

MACATAWA BANK CORP  
Form 10-Q  
October 30, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-25927

**MACATAWA BANK CORPORATION**  
(Exact name of issuer as specified in its charter)

Michigan  
(State or other jurisdiction of  
incorporation or organization)

38-3391345  
(I.R.S. Employer  
Identification No.)

10753 Macatawa Drive, Holland, Michigan 49424  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (616) 820-1444

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 17,701,817 shares of the Company's Common Stock (no par value) were outstanding as of October 29, 2009.



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**Part I Financial Information****Item 1.**

MACATAWA BANK CORPORATION  
 CONSOLIDATED BALANCE SHEETS  
 As of September 30, 2009 (unaudited) and December 31, 2008

(dollars in thousands)	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
Cash and due from banks	\$ 22,441	\$ 29,188
Federal funds sold and other short term investments	147,527	39,096
Cash and cash equivalents	169,968	68,284
Securities available for sale	141,825	184,681
Securities held to maturity	655	1,835
Federal Home Loan Bank stock	12,275	12,275
Loans held for sale, at fair value at September 30, 2009	2,934	2,261
Total loans	1,556,903	1,774,063
Allowance for loan losses	(48,049)	(38,262)
Net loans	1,508,854	1,735,801
Premises and equipment - net	61,738	63,482
Accrued interest receivable	7,243	7,746
Bank-owned life insurance	24,165	23,645
Other real estate owned	33,419	19,516
Other assets	18,696	29,846
Total assets	\$ 1,981,772	\$ 2,149,372
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing	\$ 221,967	\$ 192,842
Interest-bearing	1,324,344	1,472,919
Total deposits	1,546,311	1,665,761
Other borrowed funds	288,023	284,790
Subordinated debt	1,650	---
Long-term debt	41,238	41,238
Accrued expenses and other liabilities	6,876	8,370
Total liabilities	1,884,098	2,000,159
Commitments and contingent liabilities	---	---
Shareholders' equity		
Preferred stock, no par value, 500,000 shares authorized;		
Series A Noncumulative Convertible Perpetual Preferred Stock, liquidation value of \$1,000 per share, 31,290 shares issued and outstanding at September 30, 2009 and December 31, 2008	30,604	30,637
Series B Noncumulative Convertible Perpetual Preferred Stock, liquidation value of \$1,000 per share, 2,600 shares issued and outstanding at September 30, 2009 and no shares issued and outstanding at December 31, 2008	2,560	---
Common stock, no par value, 40,000,000 shares authorized; 17,701,817 and 17,161,515 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	167,210	164,327
Retained earnings (deficit)	(105,591)	(48,289)
Accumulated other comprehensive income (loss)	2,891	2,538
Total shareholders' equity	97,674	149,213
Total liabilities and shareholders' equity	\$ 1,981,772	\$ 2,149,372

See accompanying notes to consolidated financial statements



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MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
Three and Nine Month Periods Ended September 30, 2009 and 2008 (unaudited)

(dollars in thousands, except per share data)

	<b>Three Months Ended September 30, 2009</b>	<b>Three Months Ended September 30, 2008</b>	<b>Nine Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2008</b>
Interest income				
Loans, including fees	\$ 21,737	\$ 26,388	\$ 67,581	\$ 82,287
Securities	1,539	1,752	4,986	5,977
FHLB Stock	99	164	291	491
Other	159	310	331	375
Total interest income	23,534	28,614	73,189	89,130
Interest expense				
Deposits	7,317	9,843	24,399	31,760
Debt and other borrowed funds	3,023	3,935	9,402	12,749
Total interest expense	10,340	13,778	33,801	44,509
<b>Net interest income</b>	<b>13,194</b>	<b>14,836</b>	<b>39,388</b>	<b>44,621</b>
Provision for loan losses	21,580	2,425	52,740	23,585
<b>Net interest income after provision for loan losses</b>	<b>(8,386)</b>	<b>12,411</b>	<b>(13,352)</b>	<b>21,036</b>
Noninterest income				
Service charges and fees	1,205	1,383	3,644	3,946
Net gains on mortgage loans	153	168	2,276	987
Trust fees	948	1,113	2,865	3,447
Gain on sales of securities	---	---	---	412
Gain on settlement of interest rate swaps	---	---	---	832
Other	1,328	1,474	4,396	4,571
Total noninterest income	3,634	4,138	13,181	14,195
Noninterest expense				
Salaries and benefits	6,162	6,526	18,537	20,302
Occupancy of premises	1,078	1,111	3,290	3,451
Furniture and equipment	1,010	1,041	3,056	3,026
Legal and professional	403	334	1,035	971
Marketing and promotion	226	169	678	879
Data processing	530	455	1,492	1,426
FDIC assessment	1,030	359	3,509	1,080
Administration and disposition of problem assets	3,128	1,566	7,726	3,428
Trade Partners litigation settlement	---	---	5,533	---
Other	2,164	2,478	6,620	7,558
Total noninterest expenses	15,731	14,039	51,476	42,121
<b>Income (loss) before income tax</b>	<b>(20,483)</b>	<b>2,510</b>	<b>(51,647)</b>	<b>(6,890)</b>
Income tax expense (benefit)	(600)	639	2,786	(3,093)
<b>Net income (loss)</b>	<b>(19,883)</b>	<b>1,871</b>	<b>(54,433)</b>	<b>(3,797)</b>
Dividends declared on preferred shares	991	---	2,869	---
<b>Net income (loss) available to common shares</b>	<b>\$ (20,874)</b>	<b>\$ 1,871</b>	<b>\$ (57,302)</b>	<b>\$ (3,797)</b>
Basic earnings (loss) per common share	\$ (1.18)	\$ .11	\$ (3.30)	\$ (.22)
Diluted earnings (loss) per common share	(1.18)	.11	(3.30)	(.22)
Cash dividends per common share	---	---	---	.26

See accompanying notes to consolidated financial statements

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MACATAWA BANK CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 Three and Nine Month Periods Ended September 30, 2009 and 2008  
 (unaudited)

(dollars in thousands)	<b>Three Months Ended September 30, 2009</b>	<b>Three Months Ended September 30, 2008</b>	<b>Nine Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2008</b>
Net income (loss)	\$ (19,883)	\$ 1,871	\$ (54,433)	\$ (3,797)
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses) on securities available for sale	1,476	(515)	353	(955)
Comprehensive income (loss)	\$ (18,407)	\$ 1,356	\$ (54,080)	\$ (4,752)

See accompanying notes to consolidated financial statements

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MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Nine Month Periods Ended September 30, 2009 and 2008  
(unaudited)

(dollars in thousands, except per share data)

	Preferred Stock Series A	Preferred Stock Series B	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
<b>Balance, January 1, 2008</b>	---	---	\$ 163,522	\$ (4,208)	\$ 1,311	\$ 160,625
Net loss for nine months ended September 30, 2008				(3,797)		(3,797)
Other comprehensive income (loss), net of tax: Net change in unrealized gain (loss) on securities available for sale Comprehensive loss					(955)	(955) (4,752)
Issued 32,824 shares for stock option exercises (net of 1,010 shares exchanged and including \$40 of tax benefit)			174			174
Stock compensation expense			461			461
Cash dividends declared on common shares (\$0.26 per share)				(4,410)		(4,410)
<b>Balance, September 30, 2008</b>	---	--	\$ 164,157	\$ (12,415)	\$ 356	\$ 152,098
<b>Balance, January 1, 2009</b>	\$ 30,637	---	\$ 164,327	\$ (48,289)	\$ 2,538	\$ 149,213
Net loss for nine months ended September 30, 2009				(54,433)		(54,433)
Other comprehensive income (loss), net of tax: Net change in unrealized gain (loss) on securities available for sale Comprehensive loss					353	353 (54,080)
Preferred stock issuance costs	(33)	(40)				(73)
Issued 2,600 shares of preferred stock		2,600				2,600
Issued 538,386 shares of common stock			1,650			1,650
Common stock warrants issued			806			806
Stock compensation expense			427			427
Cash dividends declared on preferred shares				(2,869)		(2,869)
<b>Balance, September 30, 2009</b>	\$ 30,604	\$ 2,560	\$ 167,210	\$ (105,591)	\$ 2,891	\$ 97,674

See accompanying notes to consolidated financial statements



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MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Nine Month Periods Ended September 30, 2009 and 2008 (unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (54,433)	\$ (3,797)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	2,780	2,903
Stock compensation expense	427	461
Stock warrant expense	806	---
Provision for loan losses	52,740	23,585
Deferred tax asset valuation allowance	21,694	---
Origination of loans for sale	(149,749)	(62,431)
Proceeds from sales of loans originated for sale	151,412	65,562
Net gains on mortgage loans	(2,276)	(987)
Gain on sales of securities	---	(412)
Write-down of other real estate	2,402	1,317
Net (gain) loss on sales of other real estate	(113)	211
Decrease (increase) in accrued interest receivable and other assets	(10,582)	(10,706)
Earnings in Bank-owned life insurance	(520)	(707)
Increase (decrease) in accrued expenses and other liabilities	(1,538)	10,197
Net cash from operating activities	13,050	25,196
<b>Cash flows from investing activities</b>		
Loan originations and payments, net	151,960	(44,958)
Purchases of securities available for sale	(12,081)	(45,973)
Proceeds from:		
Maturities and calls of securities available for sale	55,334	60,986
Maturities and calls of securities held to maturity	1,136	---
Sales of securities available for sale	---	21,704
Principal paydowns on securities	88	17
Sales of other real estate	6,055	2,464
Additions to premises and equipment	(721)	(2,146)
Net cash from investing activities	201,771	(7,906)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in deposits	(119,450)	170,048
Net decrease in short term borrowings	---	(46,467)
Proceeds from other borrowed funds	65,000	255,000
Repayments of other borrowed funds	(61,767)	(313,943)
Proceeds from issuance of subordinated debt	1,650	---
Cash dividends paid on common shares	---	(4,410)
Cash dividends paid on preferred shares	(2,747)	---
Net proceeds from issuance of preferred stock	2,527	---
Proceeds from issuance of common stock	1,650	---
Proceeds from exercises of stock options, including tax benefit	---	174
Net cash from financing activities	(113,137)	60,402
Net change in cash and cash equivalents	101,684	77,692
Cash and cash equivalents at beginning of period	68,284	49,816
Cash and cash equivalents at end of period	\$ 169,968	\$ 127,508
<b>Supplemental cash flow information</b>		
Interest paid	\$ 35,822	\$ 45,173
Income taxes paid	---	3,850
<b>Supplemental noncash disclosures:</b>		
Transfers from loans to other real estate	22,247	7,643
Preferred stock dividends accrued, paid in subsequent quarter	939	---

See accompanying notes to consolidated financial statements



MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Macatawa Bank, and its wholly-owned subsidiary, Macatawa Bank Mortgage Company (the Mortgage Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

Effective June 30, 2009, the operations of the Mortgage Company were consolidated with and into Macatawa Bank, and the Mortgage Company was subsequently dissolved and liquidated. All products and services previously provided by the Mortgage Company are now provided by Macatawa Bank. The reorganization is intended to enhance earnings through reduced operating expenses as a result of efficiencies gained.

The Company also owns all of the common stock of Macatawa Statutory Trust I and Macatawa Statutory Trust II. These are grantor trusts that issued trust preferred securities and are not consolidated with the Company per Generally Accepted Accounting Principles.

Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Management evaluated subsequent events through October 30, 2009, the date the consolidated financial statements were issued. We have not evaluated subsequent events relating to these financial statements after this date.

Operating results for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's 2008 Form 10-K containing financial statements for the year ended December 31, 2008.

New Accounting Pronouncements:

In the third quarter of 2009 the Company adopted ASU No. 2009-01 (formerly Statement No. 168) Topic 105, *Generally Accepted Accounting Principles - FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification or ASC) is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. References to GAAP in these Notes to the Consolidated Financial Statements are provided under the Codification structure where applicable.

In March 2008, the FASB issued new guidance impacting ASC Topic 815, *Derivatives and Hedging*, relating to disclosures about derivative instruments and hedging activities. This new guidance requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. Adoption of this new guidance in the first quarter of 2009 did not have a material impact on the Company's results of operations or financial position.

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In June 2008, the FASB issued new guidance impacting ASC Topic 260, *Earnings Per Share*, related to determining whether instruments granted in share-based payment transactions are participating securities. This new guidance addresses whether these types of instruments are participating prior to vesting and, therefore need to be included in the earning allocation in computing earnings per share under the two class method described in ASC Topic 260. All prior-period earnings per share data presented shall be adjusted retrospectively. The Company adopted this new guidance on January 1, 2009 which had the effect of treating the Company's unvested restricted stock awards as participating in the earnings allocation when computing earnings per share. The adoption of this new guidance did not have a significant impact on the Company's earnings per share for any period presented.

In April 2009, the FASB issued new guidance impacting ASC Topic 320, *Investments - Debt and Equity Instruments*, related to recognition and presentation of other-than-temporary impairments. This new guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, this new guidance expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. Adoption of this new guidance in the second quarter of 2009 did not have an impact on the Company's results of operations or financial position as the Company has had no other-than-temporary impairment on any of its debt securities. Disclosures have been added accordingly in the Notes to the Consolidated Financial Statements.

In April 2009, the FASB also issued new guidance impacting ASC Topic 820, *Fair Value Measurements and Disclosures*, related to determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. A number of factors are considered when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. This guidance requires increased disclosures and is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Adoption of this new guidance by the Company in the second quarter of 2009 did not have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB also issued new guidance impacting ASC Topic 825, *Financial Instruments*, related to interim disclosures about fair value of financial instruments. This new guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. The Company adopted this new guidance in the second quarter of 2009 and accordingly, required disclosures are included in the Notes to the Consolidated Financial Statements.

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MACATAWA BANK CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

**NOTE 2 SECURITIES**

The amortized cost and fair value of securities at period-end were as follows (dollars in thousands):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<u>September 30, 2009</u>				
Available for Sale:				
U.S. federal agency securities	\$ 85,891	\$ 2,121	\$ (5)	\$ 88,007
State and municipal bonds	50,487	2,345	(29)	52,803
Other equity securities	1,000	15	---	1,015
	\$ 137,378	\$ 4,481	\$ (34)	\$ 141,825
Held to Maturity:				
State and municipal bonds	\$ 655	\$ 20	\$ ---	\$ 675
	\$ 655	\$ 20	\$ ---	\$ 675
<u>December 31, 2008</u>				
Available for Sale:				
U.S. federal agency securities	\$ 129,982	\$ 3,653	\$ (1)	\$ 133,634
State and municipal bonds	49,794	691	(430)	50,055
Other equity securities	1,000	---	(8)	992
	\$ 180,776	\$ 4,344	\$ (439)	\$ 184,681
Held to Maturity:				
State and municipal bonds	\$ 1,835	\$ 32	\$ ---	\$ 1,867
	\$ 1,835	\$ 32	\$ ---	\$ 1,867

Contractual maturities of debt securities at September 30, 2009 were as follows (dollars in thousands):

	<b>Held-to-Maturity Securities</b>		<b>Available-for-Sale Securities</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ ---	\$ ---	\$ 19,744	19,972
Due from one to five years	162	167	69,994	72,210
Due from five to ten years	493	508	37,305	38,944
Due after ten years	---	---	9,335	9,684
	\$ 655	\$ 675	\$ 136,378	\$ 140,810

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MACATAWA BANK CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

**NOTE 2 SECURITIES (Continued)**

Securities with unrealized losses at September 30, 2009 and December 31, 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (dollars in thousands):

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2009						
U.S federal agency securities	\$ 4,995	\$ (5)	\$ ---	\$ ---	\$ 4,995	\$ (5)
State and municipal bonds	884	(29)	---	---	884	(29)
Other equity securities	---	---	---	---	---	---
Total temporarily impaired	\$ 5,879	\$ (34)	---	---	\$ 5,879	\$ (34)

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2008						
U.S. federal agency securities	\$ 88	\$ (1)	\$ ---	\$ ---	\$	\$