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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number: 0-20167

MACKINAC FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

<TABLE>

<S>

MICHIGAN
(State or other jurisdiction of
incorporation or organization)

<C>

38-2062816
(I.R.S. Employer
Identification No.)

</TABLE>

<TABLE>

<S>

130 SOUTH CEDAR STREET, MANISTIQUE, MI
(Address of principal executive offices)

<C>

49854
(Zip Code)

</TABLE>

Registrant's telephone number, including area code: (888) 343-8147

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

As of July 31, 2006, there were outstanding 3,428,695 shares of the registrant's common stock, no par value.



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MACKINAC FINANCIAL CORPORATION

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MACKINAC FINANCIAL CORPORATION
 PART I. FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in Thousands)

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
	----- (Unaudited)	----- (Unaudited)	----- (Unaudited)
	<C>	<C>	<C>
<S>			
ASSETS			
Cash and due from banks	\$ 5,529	\$ 4,833	\$ 11,477
Federal funds sold	12,535	3,110	8,767
	-----	-----	-----
Cash and cash equivalents	18,064	7,943	20,244
Interest-bearing deposits in other financial institutions	893	1,025	--
Securities available for sale	33,870	34,210	36,166
Federal Home Loan Bank stock	4,855	4,855	4,855
Total loans	283,110	239,771	204,503
Allowance for loan losses	(5,415)	(6,108)	(6,636)
	-----	-----	-----
Net loans	277,695	233,663	197,867
Premises and equipment	12,748	11,987	10,496
Other real estate held for sale	52	945	2,312
Other assets	4,320	4,094	4,171
	-----	-----	-----
Total assets	\$352,497	\$298,722	\$276,111
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Non-interest-bearing deposits	\$ 21,773	\$ 19,684	\$ 21,033
Interest-bearing deposits	262,391	212,948	186,781
	-----	-----	-----
Total deposits	284,164	232,632	207,814
Borrowings	37,617	36,417	36,484
Other liabilities	3,537	3,085	3,296
	-----	-----	-----
Total liabilities	325,318	272,134	247,594
Shareholders' equity:			
Preferred stock - no par value:			
Authorized - 500,000 shares, no shares outstanding	--	--	--
Common stock and additional paid in capital - no par value			
Authorized - 18,000,000 shares			
Issued and outstanding - 3,428,695 shares	42,567	42,412	42,412
Accumulated deficit	(14,772)	(15,461)	(13,915)
Accumulated other comprehensive income (loss)	(616)	(363)	20
	-----	-----	-----
Total shareholders' equity	27,179	26,588	28,517
	-----	-----	-----
Total liabilities and shareholders' equity	\$352,497	\$298,722	\$276,111
	=====	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.



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MACKINAC FINANCIAL CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Dollars in Thousands, Except per Share Data)
 (Unaudited)

<TABLE>
 <CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME:				
Interest and fees on loans:				
Taxable	\$5,182	\$3,201	\$ 9,681	\$ 6,260
Tax-exempt	192	230	385	472
Interest on securities				
Taxable	274	434	547	896
Tax-exempt	41	42	82	84
Other interest	194	110	363	293
Total interest income	5,883	4,017	11,058	8,005
INTEREST EXPENSE:				
Deposits	2,509	1,198	4,589	2,328
Borrowings	439	431	855	1,084
Total interest expense	2,948	1,629	5,444	3,412
Net interest income before provision for loan losses	2,935	2,388	5,614	4,593
Provision for loan losses	--	--	(600)	--
Net interest income after provision for loan losses	2,935	2,388	6,214	4,593
OTHER INCOME:				
Service fees	122	172	232	333
Loan and lease fees	19	4	36	6
Net security gains	--	98	--	97
Net gains on sale of loans	42	13	83	20
Other	68	83	116	98
Total other income	251	370	467	554
OTHER EXPENSE:				
Salaries and employee benefits	1,496	1,606	3,090	3,110
Occupancy	293	247	610	473
Furniture and equipment	155	138	311	297
Data processing	182	246	336	492
Accounting, legal, and consulting fees	414	228	614	546
Loan and deposit	98	250	228	543
Telephone	51	77	100	137
Advertising	107	243	177	382
Penalty on prepayment of FHLB borrowings	--	--	--	4,320
Other	225	300	552	665
Total other expense	3,021	3,335	6,018	10,965
Income (loss) before income taxes	165	(577)	663	(5,818)
Provision for (benefit of) income taxes	(25)	--	(25)	--
NET INCOME (LOSS)	\$ 190	\$ (577)	\$ 688	\$ (5,818)
INCOME (LOSS) PER COMMON SHARE:				
Basic	\$.05	\$ (.17)	\$.20	\$ (1.70)
Diluted	\$.05	\$ (.17)	\$.20	\$ (1.70)

</TABLE>

See accompanying notes to condensed consolidated financial statements.



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MACKINAC FINANCIAL CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (Dollars in Thousands)
 (Unaudited)

<TABLE>
 <CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<S>	<C>	<C>	<C>	<C>
Balance, beginning of period	\$27,173	\$28,854	\$26,588	\$34,730
Stock option compensation	78	--	156	--
Net income (loss) for period	190	(577)	688	(5,818)
Change in minority interest of consolidated subsidiary	--	77	--	77
Net unrealized gain (loss) on securities available for sale	(262)	163	(253)	(472)
Total comprehensive income (loss)	6	(337)	591	(6,213)
Balance, end of period	\$27,179	\$28,517	\$27,179	\$28,517
	=====	=====	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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MACKINAC FINANCIAL CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Dollars in Thousands)
 (Unaudited)

<TABLE>
 <CAPTION>

	Six Months Ended June 30,	
	2006	2005
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 688	\$ (5,818)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	489	489
(Gain) on sales of securities	--	(97)
(Gain) on sales of premises, equipment, and other real estate	(57)	(4)
PHLB sock dividend	--	(101)
Stock option tax compensation	156	--
Change in other assets	(288)	1,550
Change in other liabilities	452	(768)
Net cash provided by (used in) operating activities	1,440	(4,749)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in interest-bearing deposits in other financial institutions	132	18,535
Purchase of securities available for sale	--	(16,009)
Proceeds from sales of securities available for sale	--	30,813
Proceeds from maturities, calls or paydowns of securities available for sale	70	5,666
Net (increase) in loans	(44,039)	(1,828)
Capital expenditures	(1,171)	(120)
Proceeds from sale of premises, equipment, and other real estate	957	249
Net cash provided by (used in) investing activities	(44,051)	37,306
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	51,532	(7,836)
Proceeds from issuance of debt	1,200	1,651
Principal payments on borrowings	--	(50,206)
Net cash provided by (used in) Financing activities	52,732	(56,391)
Net increase (decrease) in cash and cash equivalents	10,121	(23,834)
Cash and cash equivalents at beginning of period	7,943	44,078
Cash and cash equivalents at end of period	\$ 18,064	\$ 20,244
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for:	\$ 5,177	\$ 3,522
Interest	--	--
Income taxes	--	--
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfers of Foreclosures from Loans to Other Real Estate Held for Sale	7	827

</TABLE>

See accompanying notes to condensed consolidated financial statements.



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MACKINAC FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Mackinac Financial Corporation (the "Corporation") have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The unaudited consolidated financial statements and footnotes thereto should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

In order to properly reflect some categories of other income and other expenses, reclassifications of expense and income items have been made to prior period numbers. The "net" other income and other expenses were not changed due to these classifications.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses includes specific allowances related to commercial loans, which have been judged to be impaired. A loan is impaired when, based on current information, it is probable that the Corporation will not collect all amounts due in accordance with the contractual terms of the loan agreement. These specific allowances are based on discounted cash flows of expected future payments using the loan's initial effective interest rate or the fair value of the collateral if the loan is collateral dependent.

The Corporation continues to maintain a general allowance for loan losses for loans not considered impaired. The allowance for loan losses is maintained at a level which management believes is adequate to provide for possible loan losses. Management periodically evaluates the adequacy of the allowance using the Corporation's past loan loss experience, known and inherent risks in the portfolio, composition of the portfolio, current economic conditions, and other factors. The allowance does not include the effects of expected losses related to future events or future changes in economic conditions. This evaluation is inherently subjective since it requires material estimates that may be susceptible to significant change. Loans are charged against the allowance for loan losses when management believes the collectibility of the principal is unlikely. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require additions to the allowance for loan losses based on their judgments of collectibility.

In management's opinion, the allowance for loan losses is adequate to cover probable losses relating to specifically identified loans, as well as probable losses inherent in the balance of the loan portfolio as of the balance sheet date.

STOCK OPTION PLANS

The Corporation sponsors three stock option plans. One plan was approved in 2000 and applies to officers, employees, and nonemployee directors. This plan was amended as a part of the December 2004 stock offering and recapitalization. The amendment, approved by shareholders, increased the shares available under this plan by 428,587 shares from the original 25,000 (adjusted for the 1:20 reverse stock split), to a total authorized share balance of 453,587. The other two plans, one for officers and employees and the other for nonemployee

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MACKINAC FINANCIAL CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

directors, were approved in 1997. A total of 30,000 shares (adjusted for the 1:20 reverse stock split), were made available for grant under these plans. Options under all of the plans are granted at the discretion of a committee of the Corporation's Board of Directors. Options to purchase shares of the Corporation's stock are granted at a price equal to the market price of the stock at the date of grant. The committee determines the vesting of the options when they are granted as established under the plan.

The Corporation adopted SFAS No. 123 (Revised) "Share Based Payments" in the first quarter of 2006. This statement supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees" and its related implementation guidance. Under Opinion No. 25, issuing stock options to employees generally resulted in recognition of no compensation cost. This adoption resulted in the recognition of after tax compensation expense in the amount of \$156,000 for the six months ended June 30, 2006. The expense recorded recognizes the current period vesting of options outstanding. The after tax compensation expense, using this same accounting treatment would have amounted to \$38,000 in the first six months of 2005. The per share impact of this accounting change was negligible for 2006.

2. RECENT ACCOUNTING PRONOUNCEMENT

The Corporation adopted SFAS No. 123 (revised) "Share Based Payments" in the first quarter of 2006. The Corporation does not expect a material impact on the results of operations for 2006 as a result of this change, with \$78,000 reported as expense in the second quarter.

3. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share are based upon the weighted average number of shares outstanding.

The following shows the computation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2005 and 2004 (dollars in thousands, except per share data):

Additional shares issued as a result of option exercises would not be dilutive in either period.

<TABLE>
 <CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<S>	<C>	<C>	<C>	<C>
INCOME (LOSS) PER COMMON SHARE - BASIC:				
Net income (loss)	\$ 190	\$ (577)	\$ 688	\$ (5,818)
Weighted average common shares outstanding	3,428,695	3,428,695	3,428,695	3,428,695
Income (loss) per common share - Basic	\$ 0.05	\$ (0.17)	\$ 0.20	\$(1.70)
INCOME (LOSS) PER COMMON SHARE - DILUTED:				
Net income (loss)	\$ 190	\$ (577)	\$ 688	\$ (5,818)
Weighted average common shares outstanding for basic loss per common share	3,428,695	3,428,695	3,428,695	3,428,695
Add: Dilutive effect of assumed exercise of stock options	--	--	--	--
Average shares and dilutive potential common shares	3,428,695	3,428,695	3,428,695	3,428,695
Income (loss) per common share - Diluted	\$.05	\$ (.17)	\$.20	\$(1.70)

</TABLE>

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MACKINAC FINANCIAL CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

4. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities available for sale as of June 30, 2006, December 31, 2005 and June 30, 2005 are as follows (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006		December 31, 2005		June 30, 2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>
US Agencies	\$30,963	\$30,279	\$30,980	\$30,354	\$32,001	\$31,659
Obligations of states and political subdivisions	3,523	3,591	3,593	3,856	3,645	4,005
Corporate securities	--	--	--	--	500	502
Total securities available for sale	\$34,486	\$33,870	\$34,573	\$34,210	\$36,146	\$36,166

</TABLE>

The amortized cost and estimated fair value of investment securities pledged to secure FHLB borrowings and customer relationships were \$28.079 million and \$27.497 million, respectively, at June 30, 2006.

5. LOANS

The composition of loans at June 30, 2006, December 31, 2005 and June 30, 2005 is as follows (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
Commercial real estate	\$140,918	\$118,637	\$104,785
Commercial, financial, and agricultural	59,581	56,686	47,534
One to four family residential real estate	48,931	44,660	43,012
Consumer	2,632	2,285	2,153
Construction	31,048	17,503	7,019
Total loans	\$283,110	\$239,771	\$204,503

</TABLE>

LOANS - ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the six months ended June 30, 2006, the year ended December 31, 2005, and the six months ended June 30, 2005 is as follows: (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
Balance at beginning of period	\$6,108	\$6,966	\$6,966
Recoveries on loans	40	134	101
Loans charged off	(133)	(992)	(431)
Provision	(600)	--	--
Balance at end of period	\$5,415	\$6,108	\$6,636

</TABLE>

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MACKINAC FINANCIAL CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

5. LOANS (Continued)

In the first half of 2006, net charge off activity was minimal at \$93,000, or .04% of average loans outstanding compared to net charge-offs of \$330,000, or 17% of average loans, in the first half of 2005. In the first half of 2006, the Corporation reduced the allowance for loan losses by recording a negative provision amounting to \$600,000. This reduction in the reserve was made in recognition of the improved credit quality existent in the loan portfolio and is discussed in more detail under "Management's Discussion and Analysis."

LOANS - IMPAIRED LOANS

Nonperforming loans are those which are contractually past due 90 days or more as to interest or principal payments, on nonaccrual status, or loans, the terms of which have been renegotiated to provide a reduction or deferral on interest or principal. The interest income recorded and that which would have been recorded had nonaccrual and renegotiated loans been current, or not troubled was not material to the consolidated financial statements for the six months ended June 30, 2006 and 2005.

Information regarding impaired loans as of June 30, 2006, December 31, 2005 and June 30, 2005 is as follows (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006 (Unaudited) <C>	December 31, 2005 <C>	June 30, 2005 (Unaudited) <C>	Valuation Reserve		
				June 30, 2006 <C>	December 31, 2005 <C>	June 30, 2005 <C>
<S>						
Balances, at period end						
Impaired loans with specific valuation reserve	\$301	\$ --	\$ 6	\$75	\$--	\$ 6
Impaired loans with no specific valuation reserve	145	114	1,527	--	--	--
Total impaired loans	\$446	\$ 114	\$1,533	\$75	\$--	\$ 6
Impaired loans on nonaccrual basis	\$446	\$ 15	\$1,533	\$75	\$--	\$ 6
Impaired loans on accrual basis	--	99	--	--	--	--
Total impaired loans	\$446	\$ 114	\$1,533	\$75	\$--	\$ 6
Average investment in impaired loans	\$163	\$1,922	\$3,022			
Interest income recognized during impairment	1	78	51			
Interest income that would have been recognized on an accrual basis	2	134	89			
Cash-basis interest income recognized	1	76	51			

</TABLE>

The average investment in impaired loans was approximately \$.163 million for the six-months ended June 30, 2006, \$1.922 million for the year ended December 31, 2005, and \$3.022 million for the six months ended June 30, 2005, respectively. Impacting the impaired loan balances in 2005 was a sale of nonperforming assets in late December which included \$1.0 million of nonaccrual loans.

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MACKINAC FINANCIAL CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

5. LOANS (Continued)

LOANS - RELATED PARTIES

The Bank, in the ordinary course of business, grants loans to the Corporation's executive officers and directors, including their families and firms in which they are principal owners.

Activity in such loans is summarized below (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
Loans outstanding beginning of period	\$ 578	\$ 63	\$ 63
New loans	1,222	56	52
Net activity on revolving lines of credit	271	578	416
Repayment	(857)	(119)	(115)
Decrease related to retired executive officers and directors	--	--	--
Loans outstanding end of period	\$1,214	\$ 578	\$ 416

</TABLE>

There were no loans to related-parties classified substandard at June 30, 2006, December 31, 2005 or June 30, 2005, respectively. In addition to the outstanding balances above, there were no unused commitments to related parties at June 30, 2006.

6. BORROWINGS

Borrowings consist of the following at June 30, 2006, December 31, 2005 and June 30, 2005 (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
Federal Home Loan Bank advances at rates ranging from 4.98% to 5.17% maturing in 2010 and 2011	\$35,000	\$35,000	\$35,000
Farmers Home Administration, fixed-rate note payable, maturing August 24, 2004, interest payable at 1%	1,417	1,417	1,484
Advance outstanding on line of credit with a correspondent bank	1,200	--	--
	\$37,617	\$36,417	\$36,484

</TABLE>

In the first quarter of 2005, the Corporation prepaid \$48.555 million of the Federal Home Loan Bank ("FHLB") borrowings and incurred a prepayment penalty of \$4.320 million. This early payoff of FHLB borrowings reduced interest rate risk and better positions the Corporation for future match funding of loan growth.

The Federal Home Loan Bank borrowings are collateralized at June 30, 2006, by the following: a collateral agreement on the Corporation's one to four family residential real estate loans with a book value of approximately \$17.952 million; U.S. government agency securities with an amortized cost and estimated fair value of \$27.468 million and \$26.886 million, respectively; and Federal Home Loan Bank stock owned by the Bank totaling \$4.855 million. Prepayment of the remaining advances is subject to the provisions and conditions of the credit policy of the Federal Home Loan Bank of Indianapolis in effect as of June 30, 2006.

In the second quarter of 2006, the Corporation established a \$6 million line of credit with a correspondent bank. This line of credit will be utilized by the Corporation to infuse capital into the Bank in order to support the regulatory required 8% Tier 1 capital.

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MACKINAC FINANCIAL CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

6. BORROWINGS (Continued)

The U.S.D.A. Rural Development borrowing is collateralized by loans totaling \$959,000 originated and held by the Corporation's wholly owned subsidiary, First Rural Relending, and an assignment of a demand deposit account in the amount of \$611,000, and guaranteed by the Corporation.

7. STOCK OPTION PLANS

A summary of stock option transactions for the six months ended June 30, 2006 and 2005, and the year ended December 31, 2005, is as follows: (Historical stock option information has been adjusted for the 1:20 reverse stock split which occurred in December 2004).

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
Outstanding shares at beginning of year	375,417	282,999	282,999
Granted during the period	--	112,500	60,000
Expired during the period	1,500	20,082	19,042
Outstanding shares at end of period	373,917	375,417	323,957
Weighted average exercise price per share at end of period	\$ 12.60	\$ 14.15	\$ 15.39
Shares available for grant at end of period	90,988	89,488	140,948

</TABLE>

There were no options granted in the first six months of 2006. In the second quarter of 2005, the Corporation issued 60,000 option shares at a price of \$12.00 per share.

Following is a summary of the options outstanding and exercisable at June 30, 2006:

<TABLE>
 <CAPTION>

Exercise Price Range	Number		Remaining Contractual Life-Years	Weighted Average Exercise Price
	Outstanding	Exercisable		
<S>	<C>	<C>	<C>	<C>
\$9.16	12,500	2,500	9.5	\$ 9.16
\$9.75	257,152	120,861	8.5	9.75
\$11.50	40,000	8,000	9.3	11.50
\$12.00	60,000	12,000	9.0	12.00
\$156.00 - \$240.00	3,545	3,545	4.8	186.75
\$300.00 - \$406.60	720	720	3.0	345.00
	373,917	147,626	8.6	\$ 12.60

</TABLE>

8. CAPITAL

On December 16, 2004, the Corporation consummated a recapitalization through the issuance of \$30 million of common stock in a private placement. The net proceeds of this offering amounted to \$26.2 million. This recapitalization provided the funding to enable the Corporation to recapitalize the Bank with a \$15.5 million capital infusion. This capital infusion provided the Bank with enough capital to be deemed a "well capitalized" institution by regulatory standards.

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MACKINAC FINANCIAL CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

9. COMMITMENTS, CONTINGENCIES AND CREDIT RISK

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Corporation's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. These commitments are as follows (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
	-----	-----	-----
<S>	<C>	<C>	<C>
Commitments to extend credit:			
Fixed rate	\$ 3,345	\$ 2,118	\$ 1,341
Variable rate	42,787	31,557	22,982
Standby letters of credit - Variable rate	8,939	10,493	11,299
Credit card commitments - Fixed rate	2,981	3,135	2,798
	-----	-----	-----
	\$58,052	\$47,303	\$38,420
	=====	=====	=====

</TABLE>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The commitments are structured to allow for 100% collateralization on all standby letters of credit.

Credit card commitments are commitments on credit cards issued by the Corporation's subsidiary and serviced by other companies. These commitments are unsecured.

CONTINGENCIES

In the normal course of business, the Corporation is involved in various legal proceedings. For expanded discussion on the Corporation's legal proceedings, see Part II, Item 1, "Legal Proceedings" in this report.

CONCENTRATION OF CREDIT RISK

The Bank grants commercial, residential, agricultural, and consumer loans throughout Michigan. The Bank's most prominent concentration in the loan portfolio relates to commercial loans to entities within the hospitality



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MACKINAC FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. COMMITMENTS, CONTINGENCIES AND CREDIT RISK (Continued)

and tourism industry. This concentration represents \$37.754 million, or 18.83%, of the commercial loan portfolio at June 30, 2006. The remainder of the commercial loan portfolio is diversified in such categories as gaming, petroleum, forestry, and agriculture. Due to the diversity of the Bank's locations, the ability of debtors of residential and consumer loans to honor their obligations is not tied to any particular economic locality.

12.



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MACKINAC FINANCIAL CORPORATION
ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Corporation intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. Forward-looking statements which are based on certain assumptions and describe future plans, strategies, or expectations of the Corporation, are generally identifiable by use of the words "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. The Corporation's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could cause actual results to differ from the results in forward-looking statements include, but are not limited to:

- The highly regulated environment in which the Corporation operates could adversely affect its ability to carry out its strategic plan due to restrictions on new products, funding opportunities or new market entrances;
- General economic conditions, either nationally or in the state(s) in which the Corporation does business;
- Legislation or regulatory changes which affect the business in which the Corporation is engaged;
- Changes in the interest rate environment which increase or decrease interest rate margins;
- Changes in securities markets with respect to the market value of financial assets and the level of volatility in certain markets such as foreign exchange;
- Significant increases in competition in the banking and financial services industry resulting from industry consolidation, regulatory changes and other factors, as well as action taken by particular competitors;
- The ability of borrowers to repay loans;
- The effects on liquidity of unusual decreases in deposits;
- Changes in consumer spending, borrowing, and saving habits;
- Technological changes;
- Acquisitions and unanticipated occurrences which delay or reduce the expected benefits of acquisitions;
- Difficulties in hiring and retaining qualified management and banking personnel;
- The Corporation's ability to increase market share and control expenses;
- The effect of compliance with legislation or regulatory changes;
- The effect of changes in accounting policies and practices;
- The costs and effects of existing and future litigation and of adverse outcomes in such litigation.

These risks and uncertainties should be considered in evaluating forward-looking statements. Further information concerning the Corporation and its business, including additional factors that could materially affect the Corporation's financial results, is included in the Corporation's filings with the Securities and Exchange Commission. All forward-looking statements contained in this report are based upon information presently available and the Corporation assumes no obligation to update any forward-looking statements.

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MACKINAC FINANCIAL CORPORATION
ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS (Continued)

The following discussion will cover results of operations, asset quality, financial position, liquidity, interest rate sensitivity, and capital resources for the periods indicated. The information included in this discussion is intended to assist readers in their analysis of, and should be read in conjunction with, the consolidated financial statements and related notes and other supplemental information presented elsewhere in this report. This discussion should be read in conjunction with the consolidated financial statements and footnotes contained in the Corporation's Annual Report and Form 10-K for the year-ended December 31, 2005. Throughout this discussion, the term "Bank" refers to mBank, formerly known as North Country Bank and Trust, the principal banking subsidiary of the Corporation.

FINANCIAL OVERVIEW

Year-to-date consolidated net income was \$.688 million through June 30, 2006, compared to a net loss of \$5.818 million for the same period in 2005. Basic income per share was \$.20 for the six months ended June 30, 2006, compared to a loss per share of \$1.70 for the same period in 2005. The income for the three months ended June 30, 2006 amounted to \$.190 million, or \$.05 per share, compared to a loss of \$.577 million, or \$.17 per share for the same period in 2005. The 2006 six months operations include a \$600,000 negative provision, recorded in the first quarter, in recognition of improved credit quality. The 2005 results include a penalty of \$4.320 million on the prepayment of \$48.555 million of the FHLB borrowings. Excluding the provision adjustment and the prepayment penalty, the net income in the first half of 2006 amounted to \$88,000, compared to an adjusted loss of \$1.498 million for the same period in 2005. The six month 2006 results also include \$158,000 of stock option expense, required under the new accounting rules for stock compensation plans, as well as \$240,000 of expenses incurred to pursue legal action against the Corporation's former accountants. Total assets increased \$53.775 million from December 31, 2005 to June 30, 2006. The loan portfolio increased \$43.339 million in the first six months of 2006, from December 31, 2005 balances of \$239.771 million. Deposits totaled \$284.164 million at June 30, 2006, an increase of \$51.532 million from the \$236.632 million at December 31, 2005.

FINANCIAL CONDITION

CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased \$10.121 million in 2006. See further discussion of the change in cash and cash equivalents in the Liquidity section.

INVESTMENT SECURITIES

Available-for-sale securities decreased \$.340 million, or 1.00%, from December 31, 2005 to June 30, 2006, with the balance on June 30, 2006, totaling \$33.870 million. The decrease during the first six months of 2006 was largely due to a decrease of \$.253 million in the market value during the six month period. Investment securities are utilized in an effort to manage interest rate risk and liquidity. As of June 30, 2006, investment securities with an estimated fair value of \$27.497 million were pledged.

LOANS

Through the second quarter of 2006, loan balances increased by \$43.339, or 18.1%, from December 31, 2005 balances of \$239.771 million. During the first six months of 2006, the Bank experienced loan production of \$62.154 million. This loan production, combined with normal principal reductions of approximately \$10 million and early payouts of existing loans accounted for the increases in outstanding loan balances. The Corporation has been successful in maintaining loan growth without compromising credit quality. Enhancements to the loan approval process and exception reporting further provide for a more effective management of risk in the loan portfolio. Management continues to actively manage the loan portfolio, seeking to identify and resolve problem assets at an early stage. Management believes a properly positioned loan portfolio provides the most attractive earning asset yield available to the Corporation and, with changes to the loan approval process and exception reporting, management can effectively manage the risk in the loan portfolio. As shown in the table below, all segments of the loan portfolio increased in the first six months of 2006. Management intends to continue loan growth within its markets for mortgage, consumer, and commercial loan products while concentrating on loan quality, industry concentration issues, and competitive pricing.

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MACKINAC FINANCIAL CORPORATION
 ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
 OF OPERATIONS (Continued)

Following is a summary of the loan portfolio at June 30, 2006, December 31, 2005 and June 30, 2005 (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	Percent of Total	December 31, 2005	Percent of Total	June 30, 2005	Percent of Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial real estate	\$140,918	49.77%	\$118,637	49.48%	\$104,785	51.25%
Commercial, financial, and agricultural	59,581	21.05	56,686	23.64	47,534	23.24
One to four family residential real estate	48,931	17.28	44,660	18.63	43,012	21.03
Consumer	2,632	0.93	2,285	0.95	2,153	1.05
Construction	31,048	10.97	17,503	7.30	7,019	3.43
Total loans	\$283,110	100.00%	\$239,771	100.00%	\$204,503	100.00%

</TABLE>

LOAN CONCENTRATION

Management recognizes that loan concentration within specific industries does increase the risk associated within the Corporation's loan portfolio. Historically, the Corporation had significant concentrations of its loan portfolio composed of hospitality and tourism loans. Management's intent is to monitor loan concentrations and to limit exposure to any one segment of the economy.

Following is a table showing the significant industry types in the commercial loan portfolio as of June 30, 2006, December 31, 2005 and June 30, 2005 (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006			December 31, 2005			June 30, 2005		
	Outstanding Balance	Percent of Commercial Loans	Percent of Shareholders' Equity	Outstanding Balance	Percent of Commercial Loans	Percent of Shareholders' Equity	Outstanding Balance	Percent of Commercial Loans	Percent of Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Hospitality and tourism	\$ 37,754	18.83%	138.91%	\$ 37,681	21.49%	141.72%	\$ 43,208	28.35%	151.52%
Real estate operators - nonresidential bldg	35,478	17.69	130.53	28,217	16.10	106.13	16,479	10.83	57.79
Real estate agents & managers	15,628	7.79	57.50	10,588	6.04	39.82	6,328	4.15	22.19
New car dealers	10,002	4.99	36.80	9,995	5.70	37.59	5,005	3.29	17.55
Petroleum	7,481	3.73	27.52	6,508	3.71	24.48	8,115	5.33	28.46
Operators of nonresidential bldgs	7,306	3.64	26.88	6,218	3.55	23.39	4,568	3.00	16.02
Gaming	6,813	3.40	25.07	7,553	4.31	28.41	9,717	6.38	34.07
Investors	6,659	3.32	24.50	--	0.00	--	--	0.00	--
Skilled nursing care facilities	6,186	3.09	22.76	6,159	3.51	23.16	--	0.00	--
Family housing construction	5,467	2.73	20.11	--	0.00	--	--	0.00	--
Other	61,725	30.79	227.11	62,404	35.59	234.71	58,899	38.67	206.54
Total Commercial Loans	\$200,499	100.00		\$175,323	100.00%		\$152,319	100.00%	

</TABLE>

Management has made considerable progress in reducing concentrations of hospitality and tourism loans, which reduced exposure to this economic segment and lowered overall loan portfolio risk. Management expects further reductions in concentrations of hospitality and tourism loans through a combination of new loans in other industries and paydowns and maturities of current portfolio loans in this sector.

CREDIT QUALITY

The allowance for loan losses is maintained by management at a level considered to be adequate to cover probable losses related to specifically identified loans, as well as losses inherent in the balance of the loan portfolio. At June 30, 2006, the allowance for loan losses was 1.91% of total loans outstanding compared to 2.55% at December 31, 2005 and 3.24% at June 30, 2005.

Management analyzes the allowance for loan losses in detail on a monthly basis to determine whether the losses inherent in the portfolio are properly reserved for. Net charge-offs for the six months ended June 30, 2006 amounted to \$.093 million, or 0.04% of average loans outstanding, compared to \$.330 million, .17% of average loans outstanding, for the same period in 2005. The Corporation, in recognition of the continued improvement in credit quality which has occurred since 2004, reduced the reserve for loan loss by \$600,000 in the first quarter of 2006. The reduction of the reserve results in a current reserve balance that is more representative of the relevant risk

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MACKINAC FINANCIAL CORPORATION
 ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
 OF OPERATIONS (Continued)

inherent within the Corporation's loan portfolio. The current level of charge-offs is below historical levels and projected charge-off activity, based upon current levels of nonperforming loans, is not expected to attain historical levels. Additions or reductions to the reserve in future periods will be dependent upon a combination of future loan growth, nonperforming loan balances and charge-off activity. There were no new significant problem loans or loan downgrades identified during the first or second quarter of 2006.

The table below shows period end balances of non-performing assets (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
NONPERFORMING ASSETS:			
Nonaccrual Loans	\$ 446	\$ 15	\$ 959
Loans past due 90 days or more	--	99	2
Restructured Loans	--	--	0
Total nonperforming loans	446	114	961
Other real estate owned	52	945	2,312
Total nonperforming assets	\$ 498	\$ 1,059	\$ 3,273
Nonperforming loans as a % of loans	.16%	.05%	.47%
Nonperforming assets as a % of assets	.14%	.35%	1.19%
RESERVE FOR LOAN LOSSES:			
At period end	\$ 5,415	\$ 6,108	\$ 6,636
As a % of loans	1.91%	2.55%	3.24%
As a % of nonperforming loans	1,214.13%	5,357.89%	690.53%
As a % of nonaccrual loans	1,214.13%	N/M%	691.97%

</TABLE>

Following is the allocation of the allowance for loan losses as of June 30, 2006, December 31, 2005 and June 30, 2005 (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
Commercial, financial and agricultural loans	\$1,387	\$1,492	\$1,206
One to four family residential real estate loans	--	17	91
Consumer loans	--	--	0
Unallocated and general reserves	4,028	4,599	5,339
Totals	\$5,415	\$6,108	\$6,636

</TABLE>

The following ratios assist management in the determination of the Corporation's credit quality:

<TABLE>
 <CAPTION>

	Six Months Ended June 30, 2006	Twelve Months Ended December 31, 2005	Six Months Ended June 30, 2005
<S>	<C>	<C>	<C>
Allowance to total loans, at period end	1.91%	2.55%	3.24%
Average loans outstanding for the periods indicated	\$262,274	\$207,928	\$198,618
Net charge-offs to average outstanding loans	.04%	.41%	.17%
Nonperforming loans to gross loans, at period end	.16%	.05%	.47%

</TABLE>

Total nonperforming loans increased \$332,000 since December 31, 2005. The 2006 increase resulted primarily from the nonaccrual status of one commercial credit with a current principal balance of \$.301 million. Late in 2005, the Bank sold \$2.1 million of nonperforming assets, which included \$1.000 million of nonperforming loans.

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MACKINAC FINANCIAL CORPORATION
 ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
 OF OPERATIONS (Continued)

Management continues to address market issues impacting its loan customer base. In conjunction with the Corporation's senior lending staff and the bank regulatory examinations, management reviews the Corporation's loans, related collateral evaluations, and the overall lending process. The Corporation also utilizes a loan review consultant to perform a review of the loan portfolio. The opinion of this consultant upon completion of the independent review provided findings similar to management on the overall adequacy of the reserve. The Corporation has engaged this same consultant for loan review during 2006.

As part of the process of resolving problem credits, the Corporation may acquire ownership of collateral which secured such credits. The Corporation carries this collateral in other real estate which is grouped with other assets on the condensed consolidated balance sheet.

The following table represents the activity in other real estate for the periods indicated (dollars in thousands):

<TABLE>
 <CAPTION>

	Six Months Ended June 30, 2006	Year Ended December 31, 2005	Six Months Ended June 30, 2005
<S>	<C>	<C>	<C>
Balance at beginning of period	\$ 945	\$ 1,730	\$1,730
Other real estate transferred from loans	7	274	827
Other real estate sold/written down	(900)	(1,059)	(245)
Balance at end of period	\$ 52	\$ 945	\$2,312

</TABLE>

During the first six months of 2006, the Corporation received real estate in lieu of loan payments of \$7,000. Other real estate is initially valued at the lower of cost or the fair value less selling costs. After the initial receipt, management periodically re-evaluates the recorded balance. Any additional reduction in the fair value results in a write-down of other real estate. Write-downs on other real estate may be recorded based on subsequent evaluations of current realizable fair values.

DEPOSITS

The Corporation had an increase in deposits in the first six months of 2006. Total deposits increased by \$51.532 million, or 21.2%, in the first six months of 2006. This growth in deposits included \$40.278 million of non-core deposits, mostly brokered certificates of deposit. The Corporation continues to evaluate its deposit products and pricing alternatives in an effort to fund loan growth as economically as possible.

The following table represents detail of deposits at the end of the periods indicated (dollars in thousands):

<TABLE>
 <CAPTION>

	June30, 2006	December 31, 2005	June 30, 2005
<S>	<C>	<C>	<C>
Demand deposit accounts	\$ 21,773	\$ 19,684	\$ 21,033
NOW and money market	68,107	64,566	53,387
Savings and IRAs	22,104	22,555	24,843
Certificates of Deposit <\$100,000	73,800	67,725	56,932
Total core deposits	185,784	174,530	156,195
Certificates of Deposit >\$100,000	19,025	12,335	11,665
Internet CDs <\$100,000	16,628	28,113	34,550
Internet CDs >\$100,000	4,998	7,698	5,404
Brokered Deposits	57,729	9,956	--
Total non-core deposits	98,380	58,102	51,619
Total deposits	\$284,164	\$232,632	\$207,814

</TABLE>

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MACKINAC FINANCIAL CORPORATION
ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS (Continued)

BORROWINGS

In the second quarter of 2006 the Corporation established a \$6 million line of credit with a correspondent bank. This line of credit will be utilized by the Corporation to provide infusions of capital to the Bank. As of June 30, 2006, the outstanding balance on this line was \$1.2 million.

In the first quarter of 2005 the Corporation prepaid \$48.555 million of the FHLB borrowings in order to reduce interest rate risk and to better match earning assets and funding sources. The remaining FHLB borrowings carry both fixed and variable interest rates and mature in 2010 and 2011. The \$15 million of fixed rate FHLB borrowings are callable quarterly at the option of the FHLB and can also be converted to variable rates, at the option of the FHLB, should rates rise above certain index levels. These borrowings are secured by a blanket collateral agreement on the Bank's residential mortgage loans and specific assignment of other assets. Management may increase FHLB borrowings in the future as a source for funding future loan production. In the first quarter of 2005, the Bank borrowed \$2 million in Canadian dollars from a correspondent bank in order to reduce the risk of an asset sensitive foreign exchange position. This term loan was repaid in 2005.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased \$.591 million from December 31, 2005 to June 30, 2006. The increase is comprised of net income of \$.688 million, contributed capital of \$.156 million in recognition of stock option expense and a \$.253 million decrease in the market value of securities. The Board of Directors does not anticipate declaring any dividends in the near future. The declaration of dividends is contingent on a variety of factors including regulatory and state statutes, and the Corporation's return to profitability.

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income before provision for loan losses for the quarter ended June 30, 2006, increased by \$.547 million, or 22.9%, compared to the same period one year ago. This increase in net interest income was a result of the combination of increased average balances and increased rates. The Corporation continues to benefit from prime rate increases due to the amount of assets repricing with each increase. This benefit related to a net asset sensitive position has been declining in recent periods as the Corporation initiated steps as a part of its ALCO Committee to reduce interest rate risk in the event of a future decline in interest rates. More discussion is included relative to repricing and asset sensitivity under the caption "Interest Rate Risk" elsewhere in this report.

liabilities and shareholders' equity	\$330,980	\$287,252	\$ 43,728						
	=====	=====	=====						
Rate spread				3.24%	3.00%				
				----	----				
Net interest margin/revenue				3.63%	3.42%	\$ 5,614	\$4,593	\$1,021	\$1,162
				====	====	=====	=====	=====	=====
								\$ (12)	\$ (129)

</TABLE>

- (1) For purposes of these computations, nonaccruing loans are included in the daily average loan amounts outstanding.
- (2) Interest income on loans includes loan fees.

PROVISION FOR LOAN LOSSES

The Corporation records a provision for loan losses at a level it believes is necessary to maintain the allowance at an adequate level after considering factors such as loan charge-offs and recoveries, changes in the mix of loans in the portfolio, loan growth, and other economic factors. In recognition of the improved credit quality, the Corporation reduced its loan loss reserve by \$600,000 in the first quarter of 2006. There was no provision for loan losses in the second quarter of 2006. Management continues to monitor the loan portfolio for changes which may impact the required allowance for loan losses. A provision for loan losses may be required for future periods if credit quality should deteriorate or loan growth is such that the general reserve is no longer deemed adequate.

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MACKINAC FINANCIAL CORPORATION
 ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
 RESULTS OF OPERATIONS (Continued)

OTHER INCOME

Other income decreased by \$.087 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005. The Corporation recorded a \$.098 million net security gain in the second quarter of 2005. Service fees decreased \$.101 million in the first six months of 2006, while loan and lease fees increased \$.030 million, gains on sales of loans increased \$.063 million, and other noninterest income increased \$.018 million. The decline in service fees is primarily due to the introduction of new "no fee" deposit products in an attempt to stimulate growth in transactional account deposits. In the second quarter of 2006, the Corporation recognized \$.029 million of revenue due to mortgage loans produced and sold in the secondary market. Other noninterest income was positively impacted in the first half of 2006 from a gain due to foreign currency transactions which amounted to \$.031 million.

Management does not expect noninterest income to grow significantly in the near future, but is currently exploring several noninterest income expansion opportunities.

The following table details noninterest income for the three and six months ended June 30, 2006 and 2005 (dollars in thousands):

<TABLE>
 <CAPTION>

	Three Months Ended		% Increase (Decrease) 2006-2005	Six Months Ended		% Increase (Decrease) 2006-2005
	June 30,			June 30,		
	2006	2005		2006	2005	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service fees	\$122	\$172	(29.1)	\$232	\$333	(30.3)
Loan and lease fees	19	4	375.0	36	6	500.0
Net gains on sale of loans	42	13	223.1	83	20	315.0
Other	68	83	(18.1)	116	98	18.4
Subtotal	251	272	(7.7)	467	457	2.2
Net securities gains	--	98	100.0	--	97	100.0
Total other income	\$251	\$370	(32.2)	\$467	\$554	(15.7)

</TABLE>

OTHER EXPENSES

Other expenses decreased \$4.947 million for the six months ended June 30, 2006, compared to the same period in 2005. The prepayment penalty on FHLB borrowings incurred by the Corporation in the first quarter of 2005 amounted to \$4.320 million and was the primary reason for the decrease. Salaries, commissions, and related benefits decreased modestly, during the first six months of 2006, compared to the first six months of 2005. The Corporation adopted SFAS No. 123 ("Share Based Payments") in 2006 which requires certain compensation related to the issuance of stock options. The 2006 expense amounted to \$156,000 which is included in salaries and benefits. The \$.156 million decrease in data processing costs is the result of a full systems conversion which occurred in the fourth quarter of 2005. The increase of \$.137 million in occupancy was due primarily from the opening of a new full service branch office in January of 2006. The \$.315 million decrease in loan and deposit expense is due in large part to the reduction in FDIC insurance premiums, which amounted to \$.275 million in the first six months of 2005, compared to \$.047 million in 2006, a reduction of \$.228 million. This reduction in premium was due to the improved capital position of the Bank which resulted in the removal of the Cease and Desist Order in the first quarter of 2005. In 2006 the Corporation incurred approximately \$240,000 in legal costs to pursue legal action against the Corporation's former accountants. Management continually reviews all areas of noninterest expense for cost reduction opportunities that will not negatively impact service quality and employee morale.

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MACKINAC FINANCIAL CORPORATION
 ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
 RESULTS OF OPERATIONS (Continued)

The following table details noninterest expense for the three and six months ended June 30, 2006 and June 30, 2005 (dollars in thousands):

<TABLE>
 <CAPTION>

	Three Months Ended			Six Months Ended		
	June 30,		% Increase	June 30,		% Increase
	2006	2005	(Decrease)	2006	2005	(Decrease)
	-----		2006-2005	-----		2006-2005
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Salaries and employee benefits	\$1,496	\$1,606	(6.8)	\$3,090	\$ 3,110	(0.6)
Occupancy	293	247	18.6	610	473	29.0
Furniture and equipment	155	138	12.3	311	297	4.7
Data processing	182	246	(26.0)	336	492	(31.7)
Accounting, legal and consulting fees	414	228	81.6	614	546	12.5
Loan and deposit	98	250	(60.8)	228	543	(58.0)
Telephone	51	77	(33.8)	100	137	(27.0)
Advertising	107	243	(56.0)	177	382	(53.7)
Penalty on prepayment of FHLB borrowings	--	--	--	--	4,320	NM
Other	225	300	(25.0)	552	665	(17.0)
	-----	-----	-----	-----	-----	-----
Total other expense	\$3,021	\$3,335	(9.4)	\$6,018	\$10,965	(45.1)
	=====	=====	=====	=====	=====	=====

</TABLE>

FEDERAL INCOME TAXES

There was no tax provision for the first and second quarter of 2006 and 2005. The Corporation recorded a \$25,000 federal tax benefit in the second quarter of 2006 due to a refund from a prior year tax return. The Corporation's results of operations for 2006 and 2005 do not reflect the impact of federal income taxes due to large NOL carryforwards. The Corporation has approximately \$36.5 million of NOL carryforward along with various tax credit carryforwards of \$2.1 million. The NOL and tax credit carryforward benefit is dependent upon the future profitability of the Corporation; therefore, no future benefit of these deferred items has been recorded. The Corporation will reevaluate these deferred items in future periods to determine whether or not recognition of all or a portion of the benefit is appropriate in accordance with FASB Statement No. 109, "Accounting for Income Taxes."

LIQUIDITY

As a result of the Corporation's renewed capital strength, from the recapitalization in December 2004, the Corporation is now able to pursue sources of liquidity, such as lines of credit from correspondent banks, borrowings from the Federal Home Loan Bank and possible brokered deposits acquisition. The liquidity issues faced, the Corporation's actions taken to address them, and the liquidity plan for 2005 are discussed below.

During the first half of 2006, the Corporation increased cash and cash equivalents by \$10.121 million. As shown on the Corporation's condensed consolidated statement of cash flows, liquidity was primarily impacted from growth in loans funded by deposits. The Corporation prepaid \$48.555 million in FHLB borrowings in the first quarter of 2005. The Corporation utilized short term liquidity sources such as federal funds sold and time deposits in other financial institutions to fund the prepayment. In the first six months of 2006, the Corporation funded loan growth of \$43.339 million with deposit growth, which amounted to \$51.532 million. The excess deposit growth resulted in an increase in federal funds balances.

It is anticipated that during the remainder of 2006, the Corporation will fund anticipated loan production with a combination of core deposit growth and noncore funding, primarily brokered CD's.

The Corporation's parent company is dependent upon its primary operating subsidiary, the Bank, for sources of cash to fund its operating needs. At June 30, 2006, the Corporation's parent had a balance of \$.828 million in cash and cash equivalents. The corporation established a \$6 million line of credit with a correspondent bank in the second quarter of 2006. Late in June 2006, the Corporation borrowed \$1.2 million on this line which it infused into the Bank for capital. This line of credit will provide additional resources necessary to provide additional capital infusions to the Bank if needed.

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MACKINAC FINANCIAL CORPORATION
 ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
 RESULTS OF OPERATIONS (Continued)

The Corporation's liquidity plan for 2006 includes strategies to increase core deposits in the Corporation's local markets. The introduction of new products through an extensive advertising campaign commenced in the first quarter of 2005, with a goal of increasing core deposits to reduce the dependency on noncore, out of market, deposits. The Corporation's liquidity plan for 2006 calls for augmenting local deposit growth efforts with brokered CD funding, to the extent necessary. The Corporation has also reestablished Bank borrowing lines at correspondent banks to provide additional sources of liquidity.

CAPITAL AND REGULATORY

During the first six months of 2006, capital increased by \$.653 million, largely due to net income of \$.688 million. This compares to a decrease in tangible capital during the same period in the previous year of \$6.151 million, resulting primarily from a net loss of \$5.818 million. The increase in 2006 is comprised of net income, contributed capital of \$.156 million in recognition of stock option expense, a decrease in intangible assets and reduced by a \$.472 million change in the market value of securities.

The Corporation and the Bank are required to maintain certain levels of capital under government regulation. There are several measurements of regulatory capital and the Corporation is required to meet minimum requirements under each measurement. The federal banking regulators have also established capital classifications beyond the minimum requirements in order to risk-rate deposit insurance premiums and to provide trigger points for prompt corrective action in the event an institution becomes financially troubled. Although the Corporation and the Bank are well capitalized, the Bank is operating under an informal agreement which requires a minimum Tier 1 Capital ratio of 8%.

The following table details sources of capital for the periods indicated (dollars in thousands):

<TABLE>
 <CAPTION>

	June 30, 2006	December 31, 2005	June 30, 2005
	<C>	<C>	<C>
CAPITAL STRUCTURE			
Long-term debt (1)	\$ --	\$ --	\$ --
Shareholders' equity	27,179	26,588	28,517
Total capitalization	\$ 27,179	\$ 26,588	\$ 28,517
TANGIBLE CAPITAL			
Tangible capital	\$ 26,911	\$ 26,258	\$ 28,124
INTANGIBLE ASSETS			
Core deposit premium	\$ 268	\$ 330	\$ 393
Other identifiable intangibles	--	--	--
Total intangibles	\$ 268	\$ 330	\$ 393
REGULATORY CAPITAL			
Tier 1 capital:			
Shareholders' equity	\$ 27,179	\$ 26,588	\$ 28,517
Net unrealized (gains) losses on available for sale securities	616	363	(20)
Minority interest	--	--	--
Less: intangibles	(268)	(330)	(393)
Total Tier 1 capital	\$ 27,527	\$ 26,621	\$ 28,104
Tier 2 Capital:			
Allowable reserve for loan losses	\$ 3,728	\$ 3,184	\$ 2,718
Qualifying long-term debt	--	--	--
Total Tier 2 capital	3,728	3,184	2,718
Total capital	\$ 31,255	\$ 29,805	\$ 30,822
Risk-adjusted assets	\$296,555	\$251,796	\$213,505
Capital ratios:			
Tier 1 Capital to risk weighted assets	8.04%	9.23%	13.17%
Total Capital to risk weighted assets	9.28%	10.57%	14.45%
Tier 1 Capital to average assets	10.54%	11.84%	10.14%

</TABLE>

(1) Long term debt consists of the Corporation's subordinated debentures.



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MACKINAC FINANCIAL CORPORATION
 ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
 RESULTS OF OPERATIONS (Continued)

Regulatory capital is not the same as shareholders' equity reported in the accompanying condensed consolidated financial statements. Certain assets cannot be considered assets for regulatory purposes, such as acquisition intangibles.

Presented below is a summary of the capital position in comparison to generally applicable regulatory requirements:

<TABLE>
 <CAPTION>

	Tier 1 Capital to Average Assets	Tier 1 Capital to Risk-Weighted Assets	Total Capital to Risk-Weighted Assets
	-----	-----	-----
<S>	<C>	<C>	<C>
Regulatory minimum for capital adequacy purposes	4.0%	4.0%	8.0%
The Corporation:			
June 30, 2006	8.04%	9.28%	10.54%
December 31, 2005	9.23%	10.57%	11.84%
The Bank:			
June 30, 2006	8.16%	9.44%	10.69%
December 31, 2005	8.80%	10.09%	11.35%

</TABLE>

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MACKINAC FINANCIAL CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

In general, the Corporation attempts to manage interest rate risk by investing in a variety of assets which afford it an opportunity to reprice assets and increase interest income at a rate equal to or greater than the interest expense associated with repricing liabilities.

Interest rate risk is the exposure of the Corporation to adverse movements in interest rates. The Corporation derives its income primarily from the excess of interest collected on its interest-earning assets over the interest paid on its interest-bearing obligations. The rates of interest the Corporation earns on its assets and owes on its obligations generally are established contractually for a period of time. Since market interest rates change over time, the Corporation is exposed to lower profitability if it cannot adapt to interest rate changes. Accepting interest rate risk can be an important source of profitability and shareholder value; however, excess levels of interest rate risk could pose a significant threat to the Corporation's earnings and capital base. Accordingly, effective risk management that maintains interest rate risk at prudent levels is essential to the Corporation's safety and soundness.

Loans are the most significant earning asset. Management offers commercial and real estate loans priced at interest rates which fluctuate with various indices such as the prime rate or rates paid on various government issued securities. In addition, the Corporation prices the majority of fixed rate loans so it has an opportunity to reprice the loan within 12 to 36 months.

The Corporation also has \$30.285 million of federal agency securities with an average life of 1.1 years. The maturity of these investments in the near term will provide opportunities for enhancing portfolio yields.

The Corporation also has federal funds sold to correspondent banks as well as other interest-bearing deposits with correspondent banks. These funds are generally repriced on a daily basis.

The Corporation offers deposit products with a variety of terms ranging from deposits whose interest rates can change on a weekly basis to certificates of deposit with repricing terms of up to five years.

Beyond general efforts to shorten the loan pricing periods and extend deposit maturities, management can manage interest rate risk by the maturity periods of securities purchased, selling securities available for sale, and borrowing funds with targeted maturity periods, among other strategies. Also, the rate of interest rate changes can impact the actions taken since the rate environment affects borrowers and depositors differently.

Exposure to interest rate risk is reviewed on a regular basis. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect of interest rate changes on net interest income and to structure the composition of the balance sheet to minimize interest rate risk and at the same time maximize income. Management realizes certain risks are inherent and that the goal is to identify and minimize the risks. Tools used by management include maturity and repricing analysis and interest rate sensitivity analysis.

The difference between repricing assets and liabilities for a specific period is referred to as the gap. An excess of repricable assets over liabilities is referred to as a positive gap. An excess of repricable liabilities over assets is referred to as a negative gap. The cumulative gap is the summation of the gap for all periods to the end of the period for which the cumulative gap is being measured.

Assets and liabilities scheduled to reprice are reported in the following time frames. Those instruments with a variable interest rate tied to an index and considered immediately repricable are reported in the 1- to 90-day time frame. The estimates of principal amortization and prepayments are assigned to the following time frames.

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MACKINAC FINANCIAL CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The following is the Corporation's opportunities at June 30, 2006 (dollars in thousands):

<TABLE>
 <CAPTION>

	1-90 Days	91 - 365 Days	>1-5 Years	Over 5 Years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:					
Loans	\$191,144	\$ 7,041	\$ 26,483	\$58,442	\$283,110
Securities	2,960	20,665	9,614	631	33,870
Other (1)	13,428	--	--	4,855	18,283
Total interest-earning assets	207,532	27,706	36,097	63,928	335,263
Interest-bearing obligations:					
NOW, Money Market, and Savings deposits	82,244	--	--	--	82,244
Time deposits	28,613	74,815	18,231	759	122,418
Brokered CD's	11,939	45,790	--	--	57,729
Borrowings	12,617	--	25,000	--	37,617
Total interest-bearing obligations	135,413	120,605	43,231	759	300,008
Gap	\$ 72,119	\$(92,899)	\$(7,134)	\$63,169	\$ 35,255
Cumulative gap	\$ 72,119	\$(20,780)	\$(27,914)	\$35,255	

</TABLE>

(1) Includes Federal Home Loan Bank Stock

The above analysis indicates that at June 30, 2006, the Corporation had a cumulative liability sensitivity gap position of \$20.780 million within the one-year time frame. The Corporation's cumulative liability sensitive gap suggests that if market interest rates increase in the next twelve months, the Corporation has the potential to earn less net interest income. Conversely, if market interest rates decreased in the next twelve months, the above GAP position suggests the Corporation's net interest income would increase.

At December 31, 2005, the Corporation had a cumulative liability sensitivity gap position of \$1.311 million within the one-year time frame. The Corporation's cumulative liability sensitive gap suggested that if market interest rates increased in the next twelve months, the Corporation had the potential to earn less net interest income. Conversely, if market interest rates decreased over a twelve-month period, the December 31, 2005, gap position suggested the Corporation's net interest income would increase.

The increase in the gap liability position from December 31, 2005 to June 30, 2006 resulted from the use of short term liabilities to fund loan growth. This was done in order to reduce interest rate risk and better match assets and liabilities. A limitation of the traditional gap analysis is that it does not consider the timing or magnitude of noncontractual repricing or expected prepayments. In addition, the gap analysis treats savings, NOW, and money market accounts as repricing within 90 days, while experience suggests that these categories of deposits are actually comparatively resistant to rate sensitivity.

The borrowings in the gap analysis include FHLB advances some of which are fixed-rate advances. These fixed rate advances give the FHLB the option to convert from a fixed-rate advance to an adjustable rate advance with quarterly repricing at three-month LIBOR Flat. In the second quarter of 2006 the FHLB "put" \$10 million of the borrowings to the Corporation which were then converted to variable pricing. Early in July and additional \$10 million of FHLB borrowings was converted. The exercise of this conversion feature on the remaining borrowings by the FHLB would impact the repricing dates currently assumed in the analysis.

The Corporation's primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk and foreign exchange risk. The Corporation has no market risk sensitive instruments held for trading purposes. The Corporation has limited agricultural-related loan assets and therefore has minimal significant exposure to changes in commodity prices. Any impact that changes in foreign exchange rates and commodity prices would have on interest rates are assumed to be insignificant.



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MACKINAC FINANCIAL CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

Evaluating the exposure to changes in interest rates includes assessing both the adequacy of the process used to control interest rate risk and the quantitative level of exposure. The Corporation's interest rate risk management process seeks to ensure that appropriate policies, procedures, management information systems, and internal controls are in place to maintain interest rate risk at prudent levels with consistency and continuity. In evaluating the quantitative level of interest rate risk, the Corporation assesses the existing and potential future effects of changes in interest rates on its financial condition, including capital adequacy, earnings, liquidity, and asset quality.

In addition to changes in interest rates, the level of future net interest income is also dependent on a number of variables, including: the growth, composition and levels of loans, deposits, and other earning assets and interest-bearing obligations, and economic and competitive conditions; potential changes in lending, investing, and deposit strategies; customer preferences; and other factors.

FOREIGN EXCHANGE RISK

In addition to managing interest rate risk, management also actively manages risk associated with foreign exchange. The Corporation provides foreign exchange services, makes loans to, and accepts deposits from, Canadian customers primarily at its banking offices in Sault Ste. Marie, Michigan. To protect against foreign exchange risk, the Corporation monitors the volume of Canadian deposits it takes in and then invests these Canadian funds in Canadian commercial loans and securities. The Corporation entered into a term loan payable in Canadian dollars during the first quarter of 2005 in order to offset the foreign exchange exposure due to an asset sensitive position. As of June 30, 2006, the Corporation had excess Canadian liabilities of \$.236 million (or \$.210 million in U.S. dollars). Management believes the exposure to short-term foreign exchange risk is minimal and at an acceptable level for the Corporation.

OFF-BALANCE-SHEET RISK

Derivative financial instruments include futures, forwards, interest rate swaps, option contracts and other financial instruments with similar characteristics. The Corporation currently does not enter into futures, forwards, swaps or options. However, the Corporation is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit and involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the condensed consolidated balance sheets. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower if deemed necessary by the Corporation. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions.

Commitments to extend credit and standby letters of credit are not recorded as an asset or liability by the Corporation until the instrument is exercised.

IMPACT OF INFLATION AND CHANGING PRICES

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and results of operations in historical dollars, without considering the change in the relative purchasing power of money over time, due to inflation. The impact of inflation is reflected in the increased cost of the Corporation's operations. Nearly all the assets and liabilities of the Corporation are financial, unlike industrial or commercial companies. As a result, the Corporation's performance is directly impacted by changes in interest rates, which are indirectly influenced by inflationary expectations. The Corporation's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its financial liabilities tends to minimize the effect of changes in interest rates on the Corporation's performance. Changes in interest rates do not necessarily move to the same extent as changes in the price of goods and services.



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MACKINAC FINANCIAL CORPORATION
ITEM 4 CONTROLS AND PROCEDURES

An evaluation was performed under the supervision of and with the participation of the Corporation's management, including the President and Chief Executive Officer, and the Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13-a 15(e) and 15d-15(e) under the Securities Exchange act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Corporation's management, including the President and Chief Executive Officer, have concluded that, as of the end of such period, the Corporation's disclosure controls and procedures were effective in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act.

There was no change in the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Corporation's fiscal quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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MACKINAC FINANCIAL CORPORATION
PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Corporation and its subsidiaries are subject to routine litigation incidental to the business of banking. In addition, the Corporation or the Bank is subject to an informal agreement with regulatory authorities and the litigation described below. Information regarding the informal agreement is contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Capital and Regulatory" in this report, and is incorporated here by reference. The litigation that is not routine and incidental to the business of banking is described below.

Shareholder's Derivative Litigation

Damon Trust v. Bittner, et al.

In an action styled Virginia M. Damon Trust v. North Country Financial Corporation, Nominal Defendant, and Dennis Bittner, Bernard A. Bouschor, Ronald G. Ford, Sherry L. Littlejohn, Stanley J. Gerou II, John D. Lindroth, Stephen Madigan, Spencer Shunk, Michael Hendrickson, Glen Tolksdorf, and Wesley Hoffman, filed in the U.S. District Court for the Western District of Michigan on July 1, 2003, a shareholder of the Corporation has brought a shareholder's derivative action under Section 27 of the Exchange Act against the Corporation and certain of its current and former directors and senior executive officers. The Complaint, which demands a jury trial, is brought on behalf of the Corporation against the individual defendants. It alleges that the individual defendants have caused loss and damage to the Corporation through breaches of their fiduciary duties of oversight and supervision by failing i) adequately to safeguard the assets of the Corporation, (ii) to ensure that adequate administrative, operating, and internal controls were in place and implemented, (iii) to ensure that the Corporation was operated in accordance with legally-prescribed procedures, and (iv) to oversee the audit process to ensure that the Corporation's assets were properly accounted for and preserved. The Complaint further alleges that the individual defendants violated Section 14(a) of the Exchange Act by making materially false and misleading statements in the proxy statement mailed to shareholders in connection with the annual meeting of the Corporation held May 29, 2000, and the adoption by the shareholders at that meeting of the Corporation's 2000 Stock Incentive Plan. The Complaint also alleges that Mr. Ford and Ms. Littlejohn, through a series of compensation arrangements, stock options, and employment agreements obtained by them through improper means resulting from the offices they held with the Corporation, received excessive compensation, to the injury of the Corporation. Among other things, the Complaint is based upon allegations of material misstatements or omissions in filings made by the Corporation with the SEC, and deficiencies in the Corporation's policies and procedures for safe and sound operation, including its directorate and management personnel and practices, credit underwriting, credit administration, and policies regarding asset/liability management, liquidity, funds management, and investments, and its compliance with all applicable laws and regulations, including Regulations O and U of the Board, FDIC Rules and Regulations, and the Michigan Banking Code of 1999. The Complaint seeks (i) rescission of the approval of the 2000 Stock Incentive Plan and return of all stock and options granted under the Plan, (ii) a declaration that the individual defendants breached their fiduciary duty to the Corporation, (iii) an order to the individual defendants to account to the Corporation for all losses and/or damages by reason of the acts and omissions alleged, (iv) an order to each of the individual defendants to remit to the Corporation all salaries and other compensation received for periods during which they breached their fiduciary duties, (v) compensatory damages in favor of the Corporation, (vi) injunctive relief, and (vii) interest, costs, and attorney's and expert's fees.

By letter dated September 17, 2003, and expressly without prejudice to the argument that any such written demand is not required, plaintiff's counsel purported to make a written demand that the Corporation pursue a number of indicated putative claims against: (1) present and former officers and directors of the Corporation who also are the individual defendants in the Damon action, and (2) the certified public accounting firm of Wipfli, Ullrich, Bertelson, LLP.

On September 18, 2003, the Corporation filed a motion to dismiss the Damon action because plaintiff did not satisfy the mandatory precondition, under Section 493a of the Michigan Business Corporation Act ("MBCA"), M.C.L. Section 450.1493a, for filing a shareholder derivative action that the shareholder must first have submitted a written demand that the Corporation pursue in its own right the claims asserted by the shareholder (the plaintiff here). Certain of the individual defendants in the Damon action filed their own motion to dismiss on November 25, 2003,

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MACKINAC FINANCIAL CORPORATION
PART II. OTHER INFORMATION (Continued)

in which motion the other individual defendants later joined. The plaintiff filed an Opposition to both motions to dismiss on January 9, 2004, and on January 30, 2004, the defendants filed reply briefs in support of their motions to dismiss.

On March 22, 2004, the Court issued an Opinion and Order granting in part and denying in part the motions to dismiss in the Damon case. The Court dismissed the Section 14(a) claim against all of the defendants as barred by the statute of limitations and, as further grounds, dismissed that claim as to those who were not directors at the time of the mailing of the proxy statement. The Court has permitted the plaintiff to proceed with its breach of fiduciary duty claims against the Directors on the grounds that the plaintiff cured its procedural failings by subsequently transmitting a demand letter as required by Section 493 of the MBCA.

On April 19, 2004, the Court entered an Order Granting Stipulation to Grant Plaintiff Leave to File Amended Complaint and to Grant Related Relief to All Parties. On May 14, 2004, the plaintiff filed an Amended Complaint and, thereafter, all Defendants timely filed Answers to the Amended Complaint. In its Answer, the Corporation averred that the plaintiff's claims are asserted for and on behalf of the Corporation, that the plaintiff does not assert any claims against the Corporation and, therefore, the Corporation properly should be realigned as a plaintiff in the action.

During the above described proceedings, on November 11, 2003, the Corporation filed a motion, as permitted by section 495 of the MBCA, M.C.L. Section 450.1495, requesting the Court to appoint a disinterested person to conduct a reasonable investigation of the claims made by the plaintiff and to make a good faith determination whether the maintenance of the derivative action is in the best interests of the Corporation. After additional written submissions to the Court by the defendants and the plaintiff concerning the issues presented by this motion, and after several conferences with the Court, on May 20, 2004, the Court entered an Order adopting the parties' written stipulations concerning the appointment of a disinterested person and the manner of conducting the investigation of the claims made by the plaintiff and making recommendations as to whether the maintenance of the derivative action is in the best interests of the Corporation.

On July 14, 2004, the Court convened a settlement conference among counsel for all parties and counsel for the individual defendants' insurer. Although a settlement was not achieved, at the direction of the Court, the parties' respective counsel agreed to continue settlement discussions.

By Order of the Court dated November 2, 2004, the report of the disinterested person was timely filed with the Corporation on October 23, 2004, and the action was stayed until November 22, 2004. On December 22, 2004, the plaintiff filed a motion with the Court seeking a scheduling conference among the Court and the parties. The Court granted the plaintiff's motion on January 10, 2005. On January 13, 2005, the parties to the action and the individual defendants' insurer entered into an agreement regarding limited disclosure of the report of the disinterested person to the insurer and counsel for the parties on the terms and conditions set forth in the agreement. Also on January 13, 2005, a scheduling conference was held with the Court, and was adjourned to February 14, 2005.

On February 9, 2005, the parties filed a joint status report with the Court. A further status conference was held on February 14, 2005. At that time, the Court entered a Stipulated Protective Order regarding limited dissemination of the report of the disinterested person. Also on February 14, in a separate Order, the Court required the parties to complete their respective review of the report and communicate among themselves regarding their positions. Absent a negotiated resolution, the Corporation was given the opportunity until March 21, 2005, to file an appropriate motion to dismiss. On March 21, 2005, consistent with the determinations of the disinterested person in his report, the Corporation filed with the Court a motion to dismiss (i) all the breach of fiduciary duty claims against defendants Bittner, Bouschor, Gerou, Lindroth, Madigan, Shunk, Hendrickson, and Tolksdorf, (ii) the breach of fiduciary duty claims against defendant Hoffman, except for one claim identified by the disinterested person in his report, and (iii) the excess compensation claims against defendants Ford and Littlejohn. The plaintiff opposed the motion to dismiss.

In an Order dated September 6, 2005, the Court stayed the proceedings in this case against defendant Littlejohn, in light of her filing for personal bankruptcy under Chapter 7 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of Michigan on August 9, 2005.

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MACKINAC FINANCIAL CORPORATION
PART II. OTHER INFORMATION (Continued)

In an Opinion and Order, each dated September 7, 2005, the Court granted the Corporation's motion and dismissed with prejudice (i) all the breach of fiduciary duty claims against defendants Bittner, Bouschor, Gerou, Lindroth, Madigan, Shunk, Hendrickson, and Tolksdorf, (ii) the breach of fiduciary duty claims against defendant Hoffman, except for one claim identified by the disinterested person in his report, and (iii) the excess compensation claims against defendants Ford and Littlejohn. The Court directed that the case proceed with the claim against defendant Hoffman with respect to his involvement in defendant Ford's December 21, 2001 employment agreement, and with respect to the breach of fiduciary duty claims against defendants Ford and Littlejohn, subject to the stay regarding proceedings against defendant Littlejohn.

A Case Management Order was entered by the Court on September 16, 2005. The Court also scheduled a mediation among the parties, the Corporation, and its insurer for November 15, 2005.

On October 21, 2005, without the required permission of the Court, the plaintiff filed a Third Amended Complaint which (A) deleted (i) substantive allegations previously asserted against defendants Bittner, Bouschor, Gerou, Lindroth, Madigan, Shunk, Hendrickson, and Tolksdorf, (ii) the claim brought under Section 14 of the Exchange Act, (iii) allegations that the defendants engaged in acts to "artificially inflate the price" of the Corporation's stock, and (iv) the previous allegations quantifying damages to the Corporation at \$40 million (instead alleging "million of dollars" in damages), and (B) otherwise appears to have been drafted to comport with the Court's Opinion and Order dated September 7, 2005. The Third Amended Complaint continues to include allegations against defendant Littlejohn, notwithstanding the Court's September 6, 2005 Order staying the case against her because of her personal bankruptcy filing. Before the defendants responded to the Third Amended Complaint, the Court entered an Order on October 31, 2005, striking the Third Amended Complaint because the required permission of the Court was not obtained for its filing. The Court's Order affords plaintiff seven days in which to submit a stipulated order for filing of the Third Amended Complaint, or the filing of a motion to permit its filing. Plaintiff subsequently filed a motion for leave to file a Third Amended Complaint, and the Court has taken the motion under advisement after conducting a hearing on the motion on December 6, 2005.

The mediation scheduled by the Court among the parties, the Corporation, and its insurer was held on November 15, 2005. No settlement was reached. A continuation of the mediation has been scheduled for April 26, 2006 by the parties, which are conducting discovery in preparation for the mediation.

On November 22, 2005, the U.S. Bankruptcy Court for the Western District of Michigan entered an Order granting the plaintiff's motion to lift the automatic stay under 11 U.S.C. Section 362 and to permit plaintiff to continue the Damon action against defendant Littlejohn, to the extent that plaintiff limits its recovery to insurance proceeds. On December 14, 2005, the Bankruptcy Court entered an order discharging defendant Littlejohn as a debtor in bankruptcy.

On March 3, 2006, the Court amended the Case Management Order to extend the discovery and motion cutoff deadlines in the Damon case.

Prosecution of this case is the responsibility of the plaintiff and its counsel. The Corporation's role will be to monitor the case and to respond to discovery requests from the parties. Any settlement or judgment ultimately obtained by plaintiff in this action, net of fees and expenses of counsel for plaintiff, will inure to the benefit of the Corporation.

If a settlement is not reached as a result of the mediation, the Corporation will incur additional legal fees and expenses in monitoring the plaintiff's prosecution of the case on behalf of the Corporation and in responding to the parties' requests for discovery directed to it. At this time the Corporation cannot accurately estimate the amount of any such future legal fees and expenses.

Damon Trust v. Wipfli

On August 27, 2004, a second shareholder's derivative action, styled Virginia M. Damon Trust v. Wipfli Ullrich Bertelson, LLP, and North Country Financial Corporation, Nominal Defendant, was filed in the Michigan Circuit Court for Grand Traverse County by the same shareholder which brought the derivative action discussed above. The complaint, which demands a jury trial, is brought on behalf of the Corporation against Wipfli Ullrich Bertelson, LLP ("Wipfli") under the Michigan Accountant Liability statute, M.C.L. 600.2962. It alleges that Wipfli damaged

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MACKINAC FINANCIAL CORPORATION
PART II. OTHER INFORMATION (Continued)

the Corporation by (i) failing to conduct and oversee, with the due care and competence required of professional accountants, the annual audit of the Corporation's financial statements for its fiscal years ending December 31, 2000 and December 31, 2001, (ii) failing to provide, with requisite due care and competence, the internal audit, regulatory compliance, and financial reporting services Wipfli had agreed to provide the Corporation after August 28, 2002, when Wipfli resigned as its auditors to undertake such consulting services, (iii) failing to exercise due care and competence required to ensure that the Corporation's financial statements conformed to applicable regulatory accounting principles ("RAP") and generally accepted accounting principles ("GAAP"), (iv) failing to make full disclosure that the Corporation's administrative, operating, and internal controls were inadequate to prevent loss and damage to its assets, and (v) failing to conduct a diligent and careful "review" of the Corporation's quarterly financial statements during its fiscal years 2000 and 2001 and the first and second quarters of 2002.

The complaint further alleges that Wipfli undertook in writing (i) to provide professional services, including auditing services, accounting services for preparation of audited financial statements, advice regarding financial statement disclosure, and preparation of annual reports for regulators, including the annual report required by section 36 of the Federal Deposit Insurance Act, and (ii) to ensure that the Corporation had sufficient systems in place to determine whether it was in compliance with RAP and other regulations of the FDIC and the OFIS. The complaint alleges that Wipfli (i) failed to conduct its audits of the Corporation's financial statements in accordance with generally accepted auditing standards ("GAAS"), (ii) negligently represented that the Corporation's audited annual financial statements for the year ended December 31, 2000 were fairly presented in all material respects, (iii) negligently conducted reviews of the Corporation's quarterly financial statements for the interim quarters of 2000, 2001 and 2002, and (iv) negligently audited the Corporation's financial statements for the fiscal years 2000 and 2001 by failing to obtain or review sufficient documentation failing to limit the scope of the audit in light of such failure to obtain or review sufficient documentation, failing to verify the accuracy of information obtained from the Corporation for the audit, failing to limit the scope of the audit in light of such failure to verify the accuracy of the information obtained from the Corporation, and substantially underestimating the Corporation's liabilities and misrepresenting its solvency.

The complaint also alleges that Wipfli is a party responsible for the Corporation's liability in any securities fraud action arising out of a material overstatement of its financial results. The complaint claims contribution and indemnification from Wipfli on behalf of the Corporation under the Private Securities Litigation Reform Act of 1995 for any liability it may incur in any such securities fraud action.

On October 12, 2004, Wipfli removed the second shareholder's derivative action to the U.S. District Court for the Western District of Michigan. By stipulation between the respective counsel for the Corporation and the plaintiff, the Corporation was initially granted until December 10, 2004, to file its first response to the Complaint, which period was extended by a Stipulated Order until January, 2005.

On January 10, 2005, the Corporation filed its Answer to the Complaint in the second shareholder's derivative action. Also on that date, a joint status report was filed with the Court by all parties. A scheduling conference was held with the Court on January 13, 2005. On that date, the Court entered a Preliminary Case Management Order, affording the Corporation the opportunity until February 3, 2005, to make a motion to realign the Corporation in, or to dismiss, the litigation.

On February 3, 2005, the Corporation filed a Motion to realign the Corporation as the plaintiff, and to dismiss the Virginia M. Damon Trust as a party, in the second shareholder's derivative action. The plaintiff, Virginia M. Damon Trust, filed a brief opposing the Corporation's motion. Oral argument on the Corporation's motion was held before the Court on March 7, 2005. The Court took the matter under advisement.

In an Order dated September 29, 2005, the Court realigned the Corporation as the plaintiff and made the Corporation exclusively responsible for prosecuting all further aspects of the case, including any settlement. In the same Order, the Court stated that the Virginia M. Damon Trust would remain as a nominal plaintiff in the case, entitled to notice.

A Case Management Order was entered by the Court on January 27, 2006. A mediation hearing was scheduled by the court for June 2006 and later rescheduled for early August 2006. The Corporation does not expect a resolution of this case as a result of the mediation hearing.



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MACKINAC FINANCIAL CORPORATION
PART II. OTHER INFORMATION (Continued)

Litigation of the types involved in the actions described above can be complex, time-consuming, and often protracted. The Corporation has incurred substantial expense for legal and other professional fees as a result of these actions. The Corporation anticipates that it will incur additional such expenses in connection with the two actions described above. The Corporation does not believe that legal costs associated with the Damon action noted above will be material for 2006. The Corporation incurred and expensed \$240,000 of legal costs related to this case in the first half of 2006. The future costs related to this case are unknown; however, the Corporation believes additional costs in 2006 will not exceed \$200,000. The expenses incurred in 2007 will be dependent upon further development and the probability of a pretrial settlement.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of the Registrant's shareholders was held on May 31, 2006. The purpose of the meeting was to elect directors, as shown below, each for a three-year term expiring in 2009. The number of shares voted is presented in the table below.

<TABLE>
<CAPTION>
DIRECTOR

	FOR	WITHHELD
<S>	<C>	<C>
Walter J. Aspatore	1,916,062	307,026
Robert H. Orley	1,915,234	307,854
Randolph C. Paschke	1,916,079	307,009

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MACKINAC FINANCIAL CORPORATION
PART II. OTHER INFORMATION (Continued)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit 3.1 Articles of Incorporation, as amended, incorporated herein by reference to exhibit 3.1 of the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

Exhibit 3.2 Amended and Restated Bylaws, incorporated herein by reference to exhibit 3.1 of the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

Exhibit 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.

Exhibit 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.

Exhibit 32.1 Section 1350 Certification of Chief Executive Officer.

Exhibit 32.2 Section 1350 Certification of Chief Financial Officer.



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MACKINAC FINANCIAL CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MACKINAC FINANCIAL CORPORATION
(Registrant)

Date: August 11, 2006

By: /s/ Paul D. Tobias

PAUL D. TOBIAS,
CHAIRMAN
(principal executive officer)

By: /s/ Ernie R. Krueger

ERNIE R. KRUEGER,
SENIOR VICE PRESIDENT / CONTROLLER
(principal accounting officer)

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MACKINAC FINANCIAL CORPORATION

Exhibit 31.1

CERTIFICATION

I, Paul D. Tobias, Chairman and Chief Executive Officer of Mackinac Financial Corporation, certify that:

1. I have reviewed this report on Form 10-Q of Mackinac Financial Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2006

/s/ Paul D. Tobias

PAUL D. TOBIAS
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
(principal executive officer)

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MACKINAC FINANCIAL CORPORATION

Exhibit 31.2

CERTIFICATION

I, Eliot R. Stark, Executive Vice President and Chief Financial Officer of Mackinac Financial Corporation, certify that:

1. I have reviewed this report on Form 10-Q of Mackinac Financial Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2006

/s/ Eliot R. Stark

ELIOT R. STARK
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(principal financial officer)

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MACKINAC FINANCIAL CORPORATION

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C Section 1350, and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2006, (the "Form 10-Q") of Mackinac Financial Corporation (the "Issuer").

I, Paul D. Tobias, Chairman and Chief Executive Officer of the Issuer, certify that:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operation of the Issuer.

/s/ Paul D. Tobias

Paul D. Tobias
Chairman and Chief Executive Officer
(chief executive officer)
August 11, 2006
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MACKINAC FINANCIAL CORPORATION

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C Section 1350, and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2006, (the "Form 10-Q") of Mackinac Financial Corporation (the "Issuer").

I, Eliot R. Stark, Executive Vice President of the Issuer, certify that:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operation of the Issuer.

Eliot R. Stark

Executive Vice President and
Chief Financial Officer
(principal financial officer)
August 11, 2006

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