

In addition, Section 404 of the Sarbanes-Oxley Act and the SEC's rules and regulations thereunder require our management to evaluate, with the participation of our principal executive and principal financial officers, the effectiveness, as of the end of each fiscal year, of our internal control over financial reporting. Our management must then provide a report of management on our internal over financial reporting that contains, among other things, a statement of their responsibility for establishing and maintaining adequate internal control over financial reporting, and a statement identifying the framework they used to evaluate the effectiveness of our internal control over financial reporting.

*Extraordinary Government Programs*

*Troubled Asset Relief Program.* On October 3, 2008, the Emergency Economic Stabilization Act of 2008 ( EESA ) was enacted, which, among other things, provided the United States Department of the Treasury ( Treasury ) access to up to \$700 billion to stabilize the U.S. banking system. On October 14, 2008, Treasury announced its intention to inject capital into nine large U.S. financial institutions under the Capital Purchase Program (the CPP ) as part of the Troubled Asset Relief Program ( TARP ) implementing the EESA, and since has injected capital into many other financial institutions.

Mackinac Financial Corporation filed an application with the Federal Deposit Insurance Corporation ( FDIC ) on November 4, 2008, for participation in the Capital Purchase Program ( CPP ) under the Troubled Asset Relief Program ( TARP ). The FDIC responded and recommended approval for our participation and forwarded our application to the Department of the Treasury ( Treasury ). We received preliminary approval from the Treasury on January 30, 2009 for our maximum requested participation amount of \$11,000,000.

Under the CPP, the Corporation will issue previously authorized preferred stock with a 5% annual dividend rate to the Treasury. The Corporation will also, as a required part of this transaction, issue 379,093 common stock warrants with an exercise price of \$4.35 per share. The preferred stock and common stock warrants will be issued on the expected closing date in May, 2009.

The Corporation intends to utilize the proceeds, \$11,000,000, to support future growth of the Corporation by generating new loan growth through its principal subsidiary, mBank. Additional information pertaining to Supervision and Regulation is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption Capital and Regulatory in the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

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**Monetary Policy**

The earnings and business of the Corporation and the Bank depends on interest rate differentials. In general, the difference between the interest rates paid by the Bank to obtain its deposits and other borrowings, and the interest rates received by the Bank on loans extended to its customers and on securities held in the Bank's portfolio, comprises the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank, and accordingly, its earnings and growth will be subject to the influence of economic conditions, generally, both domestic and foreign, including inflation, recession, unemployment, and the monetary policies of the Federal Reserve Board. The Federal Reserve Board implements national monetary policies designed to curb inflation, combat recession, and promote growth through, among other means, its open-market dealings in US government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements, through adjustments to the discount rate applicable to borrowings by banks that are members of the Federal Reserve System, and by adjusting the Federal Funds Rate, the rate charged in the interbank market for purchase of excess reserve balances. In addition, legislative and economic factors can be expected to have an ongoing impact on the competitive environment within the financial services industry. The nature and timing of any future changes in such policies and their impact on the Bank cannot be predicted with certainty.

**Selected Statistical Information**

**I. Distribution of Assets, Obligations, and Shareholders' Equity; Interest Rates and Interest Differential**

The key components of net interest income, the daily average balance sheet for each year including the components of earning assets and supporting obligations the related interest income on a fully tax equivalent basis and interest expense, as well as the average rates earned and paid on these assets and obligations is contained under the caption

Management's Discussion and Analysis of Financial Condition and Results of Operations in the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

An analysis of the changes in net interest income from period-to-period and the relative effect of the changes in interest income and expense due to changes in the average balances of earning assets and interest-bearing obligations and changes in interest rates is contained under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations in the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

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## II. Investment Portfolio

## A. Investment Portfolio Composition

The following table presents the carrying value of investment securities available for sale as of December 31 (dollars in thousands):

	<b>2008</b>	2007	2006
U.S. Agencies MBS	<b>\$ 46,941</b>	\$ 20,969	\$ 32,176
State and political subdivisions	<b>549</b>	628	593
<b>TOTAL</b>	<b>\$ 47,490</b>	\$ 21,597	\$ 32,769

## B. Relative Maturities and Weighted Average Interest Rates

The following table presents the maturity schedule of securities held and the weighted average yield of those securities, as of December 31, 2008 (fully taxable equivalent, dollars in thousands):

	In one year or less	After one, but within five years	After five, but within ten years	Over 10 years	TOTAL	Weighted Average Yield (1)
U.S. Agencies MBS	\$	\$	\$	\$ 46,942	\$ 46,942	3.69%
State and political subdivisions	5	26	517		548	7.96%
<b>TOTAL</b>	<b>\$ 5</b>	<b>\$ 26</b>	<b>\$ 517</b>	<b>\$ 46,942</b>	<b>\$ 47,490</b>	
Weighted average yield (1)	7.00%	7.00%	8.40%	3.69%	3.74%	

(1) Weighted average yield includes the effect of tax-equivalent adjustments using a 34% tax rate.

## III. Loan Portfolio

## A. Type of Loans

The following table sets forth the major categories of loans outstanding for each category at December 31 (dollars in thousands):

	<b>2008</b>	2007	2006	2005	2004
Commercial real estate	<b>\$ 185,241</b>	\$ 171,695	\$ 154,332	\$ 118,637	\$ 105,619

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Commercial, financial and agricultural	<b>79,734</b>	78,192	71,385	56,686	47,446
One-to-four family residential real estate	<b>65,595</b>	57,613	58,014	44,660	45,292
Construction	<b>35,965</b>	44,042	36,009	17,503	3,096
Consumer	<b>3,745</b>	3,537	2,841	2,285	2,379
<b>TOTAL</b>	<b>\$ 370,280</b>	\$ 355,079	\$ 322,581	\$ 239,771	\$ 203,832

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The following table presents the remaining maturity of total loans outstanding for the categories shown at December 31, 2008, based on scheduled principal repayments (dollars in thousands):

	Commercial Real Estate	Commercial, Financial, and Agricultural	1-4 Family Residential Real Estate	Consumer	Construction	Total
<b>In one year or less:</b>						
Variable interest rates	\$ 38,445	\$ 35,609	\$ 6,726	\$ 688	\$ 18,104	\$ 99,572
Fixed interest rates	15,937	16,779	3,247	611	3,151	39,725
<b>After one year but within five years:</b>						
Variable interest rates	66,833	9,455	4,115	173	7,214	87,790
Fixed interest rates	43,878	12,725	8,201	2,170	2,127	69,101
<b>After five years:</b>						
Variable interest rates	17,049	2,258	37,535		4,993	61,835
Fixed interest rates	3,099	2,908	5,771	103	376	12,257
<b>TOTAL</b>	<b>\$ 185,241</b>	<b>\$ 79,734</b>	<b>\$ 65,595</b>	<b>\$ 3,745</b>	<b>\$ 35,965</b>	<b>\$ 370,280</b>

**C. Risk Elements**

The following table presents a summary of nonperforming assets and problem loans as of December 31 (dollars in thousands):

	2008	2007	2006	2005	2004
Nonaccrual loans	<b>\$4,887</b>	\$3,298	\$2,899	\$ 15	\$4,307
Interest income that would have been recorded for nonaccrual loans under original terms	<b>377</b>	391	114	134	803
Interest income recorded during period for nonaccrual loans	<b>60</b>	129	7	78	1,053
Accruing loans past due 90 days or more		710	40	99	

Restructured loans not included above

**IV. Summary of Loan Loss Experience****A. Analysis of the Allowance for Loan Losses**

Changes in the allowance for loan losses arise from loans charged off, recoveries on loans previously charged off by loan category, and additions to the allowance for loan losses through provisions charged to expense. Factors which influence management's judgment in determining the provision for loan losses include establishing specified loss

allowances for selected loans (including large loans, nonaccrual loans, and problem and delinquent loans) and consideration of historical loss information and local economic conditions.



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The following table presents information relative to the allowance for loan losses for the years ended December 31 (dollars in thousands):

	2008	2007	2006	2005	2004
Balance of allowance for loan losses at beginning of period	\$ 4,146	\$ 5,006	\$ 6,108	\$ 6,966	\$ 22,005
Loans charged off:					
Commercial, financial, and agricultural	2,062	1,148	199	448	10,187
Real estate construction					
Real estate mortgage	157	89	88	493	3,118
Consumer	71	73	45	51	2,453
Total loans charged off	2,290	1,310	332	992	15,758
Recoveries of loans previously charged off:					
Commercial, financial, and agricultural	114	15	53	102	312
Real estate construction					
Real estate mortgage			13	23	148
Consumer	7	35	25	9	259
Total recoveries	121	50	91	134	719
Net loans charged off	2,169	1,260	241	858	15,039
Provisions charged to expense	2,300	400	(861)		
Balance at end of period	\$ 4,277	\$ 4,146	\$ 5,006	\$ 6,108	\$ 6,966
Average loans outstanding	361,324	333,415	278,953	207,928	244,730
Ratio of net charge-offs during period to average loans outstanding	.60%	.38%	.08%	.41%	6.15%

**Table of Contents****B. Allocation of Allowance for Loan Losses**

The allocation of the allowance for loan losses for the years ended December 31, is shown on the following table. The percentages shown represent the percent of each loan category to total loans (dollars in thousands):

	2008		2007		2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial, financial and agricultural	<b>\$ 3,819</b>	<b>89.29%</b>	\$ 3,808	91.85%	\$ 3,600	71.91%	\$ 1,492	24.42%	\$ 1,419	20.40%
Real estate construction										
1-4 family residential real estate	<b>27</b>	<b>.63</b>	22	.53%	23	.46%	17	.28%	97	1.40%
Consumer	<b>40</b>	<b>.94</b>	20	.48%						
Specific reserve on loans sold subsequent to year end										
Unallocated and general reserves	<b>391</b>	<b>9.14%</b>	296	7.14%	1,383	27.63%	4,599	75.30%	5,450	78.20%
<b>TOTAL</b>	<b>\$ 4,277</b>	<b>100.00%</b>	\$ 4,146	100.00%	\$ 5,006	100.00%	\$ 6,108	100.0%	\$ 6,966	100.0%

**V. Deposits**

Deposit information is contained in Note 8 to the Corporation's Consolidated Financial Statements contained in the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

**VI. Return on Equity and Assets**

Selected financial data of the Corporation is contained in the Corporation's 2008 Annual Report to Shareholders under the caption "Selected Financial Data," and is incorporated herein by reference.

See Item 6 of this Form 10-K, "Selected Financial Data"

**VII. Financial Instruments with Off-Balance Sheet Risk**

Information relative to commitments, contingencies, and credit risk are discussed in Note 18 to the Corporation's Consolidated Financial Statements contained in the Corporation's 2008 Annual Report to Shareholders and is incorporated herein by reference.

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**ITEM 2. PROPERTIES**

The Corporation's headquarters are located at 130 South Cedar Street, Manistique, Michigan 49854. The headquarters location is owned by the Corporation and not subject to any mortgage.

Information regarding specific branch locations is contained in the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

All of the branch locations are designed for use and operation as a bank, are well maintained, and are suitable for current operations. Of the 13 branch locations, 11 are owned and 2 are leased.

**ITEM 3. LEGAL PROCEEDINGS**

Information regarding legal proceedings is contained in Note 18 of the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers of the Corporation are listed below. The executive officers serve at the pleasure of the Board of Directors and are appointed by the Board annually. There are no arrangements or understandings between any officer and any other person pursuant to which the officer was selected.

Name	Age	Position
Paul D. Tobias	58	Chairman and Chief Executive Officer
Kelly W. George	41	President
Ernie R. Krueger	59	Executive Vice President/Chief Financial Officer

Additional information for the executive officers of the registrant is included in the Corporation's Proxy Statement to its 2009 Annual Meeting of Shareholders under the caption "Information about Directors and Executive Officers."

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCK HOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY**

Market information pertaining to the Corporation's common stock is contained under the caption "Market Information" in the Corporation's 2008 Annual Report to Shareholders, and is incorporated herein by reference.

The holders of the Corporation's common stock are entitled to dividends when, and if declared by the Board of Directors of the Corporation out of funds legally available for that purpose. In determining dividends, the Board of Directors considers the earnings, capital requirements and financial condition of the Corporation and its subsidiary bank, along with other relevant factors. The Corporation's principal source of funds for cash dividends is the dividends paid by the Bank.

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The ability of the Corporation and the Bank to pay dividends is subject to regulatory restrictions and requirements. The Bank currently has a negative retained earnings position which precludes payment of dividends. The Bank, in order to pay dividends, would need to seek regulatory approval for the restatement of its equity to eliminate the negative retained earnings position. There were no dividends declared or paid in 2006, 2007 and 2008. There were no sales of unregistered securities in 2008, nor were there any repurchases of the Corporation's common stock in the fourth quarter of 2008.

Additional information regarding the Corporation's common stock is contained in the Corporation's 2008 Annual Report under the Caption Market Information.

Information regarding securities authorized for issuance under equity compensation plans may be found under Item 12 of this report.

**ITEM 6. SELECTED FINANCIAL DATA**

Selected financial data of the Corporation is contained in the Corporation's 2008 Annual Report to Shareholders, under the caption Selected Financial Data, and is incorporated herein by reference.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Incorporated by reference to the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Corporation's 2008 Annual Report to Shareholders

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Incorporated by reference to the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Corporation's 2008 Annual Report to Shareholders

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Incorporated by reference to the Corporation's Consolidated Financial Statements for the years ended December 31, 2008, 2007, and 2006, in the Corporation's 2008 Annual Report to Shareholders.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There has been no change in the Corporation's independent public accountants since 2002. The change was reported on Form 8-Ks filed during 2002.

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**ITEM 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

As of the end of the period covered by this report, management of the company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective, in ensuring the information relating to the Corporation (and its consolidated subsidiaries) required to be disclosed by the Corporation in the reports it files or submits under the Exchange Act was recorded, processed, summarized and reported to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting*

There were no changes in the Corporation's internal control over financial reporting that occurred during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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*Report on Management's Assessment of Internal Control Over Financial Reporting*

Mackinac Financial Corporation is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with generally accepted accounting principles in the United States and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of Mackinac Financial Corporation, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with generally accepted accounting principles in the United States. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2008, in relation to criteria for the effective internal control over financial reporting as described in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2008, its system of internal control over financial reporting is effective and meets the criteria of the Internal Control Integrated Framework.

This annual report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to temporary rules of the SEC that permit the Corporation to provide only management's report in this annual report.

/s/ Paul D. Tobias

/s/ Ernie R. Krueger

Paul D. Tobias  
Chairman and Chief Executive Officer

Ernie R. Krueger  
Executive Vice President and  
Chief Financial Officer

Manistique, Michigan  
March 31, 2009

**Table of Contents****PART III****ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION**

The information set forth under the captions "Information About Directors and Nominees" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Corporation's definitive Proxy Statement for its May 27, 2009, Annual Meeting of Shareholders (the "Proxy Statement"), a copy of which will be filed with the SEC prior to the meeting date, is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Information relating to compensation of the Corporation's executive officers and directors is contained under the captions "Remuneration of Directors" and "Executive Compensation," in the Corporation's Proxy Statement for its 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information relating to security ownership of certain beneficial owners and management is contained under the caption "Beneficial Ownership of Common Stock" in the Corporation's Proxy Statement for its 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

The following table provides information as of December 31, 2008, with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Corporation are authorized for issuance. All such compensation plans were previously approved by security holders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights ( a )	Weighted average exercise price of outstanding options, warrants and rights ( b )	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ( c )
Equity compensation plans approved by security holders	446,237	\$ 12.14	18,488
Equity compensation plans not approved by security holders			
Total	446,237	\$ 12.14	18,488

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**ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information relating to certain relationships and related transactions is contained under the caption "Indebtedness of and Transactions with Management" in the Corporation's Proxy Statement and is incorporated herein by reference. Additional information is contained under the caption, "Information about Directors and Executive Officers" within the Corporation's Proxy Statement for its 2009 Annual Meeting of Shareholders.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information relating to principal accountant fees and services is contained under the caption "Principal Accountant Fees and Services" in the Corporation's Proxy Statement for its 2009 Annual Meeting of Shareholders and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(commission file number for all incorporated documents: 0-20167)

- (a) The following documents are filed as a part of this report.
1. Consolidated Financial Statements (contained in the Annual Report attached hereto as Exhibit 13 and incorporated herein by reference)
    - (i) Report on Independent Registered Public Accounting Firm
    - (ii) Consolidated Balance Sheets as of December 31, 2008, and 2007
    - (iii) Consolidated Statements of Operations for the years ended December 31, 2008, 2007, and 2006
    - (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007, and 2006
    - (v) Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007, and 2006
    - (vi) Notes to Consolidated Financial Statements
  2. All of the schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are either not required under the related instruction, the required information is contained elsewhere in the Form 10-K, or the schedules are inapplicable, and therefore have been omitted.



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3. Exhibits

Exhibit

Number Document

- 3.1\* Articles of Incorporation and all amendments (most recent amendment filed December 14, 2004)
- 3.2(a)\* Amended and Restated Bylaws as revised June 27, 2001
- 3.2(b)\* Amendment to the Amended and Restated Bylaws adopted August 9, 2004
- 3.2(c)\* Second Amendment to the Amended and Restated Bylaws adopted December 2007
- 4.1 Rights Agreement dated as of June 21, 2000 between the Corporation and Registrar and Transfer Company, as Rights Agent (incorporated by reference to Exhibit 4 to the Corporation's Form 8-K filed July 31, 2000)
- 4.2 Amendment to Rights Agreement dated August 9, 2004 (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed August 13, 2004)
- 4.3 Amendment No. 2 to Rights Agreement dated December 2004 (incorporated by reference to Exhibit 4.1 to the Corporation's Form 8-K filed December 16, 2004)
- 10.1 Stock Option Agreement dated June 10, 2005, between Kelly W. George and Mackinac Financial Corporation (incorporated by reference to Exhibit 10.2 to the Corporation's Form 10-K filed March 31, 2006\*\*)
- 10.2 Stock Option Agreement dated June 10, 2005, between Ernie R. Krueger and Mackinac Financial Corporation (incorporated by reference to Exhibit 10.3 to the Corporation's Form 10-K filed March 31, 2006\*\*)
- 10.3 Stock Option Agreement dated September 20, 2005, between Walter J. Aspatore and Mackinac Financial Corporation (incorporated by reference to Exhibit 10.4 to the Corporation's Form 10-K filed March 31, 2006\*\*)
- 10.4 Stock Option Agreement dated September 20, 2005, between Dennis B. Bittner and Mackinac Financial Corporation (incorporated by reference to Exhibit 10.5 to the Corporation's Form 10-K filed March 31, 2006\*\*)

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Exhibit Number	Document
10.5	Stock Option Agreement dated September 20, 2005, between Randolph C. Paschke and Mackinac Financial Corporation (incorporated by reference to Exhibit 10.6 to the Corporation's Form 10-K filed March 31, 2006)**
10.6	Stock Option Agreement dated September 20, 2005, between Robert H. Orley and Mackinac Financial Corporation (incorporated by reference to Exhibit 10.7 to the Corporation's Form 10-K filed March 31, 2006)**
10.7	Form of Stock Option Agreement for Paul D. Tobias and the Corporation (incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K filed December 16, 2004)**
10.8	Form of Indemnity Agreement for the Corporation's Directors (incorporated by reference to Exhibit 10.3 to the Corporation's Form 8-K filed December 16, 2004)
10.9	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.4 to the Corporation's Form 8-K filed December 16, 2004)
10.10	Deferred Compensation, Deferred Stock, and Current Stock Purchase Plan for the Corporation's nonemployee directors (incorporated by reference to Exhibit 10.2 of the Corporation's Annual Report on Form 10-K filed March 28, 2000)**
10.11	North Country Financial Corporation Stock Compensation Plan (incorporated by reference to Exhibit 10.3 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and filed March 28, 2000)**
10.12	North Country Financial Corporation 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-Q filed May 12, 2000)**
10.13	North Country Financial Corporation Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.6 of the Corporation's Form 10-Q filed November 5, 1999 for the quarter ended September 30, 1999)**
10.14	Amended and Restated Employment Agreement dated December 21, 2006, between the Corporation and Kelly W. George (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed January 4, 2007)**
10.15	Amended and Restated Employment Agreement dated December 21, 2006, between the Corporation and Ernie R. Krueger (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed February 6, 2007)**

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Exhibit Number	Document
10.16	Stock Option Agreement dated December 15, 2006, between the Corporation and L. Brooks Patterson (incorporated by reference to Exhibit 10.30 of the Corporation's Form 10-K filed March 30, 2007)**
10.17	Stock Option Agreement dated December 15, 2006, between the Corporation and Kelly W. George (incorporated by reference to Exhibit 10.31 of the Corporation's Form 10-K filed March 30, 2007)**
10.18	Stock Option Agreement dated December 15, 2006 between the Corporation and Ernie R. Krueger (incorporated by reference to Exhibit 10.32 of the Corporation's Form 10-K filed March 30, 2007)**
10.19	Separation Agreement dated June 19, 2008, between the Corporation and Eliot Stark (incorporated by reference to Exhibit 5.1 to the Corporation's Form 8-K filed July 3, 2008)**
11	(not applicable)
12	(not applicable)
13	2008 Annual Report to Shareholders. This exhibit, except for those portions expressly incorporated by reference in this filing, is furnished for the information of the Securities and Exchange Commission and is not deemed filed as part of this filing
14	(not applicable)
16	(not applicable)
18	(not applicable)
21	Subsidiaries of the Corporation
22	(not applicable)
23.1	Consent of Independent Public Accountants Plante & Moran, PLLC
24	(not applicable)
31	Rule 13(a) 14(a) Certifications
32.1	Section 1350 Chief Executive Officer Certification

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Exhibit Number	Document
32.2	Section 1350 Chief Financial Officer Certification
33	(not applicable)
34	(not applicable)
35	(not applicable)
99	(not applicable)
100	(not applicable)
*	filed herewith
**	management compensatory plan, contract, or arrangement

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, dated March 31, 2009.

MACKINAC FINANCIAL CORPORATION

/s/ Paul D. Tobias

Paul D. Tobias

Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 31, 2009, by the following persons on behalf of the Corporation and in the capacities indicated. Each director of the Corporation, whose signature appears below, hereby appoints Paul D. Tobias and Ernie R. Krueger, and each of them severally, as his attorney-in-fact, to sign in his name and on his behalf, as a director of the Corporation, and to file with the Commission any and all Amendments to this Report on Form 10-K.

Signature

/s/ Paul D. Tobias

Paul D. Tobias Chairman,  
Chief Executive Officer & Director  
(principal executive officer)

/s/ Ernie R. Krueger

Ernie R. Krueger Executive Vice President/Chief Financial Officer  
(principal financial officer)

/s/ Walter J. Aspatore

Walter J. Aspatore Director

/s/ Joseph D. Garea

Joseph D. Garea Director

/s/ Robert E. Mahaney

Robert E. Mahaney Director

/s/ Robert H. Orley

Robert H. Orley Director  
Officer

/s/ Dennis B. Bittner

Dennis B. Bittner Director

/s/ L. Brooks Patterson

L. Brooks Patterson Director

/s/ Kelly W. George

Kelly W. George President & Director

/s/ Randolph C. Paschke

Randolph C. Paschke Director