

MACATAWA BANK CORP
Form 10-Q
July 25, 2013

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, 2013

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 jurisdiction of incorporation or organization) (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 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):

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(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:
27,261,325 shares of the Company's Common Stock (no par value) were outstanding as of July 25, 2013.

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," "trend" 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 stabilization of our loan portfolio, trends in credit quality metrics, future capital levels and capital needs, including the impact of Basel III, real estate valuation, future levels of repossessed and foreclosed properties and nonperforming assets, future levels of losses and costs associated with the administration and disposition of repossessed and foreclosed properties and nonperforming 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, future dividends, future growth and funding sources, future cost of funds, future liquidity levels, future profitability levels, future FDIC assessment levels, future net interest margin levels, building and improving 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, future balances of short-term investments, future loan demand and loan growth, future levels of mortgage banking revenue 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 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, 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, 2012. 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, 2013 (unaudited) and December 31, 2012

(dollars in thousands, except per share data)	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$27,605	\$33,556
Federal funds sold and other short-term investments	129,849	192,802
Cash and cash equivalents	157,454	226,358
Interest-bearing time deposits in other financial institutions	25,000	---
Securities available for sale, at fair value	129,659	123,497
Securities held to maturity (fair value 2013 - \$5,494 and 2012 - \$4,301)	5,380	4,300
Federal Home Loan Bank (FHLB) stock	11,236	11,236
Loans held for sale, at fair value	4,553	8,130
Total loans	1,012,887	1,052,348
Allowance for loan losses	(22,248)	(23,739)
Net loans	990,639	1,028,609
Premises and equipment – net	53,302	53,576
Accrued interest receivable	3,405	3,411
Bank-owned life insurance	27,162	26,804
Other real estate owned	45,845	51,582
Net deferred tax asset	17,788	18,780
Other assets	5,405	4,435
Total assets	\$1,476,828	\$1,560,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$318,981	\$339,520
Interest-bearing	880,597	946,741
Total deposits	1,199,578	1,286,261
Other borrowed funds	90,658	91,822
Long-term debt	41,238	41,238
Subordinated debt	1,650	1,650
Accrued expenses and other liabilities	10,452	9,240
Total liabilities	1,343,576	1,430,211
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 June 30, 2013 and December 31, 2012	30,604	30,604
	2,260	2,560

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Series B Noncumulative Convertible Perpetual Preferred Stock, liquidation value of \$1,000 per share, 2,300 shares issued and outstanding at June 30, 2013 and 2,600 shares issued and outstanding at December 31, 2012

Common stock, no par value, 200,000,000 shares authorized; 27,261,325 shares issued and outstanding at June 30, 2013 and 27,203,825 shares issued and outstanding at December 31, 2012

Retained deficit	188,080	187,718
Accumulated other comprehensive income (loss)	(86,258)	(91,335)
Total shareholders' equity	(1,434)	960
Total liabilities and shareholders' equity	133,252	130,507
	\$1,476,828	\$1,560,718

See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Three and Six Month Periods Ended June 30, 2013 and 2012
(unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
(dollars in thousands, except per share data)				
Interest income				
Loans, including fees	\$11,493	\$13,237	\$23,161	\$26,763
Securities				
Taxable	448	384	877	701
Tax-exempt	155	65	296	108
FHLB Stock	97	84	196	169
Federal funds sold and other short-term investments	114	130	210	257
Total interest income	12,307	13,900	24,740	27,998
Interest expense				
Deposits	982	1,525	2,067	3,175
Debt and other borrowed funds	862	1,053	1,726	2,221
Total interest expense	1,844	2,578	3,793	5,396
Net interest income	10,463	11,322	20,947	22,602
Provision for loan losses	(1,000)	(1,750)	(1,750)	(5,350)
Net interest income after provision for loan losses	11,463	13,072	22,697	27,952
Noninterest income				
Service charges and fees	976	776	1,888	1,571
Net gains on mortgage loans	708	780	1,533	1,251
Trust fees	625	598	1,213	1,207
Gain on sale of securities	61	59	80	59
ATM and debit card fees	1,132	1,064	2,109	2,045
Other	709	723	1,351	1,578
Total noninterest income	4,211	4,000	8,174	7,711
Noninterest expense				
Salaries and benefits	5,732	5,723	11,525	11,443
Occupancy of premises	905	941	1,851	1,912
Furniture and equipment	845	858	1,595	1,685
Legal and professional	183	180	373	392
Marketing and promotion	246	210	492	420
Data processing	352	368	704	719
FDIC assessment	345	479	817	1,188
ATM and debit card processing	361	308	652	596
Bond and D&O Insurance	183	215	368	483
Losses on repossessed and foreclosed properties	294	1,934	353	3,531

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Administration and disposition of problem assets	1,005	1,256	1,907	2,718
Other	1,424	1,414	2,819	2,905
Total noninterest expenses	11,875	13,886	23,456	27,992
Income before income tax	3,799	3,186	7,415	7,671
Income tax expense	1,196	---	2,338	---
Net income	2,603	3,186	5,077	7,671
Dividends declared on preferred shares	---	---	---	---
Net income available to common shares	\$2,603	\$3,186	\$5,077	\$7,671
Basic earnings per common share	\$0.10	\$0.12	\$0.19	\$0.28
Diluted earnings per common share	\$0.10	\$0.12	\$0.19	\$0.28
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 Six Month Periods Ended June 30, 2013 and 2012
(unaudited)

(dollars in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Three Months Ended June 30, 2012
Net income	\$2,603	\$ 3,186	\$5,077	\$ 7,671
Other comprehensive income (loss):				
Unrealized gains (losses):				
Net change in unrealized gains (losses) on securities available for sale	(3,460)	560	(3,603)	523
Tax effect	1,211	(196)	1,261	(183)
Net change in unrealized gains (losses) on securities available for sale, net of tax	(2,249)	364	(2,342)	340
Less: reclassification adjustments:				
Reclassification for gains included in net income	61	59	80	59
Tax effect	(21)	(21)	(28)	(21)
Reclassification for gains included in net income, net of tax	40	38	52	38
Other comprehensive income (loss), net of tax	(2,289)	326	(2,394)	302
Comprehensive income	\$314	\$ 3,512	\$2,683	\$ 7,973

See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Six Month Periods Ended June 30, 2013 and 2012

(unaudited)

(dollars in thousands, except per share data)	Preferred Stock		Common	Retained	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Series A	Series B	Stock	(Deficit)		
Balance, January 1, 2012	\$30,604	\$2,560	\$187,709	\$(126,825)	\$ 378	\$ 94,426
Net income for six months ended June 30, 2012				7,671		7,671
Net change in unrealized gain (loss) on securities available for sale, net of tax					302	302
Balance, June 30, 2012	\$30,604	\$2,560	\$187,709	\$(119,154)	\$ 680	\$ 102,399
Balance, January 1, 2013	\$30,604	\$2,560	\$187,718	\$(91,335)	\$ 960	\$ 130,507
Net income for six months ended June 30, 2013				5,077		5,077
Conversion of 300 shares of Preferred Stock Series B to 50,000 shares of Common Stock		(300)	300			---
Net change in unrealized gain (loss) on securities available for sale, net of tax					(2,394)	(2,394)
Stock compensation expense			62			62
Balance, June 30, 2013	\$30,604	\$2,260	\$188,080	\$(86,258)	\$ (1,434)	\$ 133,252

See accompanying notes to consolidated financial statements.

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MACATAWA BANK CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 Six Month Periods Ended June 30, 2013 and 2012
 (unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
(dollars in thousands)		
Cash flows from operating activities		
Net income	\$5,077	\$7,671
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,452	1,416
Stock compensation expense	62	---
Provision for loan losses	(1,750)	(5,350)
Origination of loans for sale	(63,160)	(59,412)
Proceeds from sales of loans originated for sale	68,270	55,059
Net gains on mortgage loans	(1,533)	(1,251)
Gain on sales of securities	(80)	(59)
Write-down of other real estate	967	3,550
Net gain on sales of other real estate	(614)	(20)
Decrease (increase) in net deferred tax asset	2,283	---
Decrease (increase) in accrued interest receivable and other assets	(964)	1,579
Earnings in bank-owned life insurance	(358)	(447)
Increase in accrued expenses and other liabilities	2,838	911
Net cash from operating activities	12,490	3,647
Cash flows from investing activities		
Loan originations and payments, net	36,966	27,174
Change in interest-bearing deposits in other financial institutions	(25,000)	---
Purchases of securities available for sale		