

MACATAWA BANK CORP
Form 10-Q
April 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 March 31, 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
(State of 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 (§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 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

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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:
17,679,621 shares of the Company's Common Stock (no par value) were outstanding as of April 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, capital raising activities, dividends, future growth and funding sources, future liquidity levels, future profitability levels, the effects on earnings of changes in interest rates 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 fully comply with our Consent Order and Written Agreement, raise capital, improve regulatory capital ratios, sell other real estate owned at its carrying value or at all, successfully implement new programs and initiatives, increase efficiencies, address regulatory issues, improve internal controls over financial reporting, maintain our current level of deposits and other sources of funding, maintain liquidity, respond to declines in collateral values and credit quality, increase loan volume, maintain 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, extent, 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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Item 1.MACATAWA BANK CORPORATION
CONSOLIDATED BALANCE SHEETS
As of March 31, 2011 (unaudited) and December 31, 2010

(dollars in thousands)	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 24,265	\$ 21,274
Federal funds sold and other short-term investments	238,362	214,853
Cash and cash equivalents	262,627	236,127
Securities available for sale, at fair value	12,660	9,120
Securities held to maturity (fair value 2010 - \$83)	---	83
Federal Home Loan Bank stock	11,932	11,932
Loans held for sale, at fair value	942	2,537
Total loans	1,153,992	1,217,196
Allowance for loan losses	(42,343)	(47,426)
Net loans	1,111,649	1,169,770
Premises and equipment - net	56,410	56,988
Accrued interest receivable	3,721	3,845
Bank-owned life insurance	25,229	25,014
Other real estate owned	64,992	57,984
Other assets	7,073	4,861
Total assets	\$ 1,557,235	\$ 1,578,261
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$ 282,050	\$ 255,897
Interest-bearing	982,615	1,020,723
Total deposits	1,264,665	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	6,259	5,575
Total liabilities	1,488,082	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
Common stock, no par value, 200,000,000 shares authorized; 17,679,621 shares issued and outstanding	167,338	167,321
Retained deficit	(131,363)	(132,654)
Accumulated other comprehensive income	14	11
Total shareholders' equity	69,153	67,842
Total liabilities and shareholders' equity	\$ 1,557,235	\$ 1,578,261

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MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Three Month Periods Ended March 31, 2011 and 2010 (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Interest income		
Loans, including fees	\$ 15,582	\$ 19,623
Securities	27	1,191
FHLB Stock	76	62
Federal funds sold and other short-term investments	168	61
Total interest income	15,853	20,937
Interest expense		
Deposits	2,912	5,408
Debt and other borrowed funds	1,343	2,501
Total interest expense	4,255	7,909
Net interest income	11,598	13,028
Provision for loan losses	(1,450)	19,710
Net interest income (loss) after provision for loan losses	13,048	(6,682)
Noninterest income		
Service charges and fees	949	1,065
Net gains on mortgage loans	435	181
Trust fees	651	890
ATM and debit card fees	852	785
Other	792	547
Total noninterest income	3,679	3,468
Noninterest expense		
Salaries and benefits	5,347	5,450
Occupancy of premises	1,011	1,052
Furniture and equipment	817	981
Legal and professional	270	769
Marketing and promotion	224	215
Data processing	304	346
FDIC assessment	978	1,257
ATM and debit card processing	271	310
Bond and D&O Insurance	379	548
Losses on repossessed and foreclosed properties	2,493	3,643
Administration of problem assets	1,941	1,892
Other	1,401	1,463
Total noninterest expenses	15,436	17,926
Net income (loss) before income tax	1,291	(21,140)
Income tax expense (benefit)	0	0
Net income (loss)	1,291	(21,140)
Dividends declared on preferred shares	0	0
Net income (loss) available to common shares	\$ 1,291	\$ (21,140)
Basic earnings (loss) per common share	\$.07	\$ (1.19)
Diluted earnings (loss) per common share	\$.07	\$ (1.19)
Cash dividends per common share	\$ 0.00	\$ 0.00

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MACATAWA BANK CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 Three Month Periods Ended March 31, 2011 and 2010
 (unaudited)

(dollars in thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net income (loss)	\$ 1,291	\$ (21,140)
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains on securities available for sale	3	38
Comprehensive income (loss)	\$ 1,294	\$ (21,102)

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MACATAWA BANK CORPORATION
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 Three Month Periods Ended March 31, 2011 and 2010
 (unaudited)

(dollars in thousands, except per share data)

	Preferred Stock		Common Stock	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Series A	Series B				
Balance, January 1, 2010	\$30,604	\$2,560	\$167,183	\$(114,800)	\$2,444	\$87,991
Net loss for three months ended March 31, 2010				(21,140)		(21,140)
Other comprehensive income (loss), net of tax:						
Net change in unrealized gain (loss) on securities available for sale					38	38
Comprehensive loss						(21,102)
Stock compensation expense			28			28
Balance, March 31, 2010	\$30,604	\$2,560	\$167,211	\$(135,940)	\$2,482	\$66,917
Balance, January 1, 2011	\$30,604	\$2,560	\$167,321	(132,654)	\$ 11	67,842
Net income for three months ended March 31, 2011				1,291		1,291
Other comprehensive income (loss), net of tax:						
Net change in unrealized gain (loss) on securities available for sale					3	3
Comprehensive income						1,294
Stock compensation expense			17			17
Balance, March 31, 2011	\$30,604	\$2,560	\$167,338	\$(131,363)	\$ 14	\$69,153

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MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Month Periods Ended March 31, 2011 and 2010 (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities		
Net income (loss)	\$ 1,291	\$ (21,140)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	781	896
Stock compensation expense	17	28
Provision for loan losses	(1,450)	19,710
Origination of loans for sale	(16,671)	(9,744)
Proceeds from sales of loans originated for sale	18,701	9,052
Net gains on mortgage loans	(435)	(181)
Write-down of other real estate	2,699	3,516
Net (gain) loss on sales of other real estate	(212)	120
Decrease (increase) in accrued interest receivable and other assets	(2,157)	80
Earnings in bank-owned life insurance	(215)	(200)
Increase (decrease) in accrued expenses and other liabilities	684	(473)
Net cash from operating activities	3,033	1,664
Cash flows from investing activities		
Loan originations and payments, net	45,092	41,204
Purchases of securities available for sale	(10,549)	0
Proceeds from:		
Maturities and calls of securities available for sale	6,988	13,986
Principal paydowns on securities	85	82
Sales of other real estate	4,984	5,711
Additions to premises and equipment	(112)	(201)
Net cash from investing activities	46,488	60,782
Cash flows from financing activities		
Net decrease in in-market deposits	(6,360)	(3,505)
Net decrease in brokered deposits	(5,595)	(42,065)
Proceeds from other borrowed funds	---	20,000
Repayments of other borrowed funds	(11,066)	(66,020)
Net cash from financing activities	(23,021)	(91,590)
Net change in cash and cash equivalents	26,500	(29,144)
Cash and cash equivalents at beginning of period	236,127	78,749
Cash and cash equivalents at end of period	\$ 262,627	\$ 49,605
Supplemental cash flow information		
Interest paid	\$ 3,950	\$ 7,805
Supplemental noncash disclosures:		
Transfers from loans to other real estate	14,479	17,954

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MACATAWA BANK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The Bank operates 26 full service branch offices providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County, and northern Allegan County, Michigan.

The Company 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 under accounting principles generally accepted in the United States of America.

Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of A