

MACATAWA BANK CORP
Form 10-Q
October 25, 2012

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 September 30, 2012

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 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 checkmark 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

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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	<input type="radio"/>	Accelerated filer	<input type="radio"/>	Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>
							x
							(Do not check if 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: 27,082,825 shares of the Company's Common Stock (no par value) were outstanding as of October 25, 2012.

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 "probable" 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", "initiative" 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, future capital levels, real estate valuation, future levels of repossessed and foreclosed properties and non-performing assets and losses and costs associated with administration and disposition of repossessed and foreclosed properties and non-performing assets, future levels of loan charge-offs, future levels of other real estate owned, future levels of provisions for loan losses, the rate of asset dispositions, dividends, future growth and funding sources, future cost of funds, future liquidity levels, future profitability levels, future trust service income levels, future FDIC assessment levels, future net interest margin levels, building our investment portfolio, diversifying our credit risk, the effects on earnings of changes in interest rates, future economic conditions, future effects of new or changed accounting standards, future loss recoveries 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 our current levels of deposits and other sources of funding, maintain liquidity, respond to declines in collateral values and credit quality, increase loan volume, originate high quality loans, 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, 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, 2011. 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 September 30, 2012 (unaudited) and December 31, 2011

(dollars in thousands, except per share data)	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 22,398	\$ 30,971
Federal funds sold and other short -term investments	211,853	212,071
Cash and cash equivalents	234,251	243,042
Securities available for sale, at fair value	116,128	54,746
Securities held to maturity (fair value 2012 - \$4,300 and 2011 - \$300)	4,300	300
Federal Home Loan Bank (FHLB) stock	11,236	11,236
Loans held for sale, at fair value	11,063	1,026
Total loans	1,019,185	1,070,975
Allowance for loan losses	(26,271)	(31,641)
Net loans	992,914	1,039,334
Premises and equipment – net	54,057	55,358
Accrued interest receivable	3,719	3,595
Bank-owned life insurance	26,614	25,957
Other real estate owned	57,778	66,438
Other assets	5,057	6,635
Total assets	\$ 1,517,117	\$ 1,507,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$ 348,120	\$ 324,253
Interest-bearing	896,628	891,036
Total deposits	1,244,748	1,215,289
Other borrowed funds	91,822	148,603
Long-term debt	41,238	41,238
Subordinated debt	1,650	1,650
Accrued expenses and other liabilities	28,228	6,461
Total liabilities	1,407,686	1,413,241
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; 27,082,825 and 27,082,823 shares issued and outstanding at September 30, 2012 and December 31, 2011	187,709	187,709
Retained deficit	(112,569)	(126,825)
Accumulated other comprehensive income	1,127	378
Total shareholders' equity	109,431	94,426
Total liabilities and shareholders' equity	\$ 1,517,117	\$ 1,507,667

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, 2012 and 2011
(unaudited)

(dollars in thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest income				
Loans, including fees	\$ 15,532	\$ 14,498	\$ 42,295	\$ 45,274
Securities				
Taxable	414	156	1,116	267
Tax-exempt	102	10	210	11
FHLB Stock	84	73	252	223
Federal funds sold and other short-term investments	137	163	394	468
Total interest income	16,269	14,900	44,267	46,243
Interest expense				
Deposits	1,396	2,104	4,570	7,431
Debt and other borrowed funds	981	1,295	3,203	3,931
Total interest expense	2,377	3,399	7,773	11,362
Net interest income	13,892	11,501	36,494	34,881
Provision for loan losses	(1,250)	(1,250)	(6,600)	(4,700)
Net interest income after provision for loan losses	15,142	12,751	43,094	39,581
Noninterest income				
Service charges and fees	810	889	2,381	2,806
Net gains on mortgage loans	940	697	2,192	1,393
Trust fees	595	644	1,802	1,915
Gain on sale of securities	14	---	73	---
ATM and debit card fees	1,049	1,013	3,094	2,958
Other	698	684	2,275	2,149
Total noninterest income	4,106	3,927	11,817	11,221
Noninterest expense				
Salaries and benefits	5,621	5,668	17,065	16,615
Occupancy of premises	948	961	2,860	2,961
Furniture and equipment	806	812	2,491	2,458
Legal and professional	160	187	551	779
Marketing and promotion	213	228	634	677
Data processing	269	314	988	952
FDIC assessment	504	842	1,692	2,660
ATM and debit card processing	316	337	912	918
Bond and D&O Insurance	213	379	696	1,136
FHLB Advance prepayment penalty	322	---	322	---

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Losses on repossessed and foreclosed properties	706	2,544	4,236	7,157
Administration and disposition of problem assets	1,018	1,941	3,737	5,503
Other	1,292	1,413	4,196	4,243
Total noninterest expenses	12,388	15,626	40,380	46,059
Income before income tax	6,860	1,052	14,531	4,743
Income tax expense (benefit)	275	---	275	---
Net income	6,585	1,052	14,256	4,743
Dividends declared on preferred shares	---	---	---	---
Net income available to common shares	\$ 6,585	\$ 1,052	\$ 14,256	\$ 4,743
Basic earnings per common share	\$ 0.24	\$ 0.04	\$ 0.53	\$ 0.22
Diluted earnings per common share	\$ 0.24	\$ 0.04	\$ 0.53	\$ 0.22
Cash dividends per common share	\$ ---	\$ ---	\$ ---	\$ ---

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, 2012 and 2011
 (unaudited)

(dollars in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	\$ 6,585	\$ 1,052	\$ 14,256	\$ 4,743
Other comprehensive income, net of tax:				
Net unrealized gains on securities available for sale arising during period	462	174	822	326