

MACATAWA BANK CORP  
Form 10-Q  
August 10, 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 June 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: 17,659,264 shares of the Company's Common Stock (no par value) were outstanding as of August 7, 2009.



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

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

(dollars in thousands)

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 23,057	\$ 29,188
Federal funds sold and other short term investments	96,013	39,096
	119,070	68,284
Cash and cash equivalents	119,070	68,284
Securities available for sale	159,194	184,681
Securities held to maturity	656	1,835
Federal Home Loan Bank stock	12,275	12,275
Loans held for sale, at fair value at June 30, 2009	811	2,261
Total loans	1,621,895	1,774,063
Allowance for loan losses	(37,621)	(38,262)
	1,584,274	1,735,801
Net loans	1,584,274	1,735,801
Premises and equipment - net	62,327	63,482
Accrued interest receivable	6,985	7,746
Bank-owned life insurance	23,932	23,645
Other real estate owned	23,516	19,516
Other assets	18,899	29,846
	\$ 2,011,939	\$ 2,149,372
Total assets	\$ 2,011,939	\$ 2,149,372
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing	\$ 219,229	\$ 192,842
Interest-bearing	1,356,823	1,472,919
	1,576,052	1,665,761
Total deposits	1,576,052	1,665,761
Other borrowed funds	268,690	284,790
Subordinated debt	950	---
Long-term debt	41,238	41,238
Accrued expenses and other liabilities	8,375	8,370
	1,895,305	2,000,159
Total liabilities	1,895,305	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 June 30, 2009 and December 31, 2008	30,604	30,637

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	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Series B Noncumulative Convertible Perpetual Preferred Stock, liquidation value of \$1,000 per share, 2,350 shares issued and outstanding at June 30, 2009 and no shares issued and outstanding at December 31, 2008	2,350	---
Common stock, no par value, 40,000,000 shares authorized; 17,659,264 and 17,161,515 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	166,980	164,327
Retained deficit	(84,715)	(48,289)
Accumulated other comprehensive income	1,415	2,538
	<hr/>	<hr/>
Total shareholders' equity	116,634	149,213
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 2,011,939	\$ 2,149,372
	<hr/>	<hr/>

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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, 2009 and 2008 (unaudited)

(dollars in thousands, except per share data)

	<b>Three Months Ended June 30, 2009</b>	<b>Three Months Ended June 30, 2008</b>	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
Interest income				
Loans, including fees	\$ 22,698	\$ 26,934	\$ 45,844	\$ 55,899
Securities	1,637	2,040	3,447	4,225
FHLB Stock	68	174	192	327
Other	128	51	172	64
<b>Total interest income</b>	<b>24,531</b>	<b>29,199</b>	<b>49,655</b>	<b>60,515</b>
Interest expense				
Deposits	8,102	10,083	17,082	21,917
Other	3,031	4,029	6,379	8,814
<b>Total interest expense</b>	<b>11,133</b>	<b>14,112</b>	<b>23,461</b>	<b>30,731</b>
<b>Net interest income</b>	<b>13,398</b>	<b>15,087</b>	<b>26,194</b>	<b>29,784</b>
Provision for loan losses	20,630	18,460	31,160	21,160
<b>Net interest income after provision for loan losses</b>	<b>(7,232)</b>	<b>(3,373)</b>	<b>(4,966)</b>	<b>8,624</b>
Noninterest income				
Service charges and fees	1,210	1,322	2,439	2,563
Net gains on mortgage loans	501	343	2,123	819
Trust fees	984	1,164	1,917	2,334
Gain on sales of securities	---	412	---	412
Gain on settlement of interest rate swaps	---	---	---	832
Other	1,529	1,814	3,068	3,098
<b>Total noninterest income</b>	<b>4,224</b>	<b>5,055</b>	<b>9,547</b>	<b>10,058</b>
Noninterest expense				
Salaries and benefits	6,232	6,875	12,375	13,776
Occupancy of premises	1,056	1,114	2,212	2,339
Furniture and equipment	995	992	2,012	1,985
Legal and professional	248	334	632	637
Marketing and promotion	229	353	452	710
Data processing	465	466	962	971
FDIC assessment	1,707	361	2,478	721
Administration and disposition of problem assets	2,439	1,484	4,598	1,861
Trade Partners litigation settlement	5,533	---	5,533	---
Other	2,360	2,512	4,491	5,082
<b>Total noninterest expenses</b>	<b>21,264</b>	<b>14,491</b>	<b>35,745</b>	<b>28,082</b>

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	<b>Three Months Ended June 30, 2009</b>	<b>Three Months Ended June 30, 2008</b>	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
<b>Income (loss) before income tax</b>	<b>(24,272)</b>	<b>(12,809)</b>	<b>(31,164)</b>	<b>(9,400)</b>
Income tax expense (benefit)	6,134	(4,703)	3,384	(3,732)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net income (loss)</b>	<b>(30,406)</b>	<b>(8,106)</b>	<b>(34,548)</b>	<b>(5,668)</b>
Dividends declared on preferred shares	939	---	1,878	---
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net income (loss) available to common shares</b>	<b>\$ (31,345)</b>	<b>\$ (8,106)</b>	<b>\$ (36,426)</b>	<b>\$ (5,668)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Basic earnings (loss) per common share	\$ (1.82)	\$ (.48)	\$ (2.12)	\$ (.33)
Diluted earnings(loss) per common share	(1.82)	(.48)	(2.12)	(.33)
Cash dividends per common share	---	.13	---	.26

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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, 2009 and 2008  
 (unaudited)

(dollars in thousands)

	<b>Three Months Ended June 30, 2009</b>	<b>Three Months Ended June 30, 2008</b>	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
Net income (loss)	\$ (30,406)	\$ (8,106)	\$ (34,548)	\$ (5,668)
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses) on securities available for sale	(1,487)	(2,309)	(1,123)	(440)
<b>Comprehensive income (loss)</b>	<b>\$ (31,893)</b>	<b>\$ (10,415)</b>	<b>\$ (35,671)</b>	<b>\$ (6,108)</b>

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, 2009 and 2008  
 (unaudited)

(dollars in thousands, except per share data)

	<u>Preferred Stock</u>		<u>Common Stock</u>	<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>
	<u>Series A</u>	<u>Series B</u>				
<b>Balance, January 1, 2008</b>	---	---	\$ 163,522	\$ (4,208)	\$ 1,311	\$ 160,625
Net loss for six months ended June 30, 2008				(5,668)		(5,668)
Other comprehensive income (loss), net of tax:						
Net change in unrealized gain (loss) on securities available for sale					(440)	(440)
Comprehensive loss						(6,108)
Issued 28,060 shares for stock option exercises (net of 96 shares exchanged and including \$36 of tax benefit)			141			141
Stock compensation expense			301			301
Cash dividends declared on common shares (\$0.26 per share)				(4,410)		(4,410)
<b>Balance, June 30, 2008</b>	---	---	\$ 163,964	\$ (14,286)	\$ 871	\$ 150,549
<b>Balance, January 1, 2009</b>	\$ 30,637	---	\$ 164,327	\$ (48,289)	2,538	\$ 149,213
Net loss for six months ended June 30, 2009				(34,548)		(34,548)
Other comprehensive income (loss), net of tax:						
Net change in unrealized gain (loss) on securities available for sale					(1,123)	(1,123)
Comprehensive loss						(35,671)
Preferred stock issuance costs	(33)					(33)
Issued 2,350 shares of preferred stock		2,350				2,350
Issued 495,833 shares of common stock			1,550			1,550
Common stock warrants issued			801			801
Stock compensation expense			302			302
Cash dividends declared on preferred shares				(1,878)		(1,878)

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	<u>Preferred Stock</u>					
<b>Balance, June 30, 2009</b>	<b>\$ 30,604</b>	<b>\$ 2,350</b>	<b>\$ 166,980</b>	<b>\$ (84,715)</b>	<b>\$ 1,415</b>	<b>\$ 116,634</b>

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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, 2009 and 2008 (unaudited)

(dollars in thousands)

	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (34,548)	\$ (5,668)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	1,854	1,924
Stock compensation expense	302	301
Stock warrant expense	801	---
Provision for loan losses	31,160	21,160
Deferred tax asset valuation allowance	15,283	---
Origination of loans for sale	(134,795)	(53,789)
Proceeds from sales of loans originated for sale	138,345	56,743
Net gains on mortgage loans	(2,123)	(819)
Gain on sales of securities	---	(412)
Write-down of other real estate	1,855	855
Net (gain) loss on sales of other real estate	(109)	140
Decrease (increase) in accrued interest receivable and other assets	(3,906)	(12,400)
Decrease (increase) in Bank-owned life insurance	(287)	461
Increase in accrued expenses and other liabilities	94	5,769
	<u>13,926</u>	<u>14,265</u>
Net cash from operating activities	13,926	14,265
<b>Cash flows from investing activities</b>		
Loan originations and payments, net	109,817	(26,444)
Purchases of securities available for sale	(12,081)	(20,509)
Proceeds from:		
Maturities and calls of securities available for sale	36,334	30,651
Maturities and calls of securities held to maturity	1,136	---
Sales of securities available for sale	---	21,704
Principal paydowns on securities	86	92
Sales of other real estate	4,804	929
Additions to premises and equipment	(488)	(1,430)
	<u>139,608</u>	<u>4,993</u>
Net cash from investing activities	139,608	4,993
<b>Cash flows from financing activities</b>		
Net increase (decrease) in deposits	(89,709)	80,459
Net decrease in short term borrowings	---	(37,967)
Proceeds from other borrowed funds	40,000	228,000
Repayments of other borrowed funds	(56,100)	(286,277)
Proceeds from issuance of subordinated debt	950	---
Cash dividends paid on common shares	---	(4,410)
Cash dividends paid on preferred shares	(1,756)	---
Net proceeds from issuance of preferred stock	2,317	---
Proceeds from issuance of common stock	1,550	---
Proceeds from exercises of stock options, including tax benefit	---	141
	<u>(102,748)</u>	<u>(20,054)</u>
Net cash from financing activities	(102,748)	(20,054)
Net change in cash and cash equivalents	50,786	(796)
Cash and cash equivalents at beginning of period	68,284	49,816

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	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
Cash and cash equivalents at end of period	\$ 119,070	\$ 49,020
<b>Supplemental cash flow information</b>		
Interest paid	\$ 25,177	\$ 31,574
Income taxes paid	---	3,850
<b>Supplemental noncash disclosures:</b>		
Transfers from loans to other real estate	10,550	3,444
Preferred stock dividends accrued, paid in subsequent quarter	939	---

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See accompanying notes to consolidated financial statements

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### 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 FASB Interpretation No. 46.

**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. Operating results for the three and six month periods ended June 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 December 2007, the FASB issued FAS No. 141 (revised 2007), *Business Combinations* (FAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard did not have any impact on the Company's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* (FAS No. 160), which changed the accounting and reporting for minority interests, recharacterizing them as noncontrolling interests and classifying them as a component of equity within the consolidated balance sheets. FAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The adoption of FAS No. 160 did not have a material impact on the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133* (FAS No. 161). FAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. FAS No. 161 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. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of FAS No. 161 did not have a material impact on the Company's results of operations or financial position.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FSP 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 FASB Statement No. 128, *Earnings Per Share*. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented shall be adjusted retrospectively.

MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)

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

The adoption of this FSP on January 1, 2009 had the effect of treating the Company's unvested restricted stock awards as participating in the earnings allocation when computing earnings per share. Prior period earnings per share data have been adjusted to treat unvested restricted stock awards as participating. The adoption of this FSP did not have a significant impact on the Company's earnings per share for any period presented.

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends existing guidance for determining whether impairment is other-than-temporary for debt securities. The FSP 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, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this FSP 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 footnotes.

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP 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. The FSP provides a number of factors to consider 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. The FSP also requires increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Adoption of this FSP did not have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued Staff Position (FSP) No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Adoption of this FSP at June 30, 2009 did not have an impact on the results of operations or financial position as it only required disclosures included in the footnotes.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement is effective for financial statements issued for interim or annual periods ending after June 15, 2009. We adopted this statement during the second quarter of 2009. We have evaluated subsequent events through August 10, 2009 which represents the date our financial statements included in our June 30, 2009 Form 10-Q were filed with the Securities and Exchange Commission (financial statement issue date). We have not evaluated subsequent events relating to these financial statements after that date.

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MACATAWA BANK CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (Unaudited)

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

Recently Issued and Not Yet Effective Accounting Standards: In July 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162". The objective of this statement is to replace SFAS No. 162 "The Hierarchy of Generally Accepted Accounting Principles", and to establish the FASB Accounting Standards Codification as the 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 ). 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. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

**NOTE 2 SECURITIES**

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>June 30, 2009</u>				
Available for Sale:				
U.S. Treasury and federal agency securities	\$ 104,922	\$ 2,318	\$ (84)	\$ 107,156
State and municipal bonds	50,490	944	(396)	51,038
Other equity securities	1,000	---	---	1,000
	<u>\$ 156,412</u>	<u>\$ 3,262</u>	<u>\$ (480)</u>	<u>\$ 159,194</u>
Held to Maturity:				
State and municipal bonds	\$ 656	\$ 21	\$ ---	\$ 677
	<u>\$ 656</u>	<u>\$ 21</u>	<u>\$ ---</u>	<u>\$ 677</u>
<u>December 31, 2008</u>				
Available for Sale:				
U.S. Treasury and 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
	<u>\$ 180,776</u>	<u>\$ 4,344</u>	<u>\$ (439)</u>	<u>\$ 184,681</u>
Held to Maturity:				
State and municipal bonds	\$ 1,835	\$ 32	\$ ---	\$ 1,867
	<u>\$ 1,835</u>	<u>\$ 32</u>	<u>\$ ---</u>	<u>\$ 1,867</u>



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MACATAWA BANK CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 (Unaudited)

**NOTE 2 SECURITIES** (Continued)

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

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ ---	\$ ---	\$ 25,494	\$ 25,877
Due from one to five years	163	166	76,149	78,125
Due from five to ten years	493	511	43,344	43,961
Due after ten years	---	---	10,425	10,231
	<u>\$ 656</u>	<u>\$ 677</u>	<u>\$ 155,412</u>	<u>\$ 158,194</u>

Securities with unrealized losses at June 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
June 30, 2009						
U.S. Treasury and federal agency securities	\$ 9,916	\$ (84)	\$ ---	\$ ---	\$ 9,916	\$ (84)
State and municipal bonds	13,689	(295)	1,410	(101)	15,099	(396)
Other equity securities	---	---	---	---	---	---
	<u>\$ 23,605</u>	<u>\$ (379)</u>	<u>\$ 1,410</u>	<u>\$ (101)</u>	<u>\$ 25,015</u>	<u>\$ (480)</u>

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss