



**SOUTHERN MICHIGAN BANCORP, INC.**

51 West Pearl Street  
Coldwater, Michigan 49036

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

The annual meeting of shareholders of Southern Michigan Bancorp, Inc. will be held on Thursday, May 11, 2017 at 4:00 p.m. local time, at the Dearth Community Center, located at the fairgrounds, in Coldwater, Michigan. The Board of Directors has called the annual meeting of shareholders for the following purposes:

- (1) Vote on the election of four directors; and
- (2) Vote on a proposal to ratify the selection of CliftonLarsonAllen LLP as independent auditors for the year ending December 31, 2017.

We will also transact any other business that may properly come before the meeting. We have been notified that a shareholder intends to present for action at the annual meeting a proposal asking the Board of Directors to adopt a new policy regarding shareholder proposals and proxy solicitations (described more fully below under Purpose of the Meeting).

Shareholders of record at the close of business on March 13, 2017 are entitled to notice of and to vote at the annual meeting and any adjournment of the meeting. We began sending and delivering the enclosed proxy statement and accompanying proxy to our shareholders on approximately March 30, 2017.

Date: March 30, 2017

By Order of the Board of Directors

John H. Castle  
Chairman of the Board

**It is important that your shares of Southern common stock be represented at the meeting. We urge you to sign and return the enclosed proxy as promptly as possible, whether or not you plan to attend the meeting in person. If you do attend the meeting, you may revoke your proxy and vote in person.**

SOUTHERN MICHIGAN BANCORP, INC.  
51 West Pearl Street  
Coldwater, Michigan 49036

PROXY STATEMENT

**GENERAL INFORMATION**

This proxy statement and the enclosed proxy are being furnished to you in connection with the solicitation of proxies by the Board of Directors of Southern Michigan Bancorp, Inc., a Michigan corporation (the “Company”), for use at the annual meeting of shareholders of the Company or any adjournment of the meeting. The annual meeting will be held on Thursday, May 11, 2017 at 4:00 p.m. local time at the Dearth Community Center, located at the Fairgrounds, in Coldwater, Michigan. We began sending and delivering this proxy statement and accompanying proxy to our shareholders on approximately March 30, 2017.

**Purpose of the Meeting**

The Board of Directors has called the annual meeting of shareholders for the following purposes:

- vote on the election of four directors; and
- vote on a proposal to ratify the selection of CliftonLarsonAllen LLP as independent auditors for the year ending December 31, 2017 (“Proposal 2”).

The Company has been notified that a shareholder intends to present for action at the annual meeting a proposal asking the Board of Directors to adopt a new policy regarding shareholder proposals and proxy solicitations. Specifically, the new policy would (a) upon receipt of a properly submitted shareholder proposal, require the Board of Directors to include the complete shareholder proposal as written by the shareholder in the Company’s proxy statement for the applicable shareholders’ meeting, and (b) include on the applicable proxy card a place for each shareholder to vote for or against the shareholder proposal.

The Board of Directors believes approval of the shareholder proposal is not in the best interests of the Company or its shareholders. The shareholder proposal seeks unfettered “proxy access” for any and all shareholder proposals regardless of merit, content, relevance, legality, applicability to the Company, the ability of the Company to implement the shareholder proposal, whether the shareholder proposal conflicts with a Company proposal, whether the shareholder proposal has been substantially implemented by the Company, duplication or resubmission of previous shareholder proposals or word length. Also, the shareholder proposal does not place any limits on the number of shareholder proposals from any single shareholder that the Board of Directors would be required to include in the applicable proxy statement. In short, the Board of Directors believes that the shareholder proposal is an attempt by a single shareholder to allow that shareholder to attempt to exert undue influence over the Company’s business through the submission of possibly multiple, lengthy, irrelevant and menacing shareholder proposals year after year.

In addition, the Board of Directors notes that any shareholder is permitted under Michigan law to conduct a proxy solicitation with respect to any given shareholder proposal. In other words, a shareholder does not need access to the Company’s proxy statement in order to solicit proxies from other shareholders in favor of a given shareholder proposal. A shareholder is free to do so on his or her own.

Last, certain companies that are subject to SEC reporting requirements (which the Company is not) must include shareholder proposals in their proxy statements, but only if certain requirements are met. The governing SEC rule places technical and procedural requirements on shareholders wanting “proxy access” and permits companies that receive shareholder proposals to exclude shareholder proposals from their proxy statement on a variety of bases. The reasoning for this is clear: to prevent shareholders from exercising undue influence over a company’s business through the submission of irrelevant and menacing shareholder proposals. As mentioned above, the shareholder proposal includes no such technical or procedural requirements or any basis upon which the Company may exclude a given shareholder proposal from a proxy statement.

For these and other reasons, if the shareholder proposal properly comes before the meeting for action, your Board of Directors recommends that you vote AGAINST the shareholder proposal.

In addition, any other business that properly comes before the meeting will be considered and voted on. As of the date of this proxy statement, except for the possible shareholder proposal, we do not know of any other matters to be considered at the annual meeting.

### **Board Recommendation**

Your Board of Directors recommends that you vote FOR each nominee for director named in this proxy statement and FOR Proposal 2. As set forth above under Purpose of the Meeting, if the shareholder proposal properly comes before the meeting for action, your Board of Directors recommends that you vote AGAINST the shareholder proposal.

### **How to Vote Your Shares**

You may vote at the annual meeting in person or by proxy if you were a shareholder of record of common stock of the Company on March 13, 2017. You are entitled to one vote per share of common stock of the Company that you own on each matter presented at the annual meeting. As of March 13, 2017, there were 2,469,263 shares of common stock of the Company, par value \$2.50 per share, issued and outstanding.

Your shares of common stock of the Company will be voted at the annual meeting if you properly sign and return to us the enclosed proxy. If you specify a choice, your shares will be voted as specified. If you do not specify a choice, your shares will be voted for the election of each nominee for director named in this proxy statement and for Proposal 2.

If the shareholder proposal (described more fully above under Purpose of the Meeting) properly comes before the meeting for action, the individuals named in the enclosed proxy intend to use their discretionary authority to vote against the proposal. If any other matter is presented at the annual meeting, the individuals named in the enclosed proxy will vote your shares on those matters in their discretion.

You may revoke your proxy at any time before it is exercised by:

- delivering written notice to Danice L. Chartrand, Secretary of the Company;
- signing and delivering a later dated proxy to the Secretary of the Company; or
- attending and voting at the annual meeting.

Merely attending the meeting will not, by itself, revoke your proxy. Your last valid vote that we receive before or at the annual meeting is the vote that we will count.

If you hold your shares in "street name," which means that your shares are registered in the name of a bank, broker or other nominee (which we collectively refer to as your "broker"), your broker must vote your street name shares in the manner you direct if you provide your broker with proper and timely voting instructions. Please use the voting forms and instructions provided by your broker or its agent. These forms and instructions typically permit you to give voting instructions by telephone or Internet if you wish. If you are a street name holder and want to change your vote, you must contact your broker. Please note that you may not vote shares held in street name in person at the annual meeting unless you request and receive a valid proxy from your broker.

### **Broker Discretionary Voting**

If you do not provide your broker with voting instructions, then your broker has discretionary authority to vote your shares on certain "routine" matters. We expect that Proposal 2 will be considered a routine matter and your broker will have discretionary authority to vote your shares on the proposal. The election of directors is not considered a routine matter and your broker will not have discretionary authority to vote your shares on the election of directors. **It is important that you promptly provide your broker with voting instructions if you want your shares voted on the election of directors.**

### **Broker Non-Votes**

Generally, broker non-votes occur when shares held by a broker in street name for a beneficial owner are not voted with respect to a particular proposal because the broker has not received timely voting instructions from the beneficial owner and the broker lacks discretionary voting power to vote those shares. In these cases, the broker can register your shares as being present at the meeting for purposes of determining the presence of a quorum, but will not be able to vote on those matters for which specific instruction is required under the rules of the New York Stock Exchange.

### **Quorum**

A majority of shares entitled to vote at the annual meeting must be present or represented at the meeting to constitute a quorum. If you submit a proxy or attend the meeting in person, your shares will count towards establishing a quorum, even if you withhold voting authority or abstain from voting on some or all of the matters introduced at the meeting. Abstentions and broker non-votes also will count towards establishing a quorum.

### **Required Vote**

*Election of Directors:* A plurality of the shares voting at the meeting is required to elect directors. This means that, if there are more nominees than positions to be filled, the nominees who receive the most votes will be elected to the open director positions. Abstentions, broker non-votes and other shares that are not voted in person or by proxy will not be included in the vote count.

*Ratification of Independent Auditors:* Proposal 2 will be approved if a majority of the shares that are voted on the proposal at the meeting are voted in favor of the proposal. Abstentions, broker non-votes and other shares that are not voted on Proposal 2 in person or by proxy will not be included in the vote count.

*Other Matters:* As of the date of this proxy statement, other than the shareholder proposal described more fully above under Purpose of the Meeting, we do not know of any other matters to be presented at the meeting. Generally, any other proposal to be voted on at the meeting would be approved if a majority of the shares that are voted on the proposal at the meeting are voted in favor of the proposal. Abstentions, broker non-votes and other shares that are not voted on the proposal in person or by proxy would not be included in the vote count.

The signing of a proxy does not preclude you from attending the annual meeting and voting in person. You are encouraged to promptly complete, date and sign the enclosed proxy and return it to American Stock Transfer and Trust Company, LLC, Attn: Proxy Department 6201 15<sup>th</sup> Avenue Brooklyn NY 11219, the transfer agent for the Company's common stock, even if you intend to attend the meeting.

### **Who Will Solicit Proxies**

Directors, officers and employees of the Company will solicit proxies on behalf of the Company by mail, in person, or by telephone. These individuals will not receive additional compensation for soliciting proxies. The Company will request brokers, custodians, nominees, and other fiduciaries to forward proxy materials to beneficial owners of shares of common stock of the Company held of record by such parties and will reimburse them for their reasonable charges and out-of-pocket expenses in connection with forwarding proxy materials to beneficial owners. The Company will pay all of the costs of soliciting proxies.

### **Adjournment of the Meeting**

Whether or not a quorum is present, the meeting may be adjourned by a majority vote of the shares present at the meeting in person or by proxy.

The Company's Bylaws permit the chairman of the meeting to adjourn the meeting if a quorum is not present, if disorder arises, if he declares the polls to be closed on all matters then before the meeting or if he determines that no further matters may properly come before the meeting.

## **PROPOSAL 1 - ELECTION OF DIRECTORS**

The Company's Board of Directors is currently composed of twelve directors who are divided into three classes. One class is elected each year for a three year term. The Board of Directors has nominated four individuals for election as directors to serve a three year term ending at the 2020 annual meeting of shareholders. All of the nominees currently serve as directors. If any of the nominees are unable or unwilling to serve as a director, your proxy will be voted for the election of the person nominated by the Board of Directors in substitution, if any. The Company has no reason to believe that any nominee of the Board of Directors is unable or unwilling to serve as a director, if elected.

The following table lists the names of the nominees and the other current directors and their ages as of December 31, 2016, their principal occupations, and the year in which each became a director.

| <b>Name of Director</b>                                                                   | <b>Age</b> | <b>Principal Occupation(s)</b>                                                                                            | <b>Year First Became a Director of the Company</b> |
|-------------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| <b><i>Nominees of the Board of Directors for election at the 2017 annual meeting:</i></b> |            |                                                                                                                           |                                                    |
| Dean Calhoun                                                                              | 58         | President – Calhoun Corporation                                                                                           | 2006                                               |
| John H. Castle                                                                            | 59         | Chairman of the Board and Chief Executive Officer of the Company and Southern Michigan Bank & Trust                       | 2002                                               |
| Charles J. S. Clark                                                                       | 46         | President – Clark Logic                                                                                                   | 2014                                               |
| Nolan E. Hooker                                                                           | 64         | President – Best American Car Washes                                                                                      | 1991                                               |
| <b><i>Directors Whose Terms Continue until the 2018 Annual Meeting:</i></b>               |            |                                                                                                                           |                                                    |
| Gregory J. Hull                                                                           | 68         | President – Hull Farms, Inc.                                                                                              | 1995                                               |
| Thomas E. Kolassa                                                                         | 69         | Retired Executive                                                                                                         | 1995                                               |
| Donald J. Labrecque                                                                       | 59         | President – Labrecque Management, LLC                                                                                     | 2004                                               |
| Freeman E. Riddle                                                                         | 84         | Retired Executive                                                                                                         | 1982                                               |
| <b><i>Directors Whose Terms Continue until the 2019 Annual Meeting:</i></b>               |            |                                                                                                                           |                                                    |
| H. Kenneth Cole                                                                           | 68         | Retired Chief Administrative Officer – Hillsdale College; Secretary/Treasurer - Hillsdale College Independence Foundation | 1998                                               |
| Gary Hart Haberl                                                                          | 64         | Retired Executive                                                                                                         | 2004                                               |
| Brian P. McConnell                                                                        | 54         | President & COO – Burr Oak Tool, Inc.                                                                                     | 2007                                               |
| Kurt G. Miller                                                                            | 60         | President of the Company and Southern Michigan Bank & Trust                                                               | 2002                                               |

***Your Board of Directors recommends that you vote FOR each nominee for director named in this proxy statement.***

## **PROPOSAL 2 – RATIFICATION OF INDEPENDENT AUDITORS**

CliftonLarsonAllen LLP conducted an independent audit of the consolidated financial statements of the Company for the year ended December 31, 2016. The Audit Committee of the Board of Directors has selected CliftonLarsonAllen LLP to act as the Company's independent auditors for the year ending December 31, 2017.

This selection is being submitted to shareholders for ratification. While ratification is not required, the Company believes it is an important corporate decision in which shareholders should participate. If the shareholders do not ratify the selection of CliftonLarsonAllen LLP to act as the Company's independent auditors for the year ending December 31, 2017, the Audit Committee will consider a change in independent auditors for the next year.

***Your Board of Directors recommends  
that you vote FOR Proposal 2.***

## **STOCK OWNERSHIP BY MANAGEMENT**

The following table presents, as of December 31, 2016, the total number of shares of common stock of the Company beneficially owned, and the percent of such shares so owned, by each director and executive officer and by all directors and executive officers of the Company as a group.

| <b>Name of Beneficial Owner</b> | <b>Amount and Nature of Beneficial Ownership(1)</b> |                                              |                          | <b>Total Beneficial Ownership</b> | <b>Percent of Class(5)</b> |
|---------------------------------|-----------------------------------------------------|----------------------------------------------|--------------------------|-----------------------------------|----------------------------|
|                                 | <b>Sole Voting and Dispositive Power(2)</b>         | <b>Shared Voting or Dispositive Power(3)</b> | <b>Stock Options (4)</b> |                                   |                            |
| Dean Calhoun                    | 480                                                 | 226,466                                      | 930                      | 227,876                           | 9.47%                      |
| John H. Castle                  | 31,826                                              | -                                            | 6,000                    | 37,826                            | 1.57%                      |
| Danice L. Chartrand             | 16,459                                              | -                                            | 1,125                    | 17,584                            | *                          |
| Charles J. S. Clark             | 7,832                                               | -                                            | -                        | 7,832                             | *                          |
| H. Kenneth Cole                 | 2,076                                               | -                                            | 930                      | 3,006                             | *                          |
| Nicholas M. Grabowski           | 7,381                                               | -                                            | 500                      | 7,881                             | *                          |
| Gary Hart Haberl                | 490                                                 | 11,785                                       | 100                      | 12,375                            | *                          |
| Nolan E. Hooker                 | 4,703                                               | 5,676                                        | 500                      | 10,879                            | *                          |
| Gregory J. Hull                 | 480                                                 | 4,638                                        | 530                      | 5,648                             | *                          |
| Thomas E. Kolassa               | 42,883                                              | -                                            | 500                      | 43,383                            | 1.80%                      |
| Donald J. Labrecque             | 13,607                                              | -                                            | 100                      | 13,707                            | *                          |
| Brian P. McConnell              | 1,275                                               | 2,700                                        | 530                      | 4,505                             | *                          |
| Kurt G. Miller                  | 23,867                                              | -                                            | 2,400                    | 26,267                            | 1.09%                      |
| Freeman E. Riddle               | 7,578                                               | 7,249                                        | 50                       | 14,877                            | *                          |
| Totals                          | 160,937                                             | 258,514                                      | 14,195                   | 433,646                           | 17.91%                     |

- (1) The number of shares stated is based on information furnished by each person listed and includes shares owned of record by that person and shares that are considered to be otherwise beneficially owned by that person. Voting power includes the power to vote or direct the voting of the security. Dispositive power includes the power to dispose or direct the disposition of the security. A person will also be considered the beneficial owner of a security if the person has a right to acquire beneficial ownership of the security within 60 days, such as through the exercise of a stock option. Shares held in fiduciary capacities by the Company are not included in shares beneficially owned by individuals unless otherwise indicated. The directors and officers of the Company may, by reason of their positions, be in a position to influence the voting or disposition of shares held in trust by the Company to some degree, but disclaim beneficial ownership of these shares. The Company and the Bank disclaim beneficial ownership of shares held by the Bank in fiduciary capacities.
- (2) Includes restricted stock shares. 450 shares for Messrs. Calhoun, Cole, Haberl, Hooker, Hull, Kolassa, Labrecque, McConnell and Riddle; 170 shares for Mr. Clark; 15,000 shares for Mr. Castle; 12,000 shares for Mr. Miller; 3,720 shares for Mr. Grabowski and 5,750 shares for Ms. Chartrand.
- (3) The number of shares shown in this column includes shares over which the listed person is legally entitled to share voting or dispositive power by reason of joint ownership, trust, or other contract or property right, and shares held by spouses and children over whom the listed person may have substantial influence by reason of relationship.
- (4) The stock options included in this column are only those options that are exercisable within 60 days from December 31, 2016. Options that vest at later dates are not reported in this table.
- (5) Based on a total of 2,406,538 issued and outstanding shares as of December 31, 2016, plus the number of shares subject to stock options that are currently exercisable or that will be exercisable by holders of such stock options within 60 days from December 31, 2016.
- (\*) Less than one percent (1%).

### **SHAREHOLDER COMMUNICATIONS**

Shareholders who wish to send communications to the Company's Board of Directors may do so by sending them to Danice L. Chartrand, the Secretary of the Company, at the address that appears on the first page of this proxy statement. Communications may be addressed either to individual directors or the entire Board of Directors. The Secretary has the discretion to screen and not forward to directors any communications that the Secretary determines in her discretion are communications unrelated to the business or governance of the Company and its subsidiaries, including, without limitation, commercial solicitations and offensive, obscene, or otherwise inappropriate communications. The Secretary will, however, compile all shareholder communications that are not forwarded and the communications will be available to any director.

By Order of the Board of Directors



Danice L. Chartrand  
Secretary