

MACATAWA BANK CORP
Form 10-Q
July 28, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 000-25927

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

Michigan 38-3391345
(State or other (I.R.S.
jurisdiction of Employer
incorporation Identification
or No.)
organization)

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 (Sec.232.405 of this chapter) 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

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a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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:
27,083,823 shares of the Company's Common Stock (no par value) were outstanding as of July 28, 2011.

Forward-Looking Statements

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and Macatawa Bank Corporation. Forward-looking statements are identifiable by words or phrases such as "outlook", "plan" or "strategy"; that an event or trend "may", "should", "will", "is likely", or is "probably" to occur or "continue", has "begun" or "is scheduled" or "on track" or that the Company or its management "anticipates", "believes", "estimates", "plans", "forecasts", "intends", "predicts", "projects", or "expects" a particular result, or is "committed", "confident", "optimistic" or has an "opinion" that an event will occur, or other words or phrases such as "ongoing", "future", "signs", "efforts", "tend", "exploring", "appearing", "until", "near term", "going forward", "starting" and variations of such words and similar expressions. Such statements are based upon current beliefs and expectations and involve substantial risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These statements include, among others, statements related to trends in credit quality metrics, real estate valuation, future levels of non-performing loans, future levels of loan charge-offs, future levels of provisions for loan losses, the rate of asset dispositions, dividends, future growth and funding sources, future liquidity levels, future profitability levels, the effects on earnings of changes in interest rates, future economic conditions, and the future level of other revenue sources. Management's determination of the provision and allowance for loan losses, the appropriate carrying value of intangible assets (including goodwill, mortgage servicing rights and deferred tax assets) and other real estate owned, and the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment) involves judgments that are inherently forward-looking. All statements with references to future time periods are forward-looking. All of the information concerning interest rate sensitivity is forward-looking. Our ability to sell other real estate owned at its carrying value or at all, successfully implement new programs and initiatives, increase efficiencies, obtain continuing regulatory approval to make interest payments on our subordinated notes, maintain liquidity, respond to declines in collateral values and credit quality, increase loan volume, maintain or improve mortgage banking income, realize the benefit of our deferred tax assets, resume payment of dividends and improve profitability is not entirely within our control and is not assured. The future effect of changes in the real estate, financial and credit markets and the national and regional economy on the banking industry, generally, and Macatawa Bank Corporation, specifically, are also inherently uncertain. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extend, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. Macatawa Bank Corporation does not undertake to update forward-looking statements to reflect the impact of circumstances or events that may arise after the date of the forward-looking statements.

Risk factors include, but are not limited to, the risk factors described in "Item 1A - Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2010. These and other factors are representative of the risk factors that may emerge and could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

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Part I Financial Information

Item 1.

MACATAWA BANK CORPORATION
CONSOLIDATED BALANCE SHEETS
As of June 30, 2011 (unaudited) and December 31, 2010

(dollars in thousands)	June 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$21,889	\$21,274
Federal funds sold and other short -term investments	244,816	214,853
Cash and cash equivalents	266,705	236,127
Securities available for sale, at fair value	22,735	9,120
Securities held to maturity (fair value 2010 - \$83)	---	83
Federal Home Loan Bank stock	11,236	11,932
Loans held for sale, at fair value	467	2,537
Total loans	1,099,176	1,217,196
Allowance for loan losses	(37,477)	(47,426)
Net loans	1,061,699	1,169,770
Premises and equipment – net	56,155	56,988
Accrued interest receivable	3,588	3,845
Bank-owned life insurance	25,480	25,014
Other real estate owned	65,432	57,984
Other assets	5,135	4,861
Total assets	\$1,518,632	\$1,578,261
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$295,667	\$255,897
Interest-bearing	906,889	1,020,723
Total deposits	1,202,556	1,276,620
Other borrowed funds	174,270	185,336
Long-term debt	41,238	41,238
Subordinated debt	1,650	1,650
Accrued expenses and other liabilities	6,765	5,575
Total liabilities	1,426,479	1,510,419
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	30,604	30,604
Series B Noncumulative Convertible Perpetual Preferred Stock, liquidation value of \$1,000 per share, 2,600 shares issued and outstanding	2,560	2,560

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Common stock, no par value, 200,000,000 shares authorized; 27,083,823 and 17,679,621 shares issued and outstanding at June 30, 2011 and December 31, 2010	187,788	167,321
Retained deficit	(128,962)	(132,654)
Accumulated other comprehensive income	163 163	11
Total shareholders' equity	92,153	67,842
Total liabilities and shareholders' equity	\$1,518,632	\$1,578,261

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MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Three and Six Month Periods Ended June 30, 2011 and 2010
(unaudited)

(dollars in thousands, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest income				
Loans, including fees	\$15,194	\$18,824	\$30,776	\$38,447
Securities	85	581	112	1,772
FHLB Stock	74	60	150	123
Federal funds sold and other short-term investments	137	72	305	133
Total interest income	15,490	19,537	31,343	40,475
Interest expense				
Deposits	2,416	4,691	5,327	10,099
Debt and other borrowed funds	1,292	2,028	2,636	4,530
Total interest expense	3,708	6,719	7,963	14,629
Net interest income	11,782	12,818	23,380	25,846
Provision for loan losses	(2,000)	1,800	(3,450)	21,510
Net interest income after provision for loan losses	13,782	11,018	26,830	4,336
Noninterest income				
Service charges and fees	969	1,063	1,918	2,128
Net gains on mortgage loans	262	399	697	580
Trust fees	620	797	1,270	1,686
Gain on sale of securities	---	2,715	---	2,715
ATM and debit card fees	1,027	957	1,946	1,800
Other	738	391	1,464	881
Total noninterest income	3,616	6,322	7,295	9,790
Noninterest expense				
Salaries and benefits	5,600	5,554	10,947	11,005
Occupancy of premises	989	989	2,001	2,041
Furniture and equipment	829	888	1,646	1,869
Legal and professional	322	391	591	1,160
Marketing and promotion	224	215	448	429
Data processing	334	327	638	674
FDIC assessment	841	1,192	1,819	2,450
ATM and debit card processing	311	264	581	575
Bond and D&O Insurance	378	553	757	1,102
Losses on repossessed and foreclosed properties	2,121	850	4,613	4,493
Administration of problem assets	1,620	1,614	3,562	3,506
Other	1,428	1,452	2,830	2,911

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Total noninterest expenses	14,997	14,289	30,433	32,215
Income (loss) before income tax	2,401	3,051	3,692	(18,089)
Income tax expense (benefit)	---	1,303	---	1,303
Net income (loss)	2,401	1,748	3,692	(19,392)
Dividends declared on preferred shares	---	---	---	---
Net income (loss) available to common shares	\$2,401	\$1,748	\$3,692	\$(19,392)
Basic earnings (loss) per common share	\$0.13	\$0.10	\$0.20	\$(1.10)
Diluted earnings (loss) per common share				