

MACATAWA BANK CORP  
Form 10-K  
March 16, 2007

**FORM 10-K**  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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

For the fiscal year ended December 31, 2006

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

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer

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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

As of June 30, 2006 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$351,410,237 based on the closing sale price of \$23.39 as reported on the National Association of Securities Dealers Automated Quotation System. As of March 14, 2007, there were 16,404,788 outstanding shares of the Company's common stock (no par value). Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held April 19, 2007 are incorporated by reference into Part II and Part III of the Report.

### PART I

#### ITEM 1: Business

*As used in this Annual Report, the terms we, us, our and Macatawa mean Macatawa Bank Corporation and its subsidiaries, unless the context indicates another meaning.*

#### General

Macatawa Bank Corporation is a Michigan corporation and is a financial holding company and the bank holding company for its wholly owned banking subsidiary, Macatawa Bank, as well as Macatawa Investment Services, Inc., Macatawa Statutory Trust I and Macatawa Statutory Trust II. Effective November 1, 2006, Macatawa Investment Services, Inc. ceased doing business as a registered broker-dealer. On November 1, 2006 Macatawa Bank began offering brokerage services to its customers through an arrangement with Infinex Investments, In. (Infinex). Infinex is a full services investment provider, a registered broker-dealer and a member of the National Association of Securities Dealers (NASD) and the Securities Investor Protection Corporation (SIPC). As more fully discussed in our Form 8-K dated October 11, 2006, Macatawa Bank Corporation entered into an Agreement and Plan of Merger with the Smith & Associates investment advisory firm based in Holland, Michigan. The Smith & Associates acquisition became effective on January 1, 2007 and that business is now part of Macatawa Bank. Effective January 9, 2002, Macatawa Bank Corporation elected to become a financial holding company pursuant to Title I of the Gramm-Leach-Bliley Act. Macatawa Bank commenced operations on November 25, 1997. Grand Bank was formed in 1987 and operated from a single location in Grand Rapids, Michigan. Grand Bank became a wholly owned subsidiary effective April 1, 2002 upon the completion of the acquisition of Grand Bank Financial Corporation (GBFC), and its results are included in the consolidated statements of income since this effective date. To achieve further synergies from the Grand Bank acquisition, we merged Grand Bank into Macatawa Bank effective January 1, 2003 with the combined bank named Macatawa Bank. At the same time, Grand Bank Mortgage Company was merged into Macatawa Bank Mortgage Company.

Macatawa Bank is a Michigan chartered bank with depository accounts insured by the Federal Deposit Insurance Corporation. The bank operates twenty-four branch offices and a lending and operational service facility offering commercial and personal banking services, including checking and savings accounts (including certificates of deposit), cash management, safe deposit boxes, travelers checks, money orders, trust services and commercial, mortgage and consumer loans in Kent County, Ottawa County, and northern Allegan County, Michigan. Other service delivery channels we offer include ATMs, internet banking, telephone banking and debit cards. Macatawa Bank provides various brokerage services including discount brokerage through Infinex, personal financial planning and consultation regarding mutual funds. Macatawa Statutory Trust I is a grantor trust that issued a pooled trust preferred security in July, 2003. Macatawa Statutory Trust II is a grantor trust that issued a pooled trust preferred security in March, 2004. Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, originates and sells residential mortgage loans into the secondary market on a servicing released basis. As of December 31, 2006, we had total assets of \$2.07 billion, total deposits of \$1.67 billion, approximately 96,000 deposit accounts and shareholders' equity of \$156.8 million.

Our headquarters and administrative offices are located at 10753 Macatawa Drive, Holland, Michigan 49424, and our telephone number is (616) 820-1444. Our internet website address is [www.macatawabank.com](http://www.macatawabank.com). We make available free of charge through this website our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after filing such reports with the Securities and Exchange Commission. The reference to our website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

## Products and Services

**Deposit Services.** We offer a broad range of deposit services, including checking accounts, savings accounts and time deposits of various types. Transaction accounts and savings and time certificates are tailored to the principal market area at rates competitive with those offered in the area. All deposit accounts are insured by the FDIC up to the maximum amount permitted by law. We solicit these accounts from individuals, businesses, associations, churches, nonprofit organizations, financial institutions and government authorities. We may also use alternative funding sources as needed, including short-term borrowings, advances from Federal Home Loan Banks, securities sold under agreements to repurchase ( repo borrowings ) and certificates of deposit purchased from brokers and the packaging of loans for securitization and sale.

Deposits are gathered primarily from the communities we serve through our network of 24 branches. We offer business and consumer checking accounts, regular and money market savings accounts, and certificates of deposit having many options in their terms.

We set our deposit pricing to be competitive with other banks in our market area. This has enabled us to increase deposits from new, as well as existing customers, while maintaining a healthy net interest margin. We periodically purchase brokered deposits to supplement funding needs. These are time accounts originated outside of our local market area. Brokered deposits comprised approximately 16% of total deposits at December 31, 2006 and approximately 19% at December 31, 2005. We operate in a very competitive environment, competing with other local banks similar in size and significantly larger regional banks. We monitor rates at other financial institutions in the area to ascertain that our rates are competitive with the market. We also attempt to offer a wide variety of products to meet the needs of our customers.

**Deposit Portfolio Composition.** The following table sets forth the average deposit balances and the weighted average rates paid thereon.

(Dollars in thousands)

|                            | Average for the Year |              |                     |              |                     |              |
|----------------------------|----------------------|--------------|---------------------|--------------|---------------------|--------------|
|                            | 2006                 |              | 2005                |              | 2004                |              |
|                            | Amount               | Average Rate | Amount              | Average Rate | Amount              | Average Rate |
| Noninterest bearing demand | \$ 167,144           | --           | \$ 164,184          | --           | \$ 139,510          | --           |
| Interest bearing demand    | 655,549              | 3.3%         | 608,718             | 2.0%         | 587,834             | 1.2%         |
| Savings                    | 40,827               | 0.6%         | 40,674              | 0.5%         | 38,266              | 0.2%         |
| Time                       | 710,924              | 4.5%         | 576,843             | 3.5%         | 435,005             | 2.8%         |
| <b>Total deposits</b>      | <b>\$ 1,574,444</b>  | <b>3.4%</b>  | <b>\$ 1,390,419</b> | <b>2.3%</b>  | <b>\$ 1,200,615</b> | <b>1.6%</b>  |

The following table summarizes time deposits in amounts of \$100,000 or more by time remaining until maturity as of December 31, 2006:

(Dollars in thousands)

|                                | Amount            |
|--------------------------------|-------------------|
| Three months or less           | \$ 161,733        |
| Over 3 months through 6 months | 61,176            |
| Over 6 months through 1 year   | 88,776            |
| Over 1 year                    | 192,589           |
| <b>Total</b>                   | <b>\$ 504,274</b> |

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*Lending Activities.*

**Loan Portfolio Composition.** The following table reflects the composition of our loan portfolio and the corresponding percentage of our total loans represented by each class of loans as of the dates indicated.

(Dollars in thousands)

**Year Ended December 31**

|                                    | 2006                |             | 2005                |             | 2004                |             | 2003                |             | 2002              |             |
|------------------------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|-------------------|-------------|
|                                    | Amount              | %           | Amount              | %           | Amount              | %           | Amount              | %           | Amount            | %           |
| Commercial real estate             | \$ 875,717          | 51%         | \$ 793,919          | 51%         | \$ 676,637          | 48%         | \$ 536,884          | 46%         | \$ 417,757        | 44%         |
| Residential real estate            | 224,836             | 13%         | 223,390             | 15%         | 218,999             | 16%         | 172,647             | 15%         | 133,843           | 14%         |
| Other commercial                   | 416,135             | 25%         | 359,036             | 23%         | 338,398             | 24%         | 312,131             | 27%         | 279,923           | 29%         |
| Consumer                           | 194,762             | 11%         | 171,534             | 11%         | 162,353             | 12%         | 135,445             | 12%         | 129,515           | 13%         |
| <b>Total loans</b>                 | <b>\$ 1,711,450</b> | <b>100%</b> | <b>\$ 1,547,879</b> | <b>100%</b> | <b>\$ 1,396,387</b> | <b>100%</b> | <b>\$ 1,157,107</b> | <b>100%</b> | <b>\$ 961,038</b> | <b>100%</b> |
| Less:                              |                     |             |                     |             |                     |             |                     |             |                   |             |
| Allowance for loan losses          | (23,259)            |             | (20,992)            |             | (19,251)            |             | (16,093)            |             | (13,472)          |             |
| <b>Total loans receivable, net</b> | <b>\$ 1,688,191</b> |             | <b>\$ 1,526,887</b> |             | <b>\$ 1,377,136</b> |             | <b>\$ 1,141,014</b> |             | <b>\$ 947,566</b> |             |

**Nonperforming Assets.** The following table shows the composition and amount of our nonperforming assets.

**December 31**

(Dollars in thousands)

|                                                     | 2006             | 2005            | 2004            | 2003            | 2002            |
|-----------------------------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| Nonaccrual loans                                    | \$ 5,811         | \$ 3,977        | \$ 3,249        | \$ 1,717        | \$ 2,539        |
| Loans 90 days or more delinquent and still accruing | 16,479           | 227             | 772             | 2,308           | 259             |
| Restructured loans                                  | --               | --              | --              | --              | --              |
| <b>Total nonperforming loans</b>                    | <b>\$ 22,290</b> | <b>\$ 4,204</b> | <b>\$ 4,021</b> | <b>\$ 4,025</b> | <b>\$ 2,798</b> |
| Foreclosed assets                                   | 3,212            | 527             | 1,850           | 464             | 388             |
| Repossessed assets                                  | 81               | 165             | --              | 4               | 58              |
| <b>Total nonperforming assets</b>                   | <b>\$ 25,583</b> | <b>\$ 4,896</b> | <b>\$ 5,871</b> | <b>\$ 4,493</b> | <b>\$ 3,244</b> |
| Nonperforming loans to total loans                  | 1.30%            | .27%            | .29%            | .35%            | .29%            |
| Nonperforming assets to total assets                | 1.23%            | .26%            | .35%            | .32%            | .28%            |

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**Loan Loss Experience.** The following is a summary of our loan balances at the end of each period and the daily average balances of these loans. It also includes changes in the allowance for loan losses arising from loans charged-off and recoveries on loans previously charged-off, and additions to the allowance which we have expensed.

| (Dollars in thousands)                                     | December 31      |                  |                  |                  |                  |
|------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
|                                                            | 2006             | 2005             | 2004             | 2003             | 2002             |
| <b>Loans:</b>                                              |                  |                  |                  |                  |                  |
| Average daily balance of loans for the year                | \$ 1,636,710     | \$ 1,473,558     | \$ 1,295,887     | \$ 1,046,723     | \$ 831,709       |
| Amount of loans outstanding at end of period               | 1,711,450        | 1,547,879        | 1,396,387        | 1,157,107        | 961,038          |
| <b>Allowance for loan losses:</b>                          |                  |                  |                  |                  |                  |
| Balance at beginning of year                               | \$ 20,992        | \$ 19,251        | \$ 16,093        | \$ 13,472        | \$ 7,699         |
| Balances from GBFC acquisition                             | --               | --               | --               | --               | 3,464            |
| Addition to allowance charged to operations                | 7,715            | 3,675            | 7,890            | 4,105            | 3,321            |
| <b>Loans charged-off:</b>                                  |                  |                  |                  |                  |                  |
| Commercial                                                 | (5,601)          | (1,842)          | (4,833)          | (1,308)          | (1,143)          |
| Residential Real Estate                                    | (43)             | (24)             | (21)             | (50)             | --               |
| Consumer                                                   | (410)            | (371)            | (91)             | (187)            | (128)            |
| <b>Recoveries:</b>                                         |                  |                  |                  |                  |                  |
| Commercial                                                 | 399              | 261              | 180              | 26               | 249              |
| Residential Real Estate                                    | 10               | 17               | 11               | 17               | --               |
| Consumer                                                   | 197              | 25               | 22               | 18               | 10               |
| <b>Balance at end of year</b>                              | <b>\$ 23,259</b> | <b>\$ 20,992</b> | <b>\$ 19,251</b> | <b>\$ 16,093</b> | <b>\$ 13,472</b> |
| <b>Ratios:</b>                                             |                  |                  |                  |                  |                  |
| Net charge-offs to average loans outstanding               | 0.33%            | .13%             | .37%             | .14%             | .12%             |
| Allowance for loan losses to loans outstanding at year end | 1.36%            | 1.36%            | 1.38%            | 1.39%            | 1.40%            |

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**Allocation of the Allowance for Loan Losses.** The following table shows the allocation of the allowance for loan loss at the dates indicated to the extent specific allocations have been determined relative to particular loans.

(Dollars in thousands)

**Year Ended December 31**

|                                       | 2006                |                                               | 2005                |                                               | 2004                |                                               | 2003                |                                               | 2002                |                                               |
|---------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|
|                                       | Allowance<br>Amount | % of<br>Each<br>Category<br>to Total<br>Loans | Allowance<br>Amount | % of<br>Each<br>Category<br>to Total<br>Loans | Allowance<br>Amount | % of<br>Each<br>Category<br>to Total<br>Loans | Allowance<br>Amount | % of<br>Each<br>Category<br>to Total<br>Loans | Allowance<br>Amount | % of<br>Each<br>Category<br>to Total<br>Loans |
| Commercial and commercial real estate | \$ 21,417           | 75.5%                                         | \$ 18,883           | 74.5%                                         | \$ 17,324           | 72.7%                                         | \$ 14,371           | 73.4%                                         | \$ 11,207           | 72.6%                                         |
| Real estate mortgages                 | 502                 | 13.1%                                         | 463                 | 14.4%                                         | 476                 | 15.7%                                         | 360                 | 14.9%                                         | 326                 | 13.9%                                         |
| Consumer                              | 1,340               | 11.4%                                         | 1,646               | 11.1%                                         | 1,243               | 11.6%                                         | 1,074               | 11.7%                                         | 950                 | 13.5%                                         |
| Unallocated                           | --                  | --                                            | --                  | --                                            | 208                 | --                                            | 288                 | --                                            | 989                 | --                                            |
| <b>Total</b>                          | <b>\$ 23,259</b>    | <b>100%</b>                                   | <b>\$ 20,992</b>    | <b>100%</b>                                   | <b>\$ 19,251</b>    | <b>100%</b>                                   | <b>\$ 16,093</b>    | <b>100.0%</b>                                 | <b>\$ 13,472</b>    | <b>100.0%</b>                                 |

**Maturities and Sensitivities of Loans to Changes in Interest Rates.** The following table shows the amount of total loans outstanding as of December 31, 2006 which, based on remaining scheduled repayments of principal, are due in the periods indicated.

(dollars in thousands)

**Maturing**

|                                    | Within One<br>Year | After One, But<br>Within Five<br>Years | After Five Years  | Total               |
|------------------------------------|--------------------|----------------------------------------|-------------------|---------------------|
| Commercial real estate             | \$ 335,543         | \$ 492,269                             | \$ 47,905         | \$ 875,717          |
| Residential real estate            | 57,551             | 40,233                                 | 127,052           | 224,836             |
| Other commercial                   | 240,629            | 173,888                                | 1,618             | 416,135             |
| Consumer                           | 13,368             | 81,890                                 | 99,504            | 194,762             |
| <b>Totals</b>                      | <b>\$ 647,091</b>  | <b>\$ 788,280</b>                      | <b>\$ 276,079</b> | <b>\$ 1,711,450</b> |
| Allowance for loan losses          |                    |                                        |                   | (23,259)            |
| <b>Total loans receivable, net</b> |                    |                                        |                   | <b>\$ 1,688,191</b> |

**Interest Sensitivity.** Below is a schedule of the loan amounts maturing or repricing which are classified according to their sensitivity to changes in interest rates at December 31, 2006.

(dollars in thousands)

|                                       | Fixed Rate (a) | Variable Rate (a) | Total      |
|---------------------------------------|----------------|-------------------|------------|
| Due within 3 months                   | \$ 49,874      | \$ 779,876        | \$ 829,750 |
| Due after 3 months, but within 1 year | 95,359         | 35,378            | 130,737    |
| Due after one but within 5 years      | 533,001        | 115,532           | 648,533    |
| Due after 5 years                     | 94,714         | 1,905             | 96,619     |

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| (dollars in thousands)      | <b>Fixed Rate (a)</b> | <b>Variable Rate (a)</b> | <b>Total</b> |
|-----------------------------|-----------------------|--------------------------|--------------|
| Total                       | \$ 772,948            | \$ 932,691               | \$ 1,705,639 |
|                             | <hr/>                 | <hr/>                    | <hr/>        |
| Allowance for loan losses   |                       |                          | (23,259)     |
|                             |                       |                          | <hr/>        |
| Total loans receivable, net |                       |                          | \$ 1,682,380 |
|                             |                       |                          | <hr/>        |

(a) Does not include loans on non-accrual.

**Residential Real Estate Loans.** We originate residential mortgage loans, which are generally long-term with either fixed or variable interest rates. Our general policy, which is subject to review by our management as a result of changing market and economic conditions and other factors, is to sell in the secondary market the majority of residential mortgage loans originated. Residential mortgage loan originations derive from a number of sources, including advertising, direct solicitation, real estate broker referrals, existing borrowers and depositors, builders and walk-in customers. Loan applications are accepted at most of our offices. The substantial majority of these loans are secured by properties in our market area.



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Our variable rate mortgage loans are fully amortizing loans with contractual maturities of up to 30 years. These loans generally carry interest rates which are reset to a stated margin over an independent index, generally the one-, three- or five-year constant maturity treasury index. Increases or decreases in the interest rate of our variable rate mortgage loans are generally limited to 2% annually with lifetime interest rate caps of 6% over the initial interest rate. Our variable rate mortgage loans may be convertible into fixed rate loans upon payment of a fee, do not contain prepayment penalties and do not produce negative amortization. Initial interest rates offered on our variable rate mortgage loans may be below the fully indexed rate, although borrowers are generally qualified at the fully indexed rate.

We also offer fixed rate mortgage loans to owner occupants with maturities up to 30 years, which conform to secondary market standards. Interest rates charged on these fixed rate loans are priced on a daily basis according to market conditions. These loans generally do not include prepayment penalties. We currently sell long-term, conforming fixed-rate loans which we originated with terms of 15 years or greater, in the secondary market.

Generally we originate residential mortgage loans with loan-to-value ratios not to exceed 80%. For loans with loan-to-value ratios that equal or exceed 90% at origination, we require private mortgage insurance in an amount sufficient to reduce our exposure to 80% or less of the lower of the appraised value or purchase price of the underlying collateral. In underwriting one- to four-family residential real estate loans, we evaluate both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing one- to four-family residential real estate loans that we made are appraised by independent appraisers. We require borrowers to obtain title insurance and fire, property and, if necessary, flood insurance.

**Multi-Family and Commercial Real Estate Loans.** We originate permanent loans secured by multi-family and commercial real estate. Our permanent multi-family and commercial real estate loan portfolio includes loans secured by apartment buildings, condominiums, small office buildings, small business facilities, medical facilities and other non-residential building properties, substantially all of which are located within our primary market area.

Permanent multi-family and commercial real estate loans have a maximum maturity of 10 years with an amortization period of up to 20 years. Most of these loans, however, have maturities of 5 years or less with amortization periods of 15 and 20 years. Multi-family loans and commercial real estate loans are generally written in amounts of up to 80% of the lesser of the appraised value of the property or the purchase price, and borrowers are generally personally liable for all or part of the indebtedness.

Appraisals on properties securing multi-family and commercial real estate loans that we originate are primarily performed by independent appraisers who we designate at the time the loan is made. Management reviews all appraisals on multi-family and commercial real estate loans. In addition, our underwriting procedures generally require verification of the borrower's credit history, income and financial statements, banking relationships, references, and historical and projected cash flows for the property that indicate minimum debt service coverage ratios.

Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate project. If cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. For example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations, cash flow from the project will be reduced.

**Construction and Development Loans.** We make construction loans to individuals for the construction of their residences. Construction loans are also made to builders and developers for the construction of one- to four-family residences and the development of one- to four-family lots, residential subdivisions, condominium developments and other commercial developments.

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Construction loans to individuals for their residences are structured to be converted to permanent loans at the end of the construction phase, which typically runs six to nine months. These construction loans have rates and terms which generally match one- to four-family loans then offered by us, except that during the construction phase, the borrower pays interest only. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential loans.

Construction loans to builders of one- to four-family residences generally require the payment of interest only for up to one year with adjustable rates. These loans may also provide for the payment of loan fees from loan proceeds. We also make loans to builders for the purpose of developing one- to four-family lots and residential condominium projects. These loans typically have terms of two years or less with maximum loan to value ratios of 80%. These loans may provide for the payment of loan fees from loan proceeds. Loan principal is typically paid down as lots or units are sold.

Construction and development loans are obtained principally through continued business from developers and builders who have previously borrowed from us, as well as referrals from existing customers. As part of the application process, the applicant must submit accurate plans, specifications and costs of the project to be constructed or developed to us. These items are used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of current appraised value and/or the cost of construction (land plus building). Construction and development loans to borrowers other than owner-occupants involve many of the same risks discussed above regarding multi-family and commercial real estate loans and tend to be more sensitive to general economic conditions than many other types of loans. Further, because of the uncertainties inherent in estimating development and construction costs and the market for the project upon completion, it is relatively difficult to evaluate accurately the total loan funds required to complete a project, the related loan-to-value ratios and the likelihood of ultimate success of the project.

**Commercial Business Loans.** Our commercial business lending portfolio contains loans with a variety of purposes and security, including loans to finance operations and equipment. Generally, our commercial business lending has been limited to borrowers headquartered, or doing business, in our primary market area.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

**Consumer Loans.** We originate a variety of different types of consumer loans, including automobile loans, home equity lines of credit and installment loans, home improvement loans, deposit account loans and other loans for household and personal purposes. Our automobile loans typically are originated at fixed interest rates with terms up to 60 months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the National Automobile Dealers Association book value of the automobile securing the loan.

Our home equity installment loans are written so that the total commitment amount, when combined with the balance of the first mortgage lien, generally will not exceed the greater of 90% of the appraised value of the property or 90% of two times the Michigan real estate assessment value. These loans have a maximum maturity of 5 years with an amortization period of up to 15 years, and carry fixed rates of interest.

We also originate home equity lines of credit utilizing the same underwriting standards as for home equity installment loans. Home equity lines of credit are revolving line of credit loans. The majority of our existing home equity line of credit portfolio has adjustable rates, interest only payments and a maximum maturity of ten years.

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The underwriting standards that we employ for consumer loans include a determination of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount. Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

**Securities.** Our security portfolio is classified as either available for sale or held to maturity. Securities classified as available for sale may be sold prior to maturity due to changes in interest rates, prepayment risks, and availability of alternative investments, or to meet our liquidity needs. The primary objective of our investing activities is to provide for the safety of the principal invested. Our secondary considerations include the maximization of earnings, liquidity and to help decrease our overall exposure to changes in interest rates. The following table reflects the composition of our securities portfolio as of the dates indicated.

(Dollars in thousands)

|                                            | Year Ended December 31 |            |            |
|--------------------------------------------|------------------------|------------|------------|
|                                            | 2006                   | 2005       | 2004       |
| U.S. Treasury and U.S. Government Agencies | \$ 146,910             | \$ 108,561 | \$ 91,399  |
| State and municipal bonds                  | 53,366                 | 51,049     | 48,402     |
| Other equity securities                    | 981                    | 993        | ---        |
| Total                                      | \$ 201,257             | \$ 160,603 | \$ 139,801 |

Excluding our investment portfolio holdings in U.S. Treasury and U.S. Government Agency Securities, we had no investments in securities of any one issuer which exceeded 10% of shareholders' equity.

**Schedule of Maturities of Investment Securities and Weighted Average Yields.** The following is a schedule of investment security maturities and their weighted average yield by category at December 31, 2006.

| (dollars in thousands)                     | Due Within<br>One Year |                  | One to<br>Five Years |                  | Five to<br>Ten Years |                  | After<br>Ten Years |                  | Investments with<br>No Contractual<br>Maturity |                  |
|--------------------------------------------|------------------------|------------------|----------------------|------------------|----------------------|------------------|--------------------|------------------|------------------------------------------------|------------------|
|                                            | Amount                 | Average<br>Yield | Amount               | Average<br>Yield | Amount               | Average<br>Yield | Amount             | Average<br>Yield | Amount                                         | Average<br>Yield |
| U.S. Treasury and U.S. Government Agencies | \$ 7,944               | 3.89%            | \$ 138,805           | 4.42%            | \$ 29                | 8.08%            | \$ 132             | 5.35%            | --                                             | --               |
| Tax-exempt state and municipal bonds (1)   | 715                    | 4.10%            | 3,418                | 6.52%            | 20,719               | 6.24%            | 28,514             | 6.02%            | --                                             | --               |
| Other equity securities                    | --                     | --               | --                   | --               | --                   | --               | --                 | --               | 981                                            | 4.28%            |
| Total (1)                                  | \$ 8,659               | 3.91%            | \$ 142,223           | 4.47%            | \$ 20,748            | 6.24%            | \$ 28,646          | 6.02%            | 981                                            | 4.28%            |

(1) Yields on tax-exempt securities are computed on a fully taxable-equivalent basis.

**Trust Services.** We began offering trust services in January 1999, to further provide for the financial needs of our customers. With the acquisition of Grand Bank in April 2002 our trust assets increased by over \$500 million and as of December 31, 2006, the Trust Department had assets of approximately \$1.04 billion. Our types of service include both personal trust and retirement plan services.

Our personal trust services include financial planning, investment management services, trust and estate administration and custodial services. As of December 31, 2006, our personal trust assets totaled approximately \$896.0 million.

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Our retirement plan services provide all types of qualified retirement plans including profit sharing, 401(k)s and pension plans. As of December 31, 2006, our retirement plan assets totaled approximately \$143.3 million.

## **Market Area**

Our market area of Ottawa, Kent and northern Allegan Counties are located in western Michigan. This area consists of two mid-sized cities, Grand Rapids and Holland, and rural areas. Grand Rapids is the second largest city in Michigan and Holland is the largest city in Ottawa County. Both cities and surrounding areas have a solid and diverse economic base, which includes tourism, office furniture, automotive components and assemblies, health services, pharmaceutical, transportation, equipment, food and construction supplies. Companies operating in the market area include Steelcase, Herman Miller, Alticor, Gentex, Spectrum Health, Haworth, Johnson Controls, General Motors, Gerber, SPX, Magna Donnelly, and Meijer.

Much of our success as a retail and small to mid-sized business lender has been due to our market area's favorable population, housing and income demographics. Population within our three county market area grew by 20.6% from 1990 to 2002. Household income levels in our market area exceed state and national levels while unemployment levels are generally below state levels but above national levels.

## **Competition**

Our primary market area includes Ottawa County, Kent County and northern Allegan County, all located in Western Michigan. There are many bank, thrift and credit union offices located within our market area. Most are branches of larger financial institutions. We also face competition from finance companies, insurance companies, mortgage companies, securities brokerage firms, money market funds and other providers of financial services. Many of our competitors have been in business a number of years, have established customer bases, are larger and have higher lending limits than we do. We compete for loans principally through our ability to communicate effectively with our customers and to understand and meet their needs. Our management believes that our personal service philosophy enhances our ability to compete favorably in attracting individuals and small businesses. We actively solicit customers and compete for deposits by offering our customers personal attention, professional service, and competitive interest rates.

## **Environmental Matters**

We do not believe that existing environmental regulations will have any material effect upon our capital expenditures, our earnings or our competitive position.

## **Employees**

As of December 31, 2006, we had 357 full-time and 115 part-time employees. We have assembled a staff of experienced, dedicated and highly qualified professionals whose goal is to provide outstanding service. The majority of our management team has at least 10 years of banking experience, and several key personnel have more than 20 years of banking experience. None of our employees is represented by collective bargaining agreements with us.

## **Acquisition of Grand Bank**

On April 1, 2002, Grand Bank Financial Corporation was merged into Macatawa Bank Corporation. Macatawa Bank Corporation became the holding company for Grand Bank. Effective January 1, 2003, Grand Bank was merged into Macatawa Bank.

**SUPERVISION AND REGULATION**

*The following is a summary of certain statutes and regulations affecting Macatawa Bank Corporation and Macatawa Bank. This summary is qualified in its entirety by such statutes and regulations. A change in applicable laws or regulations may have a material effect on us and our business.*

**General**

Financial institutions and their holding companies are extensively regulated under federal and state law. Consequently, our growth and earnings performance can be affected not only by management decisions and general economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those authorities include, but are not limited to, the Board of Governors of the Federal Reserve System (the Federal Reserve Board), the FDIC, the Commissioner of the Michigan Office of Financial and Insurance Services (Commissioner), the Internal Revenue Service, and state taxing authorities. The effect of such statutes, regulations and policies can be significant, and cannot be predicted with a high degree of certainty.

Federal and state laws and regulations generally applicable to financial institutions and their holding companies regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, lending activities and practices, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to us and our bank establishes a comprehensive framework for our respective operations and is intended primarily for the protection of the FDIC's deposit insurance funds, our depositors, and the public, rather than our shareholders.

Federal law and regulations establish supervisory standards applicable to the lending activities of our bank, including internal controls, credit underwriting, loan documentation and loan-to-value ratios for loans secured by real property.

Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, is subject to various state and federal regulations.

**Macatawa Bank Corporation**

**General.** On January 9, 2002, Macatawa Bank Corporation became a financial holding company, within the meaning of the Gramm-Leach-Bliley Act of 1999 (GLB Act), and is registered with, and subject to regulation by, the Federal Reserve Board under the Bank Holding Company Act, as amended (the BHCA). Under the BHCA, we are subject to periodic examination by the Federal Reserve Board, and are required to file with the Federal Reserve Board periodic reports of our operations and such additional information as the Federal Reserve Board may require.

In accordance with Federal Reserve Board policy, we are expected to act as a source of financial strength to Macatawa Bank and to commit resources to support Macatawa Bank in circumstances where we might not do so absent such policy. In addition, if the Commissioner deems Macatawa Bank's capital to be impaired, the Commissioner may require Macatawa Bank to restore its capital by a special assessment upon us as the bank's sole shareholder. If we were to fail to pay any such assessment, the directors of Macatawa Bank would be required, under Michigan law, to sell the shares of the bank's stock owned by us to the highest bidder at either a public or private auction and use the proceeds of the sale to restore the bank's capital.

**Investments and Activities.** In general, any direct or indirect acquisition by us of any voting shares of any bank which would result in our direct or indirect ownership or control of more than 5% of any class of voting shares of such bank, and any merger or consolidation between us and another financial holding company or bank holding company, will require the prior written approval of the Federal Reserve Board under the BHCA. No Federal Reserve Board approval is required for us to acquire a company, other than a bank holding company or bank, engaged in activities that are financial in nature as determined by the Federal Reserve Board.

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The merger or consolidation of an existing bank subsidiary of ours with another bank, or the acquisition by such a subsidiary of assets of another bank, or the assumption of liability by such a subsidiary to pay any deposits in another bank, will require the prior written approval of the responsible Federal depository institution regulatory agency under the Bank Merger Act. In addition, in certain such cases an application to, and the prior approval of, the Federal Reserve Board under the BHCA and/or the Commissioner under the Michigan Banking Code, may be required.

Financial holding companies, like us, may engage in various lending, advisory, insurance and insurance underwriting, securities underwriting, dealing and market making, and merchant banking activities (as well as those activities previously approved for bank holding companies by the Federal Reserve Board) together with such other activities as may be determined by the Federal Reserve Board (in coordination with other regulatory authorities) to be financial in nature, incidental to any such financial activity, or complimentary to any such financial activity, and which do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. In order to maintain the benefits and flexibility of being a financial holding company, each of our subsidiary depository institutions must continue to be well-capitalized and well-managed under applicable regulatory standards and each subsidiary depository institution must maintain at least a satisfactory or above Community Reinvestment Act rating.

**Capital Requirements.** The Federal Reserve Board uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other items, be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve Board's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a leverage capital requirement expressed as a percentage of total average assets, and (ii) a risk-based requirement expressed as a percentage of total risk-weighted assets. The leverage capital requirement consists of a minimum ratio of Tier 1 capital (which consists principally of shareholders' equity) to total average assets of 3% for the most highly rated companies, with minimum requirements of 4% to 5% for all others. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital.

**Dividends.** Macatawa Bank Corporation is a corporation separate and distinct from Macatawa Bank. Most of our revenues are dividends paid by our bank. Thus, our ability to pay dividends to our shareholders is indirectly limited by statutory restrictions on our bank's ability to pay dividends described below. Further, in a policy statement, the Federal Reserve Board has expressed its view that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. Additionally, the Federal Reserve Board possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. Similar enforcement powers over our bank are possessed by the FDIC. The prompt corrective action provisions of federal law and regulation authorizes the Federal Reserve Board to restrict the payment of dividends by us for an insured bank which fails to meet specified capital levels.

In addition to the restrictions on dividends imposed by the Federal Reserve Board, the Michigan Business Corporation Act provides that dividends may be legally declared or paid only if after the distribution a corporation, like us, can pay its debts as they come due in the usual course of business and its total assets equal or exceed the sum of its liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of any holders of preferred stock whose preferential rights are superior to those receiving the distribution.

**Federal Securities Regulation.** Our common stock is registered with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Sarbanes-Oxley Act of 2002 provides for numerous changes to the reporting, accounting, corporate governance and business practices of companies as well as financial and other professionals who have involvement with the U.S. public markets. The SEC continues to issue new and proposed rules implementing various provisions of the Sarbanes-Oxley Act.

**Macatawa Bank**

**General.** Macatawa Bank is a Michigan banking corporation, and its deposit accounts are insured by the Bank Insurance Fund (the BIF) of the FDIC. As a BIF insured Michigan chartered bank, Macatawa Bank is subject to the examination, supervision, reporting and enforcement requirements of the Commissioner, as the chartering authority for Michigan banks, and the FDIC, as administrator of BIF. These agencies and the federal and state laws applicable to our bank and its operations, extensively regulate various aspects of the banking business including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of non-interest bearing reserves on deposit accounts, and the safety and soundness of banking practices. Grand Bank was also subject to the same supervision and regulation until its merger into Macatawa Bank effective January 1, 2003.

**Deposit Insurance.** As an FDIC-insured institution, we are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of four categories and assessed insurance premiums, based upon their respective levels of capital and results of supervisory evaluation. Institutions classified as well-capitalized (as defined by the FDIC) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (as defined by the FDIC) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

The Federal Deposit Insurance Act (FDIA) required the FDIC to establish assessment rates at levels which would maintain the Deposit Insurance Fund at a mandated reserve ratio of not less than 1.25% of estimated insured deposits. On February 8, 2006 The Federal Deposit Insurance Reform Act of 2005 (the Reform Act) was signed into law. The Reform Act provides for the establishment of a range of 1.15% to 1.50% within which the FDIC Board of Directors may set the Designated Reserve Ratio (DRR). The Reform Act allows the FDIC to manage the pace at which the reserve ratio varies within this range. On November 2, 2006, the FDIC adopted new premium rates for 2007, stating they were needed to offset continued strong growth in insured deposits that is lowering the Deposit Insurance Fund ratio. Banks that have been paying zero in deposit insurance premiums for the past ten years will now be required to pay premiums of 5 to 7 basis points in 2007. Under the new rate schedule, most well-capitalized banks will pay 5 to 7 basis points annually. That rate increases to 43 basis points for banks that pose significant supervisory concerns.

**FICO Assessments.** Our bank, as a member of the BIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation (FICO). FICO was created to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the predecessor to the FDIC's Savings Association Insurance Fund (the SAIF) which insures the deposits of thrift institutions. From now until the maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a *pro rata* basis. It is estimated that FICO assessments during this period will be less than 0.025% of deposits.

**Commissioner Assessments.** Michigan banks are required to pay supervisory fees to the Commissioner to fund the operations of the Commissioner. The amount of supervisory fees paid by a bank is based upon the bank's total assets, as reported to the Commissioner.

**Capital Requirements.** The FDIC has established the following minimum capital standards for state-chartered, FDIC insured non-member banks, such as Macatawa Bank: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total average assets of 3% for the most highly-rated banks with minimum requirements of 4% to 5% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. Tier 1 capital consists principally of shareholders' equity. These capital requirements are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions.



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Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized. Federal regulations define these capital categories as follows:

|                                | <b>Total<br/>Risk-Based<br/>Capital Ratio</b> | <b>Tier 1<br/>Risk-Based<br/>Capital Ratio</b> | <b>Leverage Ratio</b>                                          |
|--------------------------------|-----------------------------------------------|------------------------------------------------|----------------------------------------------------------------|
| Well capitalized               | 10% or above                                  | 6% or above                                    | 5% or above                                                    |
| Adequately capitalized         | 8% or above                                   | 4% or above                                    | 4% or above                                                    |
| Undercapitalized               | Less than 8%                                  | Less than 4%                                   | Less than 4%                                                   |
| Significantly undercapitalized | Less than 6%                                  | Less than 3%                                   | Less than 3%                                                   |
| Critically undercapitalized    | --                                            | --                                             | A ratio of tangible<br>equity to total assets<br>of 2% or less |

As of December 31, 2006, each of Macatawa Bank's ratios exceeded minimum requirements for the well capitalized category.

Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution.

In general, a depository institution may be reclassified to a lower category than is indicated by its capital levels if the appropriate federal depository institution regulatory agency determines the institution to be otherwise in an unsafe or unsound condition or to be engaged in an unsafe or unsound practice. This could include a failure by the institution, following receipt of a less-than-satisfactory rating on its most recent examination report, to correct the deficiency.

**Dividends.** Under Michigan law, our bank is restricted as to the maximum amount of dividends it may pay on its common stock. Our bank may not pay dividends except out of net income after deducting its losses and bad debts. A Michigan state bank may not declare or pay a dividend unless the bank will have surplus amounting to at least 20% of its capital after the payment of the dividend.

Federal law generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. The FDIC may prevent an insured bank from paying dividends if the bank is in default of payment of any assessment due to the FDIC. In addition, the FDIC may prohibit the payment of dividends by our bank, if such payment is determined, by reason of the financial condition of our bank, to be an unsafe and unsound banking practice.

**Insider Transactions.** Our bank is subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to us or our subsidiaries, on investments in the stock or other securities of us or our subsidiaries and the acceptance of the stock or other securities of us or our subsidiaries as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by our bank to its directors and officers, to our directors and officers, the directors and officers of our bank, to our principal shareholders and to related interests of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of our company or one of its subsidiaries or a principal shareholder in our company may obtain credit from banks with which our bank maintains a correspondent relationship.

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**Safety and Soundness Standards.** The federal banking agencies have adopted guidelines to promote the safety and soundness of federally insured depository institutions. These guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

**Investments and Other Activities.** Under federal law and FDIC regulations, FDIC insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law, as implemented by FDIC regulations, also prohibits FDIC insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. Impermissible investments and activities must be divested or discontinued within certain time frames set by the FDIC in accordance with federal law. These restrictions are not currently expected to have a material impact on the operations of our bank.

**Consumer Protection Laws.** Our bank's business includes making a variety of types of loans to individuals. In making these loans, we are subject to State usury and regulatory laws and to various federal statutes, including the privacy of consumer financial information provisions of the Gramm-Leach-Bliley Act and regulations promulgated thereunder, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Real Estate Settlement Procedures Act, and the Home Mortgage Disclosure Act, and the regulations promulgated thereunder, which prohibit discrimination, specify disclosures to be made to borrowers regarding credit and settlement costs, and regulate the mortgage loan servicing activities of our bank, including the maintenance and operation of escrow accounts and the transfer of mortgage loan servicing. In receiving deposits, our bank is subject to extensive regulation under State and federal law and regulations, including the Truth in Savings Act, the Expedited Funds Availability Act, the Bank Secrecy Act, the Electronic Funds Transfer Act, and the Federal Deposit Insurance Act. Violation of these laws could result in the imposition of significant damages and fines upon our bank and its directors and officers.

**Branching Authority.** Michigan banks have the authority under Michigan law to establish branches anywhere in the State of Michigan, subject to receipt of all required regulatory approvals. Banks may establish interstate branch networks through acquisitions of other banks. The establishment of de novo interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the Michigan Office of Financial and Insurance Services, Division of Financial Institutions, (1) acquisition of Michigan banks by FDIC-insured banks, savings banks or savings and loan associations located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank, savings bank or savings and loan association located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan.

### ITEM 1A: Risk Factors

*You should carefully consider the following risk factors, together with the other information provided in this Annual Report on Form 10-K.*

#### ***Changes in economic conditions or interest rates may negatively affect our earnings, capital and liquidity.***

The results of operations for financial institutions, including our bank, may be materially and adversely affected by changes in prevailing local and national economic conditions, including declines in real estate market values, rapid increases or decreases in interest rates and changes in the monetary and fiscal policies of the federal government. Our profitability is heavily influenced by the spread between the interest rates we earn on investments and loans and the interest rates we pay on deposits and other interest-bearing liabilities. Substantially all our loans are to businesses and individuals in western Michigan and any decline in the economy of this area could adversely affect us. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities may be such that they are affected differently by a given change in interest rates.

***Our credit losses could increase and our allowance for loan losses may not be adequate to cover actual loan losses.***

The risk of nonpayment of loans is inherent in all lending activities and nonpayment, if it occurs, may have a material adverse affect on our earnings and overall financial condition as well as the value of our common stock. We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for potential losses based on a number of factors. If our assumptions are wrong, our allowance for loan and lease losses may not be sufficient to cover our losses, thereby having an adverse affect on our operating results, and may cause us to increase the allowance in the future. The actual amount of future provisions for loan losses cannot now be determined and may exceed the amounts of past provisions. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review our allowance for credit losses. These regulatory agencies may require us to increase our provision for credit losses or to recognize further loan or lease charge-offs based upon their judgments, which may be different from ours. Any increase in the allowance for credit losses could have a negative effect on our net income, financial condition and results of operations.

***Our business is subject to various lending risks depending on the nature of the borrower's business, its cashflow and our collateral.***

*Repayment of our commercial loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value.* Our commercial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

*Our commercial real estate loans involve higher principal amounts than other loans, and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.* Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Because payments on loans secured by commercial real estate often depend upon the successful operating and management of the properties, repayment of such loans may be affected by factors outside the borrower's control, such as adverse conditions in the real estate market or the economy or changes in government regulation. If the cash flow from the project is reduced, the borrower's ability to repay the loan and the value of the security for the loan may be impaired.

*Our construction loans are based upon estimates of costs to construct and value associated with the completed project.* These estimates may be inaccurate. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, upon the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. Delays in completing the project may arise from labor problems, material shortages and other unpredictable contingencies. If the estimate of the cash of construction is inaccurate, we may be required to advance additional funds to complete construction. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of the project.

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*Our consumer loans generally have a higher risk of default than our other loans.* Consumer loans entail greater risk than our other loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy, all of which increase when the economy is weak. Furthermore, the application of various Federal and state laws, including Federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

***Litigation involving Trade Partners may have a material adverse effect on our financial condition.***

Item 3 of this Form 10-K includes information about the Trade Partners, Inc. receivership and pending legal actions involving Trade Partners, Inc., the Macatawa Bank Corporation and Macatawa Bank. If one or more of these legal actions is determined adversely to the Macatawa Bank Corporation and Macatawa Bank, or if one or more of these legal actions results in Macatawa Bank Corporation or Macatawa Bank paying a substantial settlement, then such adverse determination or settlement may have a material adverse effect on our financial condition.

***We may experience difficulties in managing our growth.***

To sustain our continued growth, we require additional capital to fund our expanding lending activities. As part of our strategy for continued growth, we intend to open additional branches. New branches often experience a period of unprofitability due to the impact of overhead expenses and the start-up phase of generating loans and deposits. To the extent that we continue to open additional branches, we may experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of net income, return on average equity and return on average assets.

In addition, we may acquire banks and related businesses that we believe provide a strategic fit with our business. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately or profitably manage such growth. Acquiring other banks and businesses involves risks commonly associated with acquisitions.

***We rely heavily on our management and other key personnel, and the loss of any of them may adversely effect our operations.***

We are and will continue to be dependent upon the services of our management team, including our President and Chief Executive Officer of Macatawa Bank, our Executive Vice President of Macatawa Bank, and our other senior managers and commercial lenders. Losing one or more key members of the management team could adversely affect our operations. We do not maintain key man life insurance on any of our officers or directors.

***Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.***

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. We compete for deposits, loans and other financial services with numerous Michigan-based and out-of-state banks, thrifts, credit unions and other financial institutions as well as other entities which provide financial services. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as we are. Most of our competitors have been in business for many years, have established customer bases, are larger, and have substantially higher lending limits than we do. The primary competitors in our market area include Fifth Third Bancorp, Huntington Bancshares, LaSalle Bank, and National City Corp. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

*We are subject to significant government regulation, and any regulatory changes may adversely affect us.*

The banking industry is heavily regulated under both federal and state law. These regulations are primarily intended to protect customers, not our creditors or shareholders. As a bank holding company, we are also subject to extensive regulation by the Federal Reserve, in addition to other regulatory and self-regulatory organizations. Our ability to establish new facilities or make acquisitions is conditioned upon the receipt of the required regulatory approvals from these organizations. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of such changes, which could have a material adverse effect on our profitability or financial condition.

*We continually encounter technological change, and we may have fewer resources than our competitors to continue to invest in technological improvements.*

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. There can be no assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

*Our articles of incorporation and by-laws and Michigan laws contain certain provisions that could make a takeover more difficult.*

Our articles of incorporation and by-laws, and the laws of Michigan, include provisions which are designed to provide our board of directors with time to consider whether a hostile takeover offer is in our best interest and the best interests of our shareholders. These provisions, however, could discourage potential acquisition proposals and could delay or prevent a change in control. The provisions also could diminish the opportunities for a holder of our common stock to participate in tender offers, including tender offers at a price above the then-current price for our common stock. These provisions could also prevent transactions in which our shareholders might otherwise receive a premium for their shares over then current market prices, and may limit the ability of our shareholders to approve transactions that they may deem to be in their best interests.

The Michigan Business Corporation Act contains provisions intended to protect shareholders and prohibit or discourage certain types of hostile takeover activities. In addition to these provisions and the provisions of our articles of incorporation and by-laws, Federal law requires the Federal Reserve Board's approval prior to acquisition of control of a bank holding company. All of these provisions may have the effect of delaying or preventing a change in control at the company level without action by our shareholders, and therefore, could adversely affect the price of our common stock.

*Our ability to pay dividends is limited by law and contract.*

We are a holding company and substantially all of our assets are held by our bank. Our ability to continue to make dividend payments to our shareholders will depend primarily on available cash resources at the holding company and dividends from our bank. Dividend payments or extensions of credit from our bank are subject to regulatory limitations, generally based on capital levels and current and retained earnings, imposed by regulatory agencies with authority over our bank. The ability of our bank to pay dividends is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. We also are prohibited from paying dividends on our common stock if the required payments on our subordinated debentures have not been made. We cannot assure you that our bank will be able to pay dividends to us in the future.

*The market price for our common stock fluctuates.*

The market price for our common stock has fluctuated, ranging between \$20.39 and \$25.07 for 2006. The overall market and the price of our common stock may continue to fluctuate. There may be a significant impact on the market price for our common stock due to, among other things:

- Variations in our anticipated or actual operating results or the results of our competitors;
- Changes in investors' or analysts' perceptions of the risks and conditions of our business;
- The size of the public float of our common stock;
- Regulatory developments;
- Market conditions; and
- General economic conditions.

Additionally, the average daily trading volume for our common stock as reported on the Nasdaq National Market was 35,148 shares during 2006, with daily volume ranging from a low of 5,824 shares to a high of 363,952 shares. There can be no assurance that a more active or consistent trading market in our common stock will develop. As a result, relatively small trades could have a significant impact on the price of our common stock.

**ITEM 1B: Unresolved Staff Comments.**

None.

**ITEM 2: Properties.**

We own or lease facilities located in Ottawa County, Allegan County and Kent County, Michigan. Our administrative offices are located at 10753 Macatawa Drive, Holland, Michigan 49424. Our administrative offices are approximately 49,000 square feet and contain our administration, human resources, trust, loan underwriting and processing, and deposit operations.

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Our facilities as of February 23, 2007, were as follows:

| Location of Facility                        | Use                                                      |
|---------------------------------------------|----------------------------------------------------------|
| 10753 Macatawa Drive, Holland               | Main Branch, Administrative, and Loan Processing Offices |
| 815 E. Main Street, Zeeland                 | Branch Office                                            |
| 125 Ottawa Avenue N.W., Grand Rapids*       | Trust and Mortgage Offices                               |
| 126 Ottawa Avenue N.W., Grand Rapids*       | Branch Office                                            |
| 141 E. 8th Street, Holland                  | Branch Office                                            |
| 489 Butternut Dr., Holland                  | Branch Office                                            |
| 701 Maple Avenue, Holland                   | Branch Office                                            |
| 699 E. 16th Street, Holland                 | Branch Office                                            |
| 41 N. State Street, Zeeland                 | Branch Office                                            |
| 2020 Baldwin Street, Jenison                | Branch Office                                            |
| 6299 Lake Michigan Dr., Allendale           | Branch Office                                            |
| 132 South Washington, Douglas               | Branch Office                                            |
| 4758 - 136th Street, Hamilton*              | Branch Office                                            |
| 3526 Chicago Drive, Hudsonville             | Branch Office                                            |
| 20 E. Lakewood Blvd., Holland               | Branch Office                                            |
| 3191 - 44th Street, S.W., Grandville        | Branch Office                                            |
| 2261 Byron Center Avenue S.W., Byron Center | Branch Office                                            |
| 5271 Clyde Park Avenue, S.W., Wyoming       | Branch Office and Loan Center                            |
| 4590 Cascade Road, Grand Rapids             | Branch Office                                            |
| 3177 Knapp Street, N.E., Grand Rapids       | Branch Office and Loan Center                            |
| 15135 Whittaker Way, Grand Haven            | Branch Office and Loan Center                            |
| 12415 Riley Street, Holland                 | Branch Office                                            |
| 2750 Walker N.W., Walker                    | Branch Office                                            |
| 1575 - 68th Street S.E., Grand Rapids       | Branch Office                                            |
| 2820 - 10 Mile Road, Rockford               | Branch Office                                            |
| 520 Baldwin Street, Jenison                 | Branch Office                                            |
| 2440 Burton Street, S.E., Grand Rapids      | Branch Office                                            |
| * Leased facility                           |                                                          |

We believe our facilities are well-maintained and adequately insured. Because of our growth, we are continually evaluating the need for additional space and branches.

**Item 3. LEGAL PROCEEDINGS.**

Please refer to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, (Part II, Item 1 Legal Proceedings) for information concerning legal proceedings related to Trade Partners, Inc.

A lawsuit was filed in April 2003 by John and Kathryn Brand in Oklahoma state court against Grand Bank, the Company, Trade Partners and certain individuals and entities associated with Trade Partners. The complaint seeks damages for the asserted breach of certain escrow agreements for which Grand Bank served as custodian and escrow agent. The claims asserted against the Company and Grand Bank in this action have been settled and dismissed with prejudice.

In May 2003, a purported class action complaint was filed by Forrest W. Jenkins and Russell S. Vail against the Company in the United States District Court for the District of Western Michigan. As amended, this suit alleges that Grand Bank breached escrow agreements and fiduciary duties and violated the Michigan Uniform Securities Act with respect to the investments secured by the purported class in viaticals and in interests in limited partnerships which made loans to Trade Partners secured by viaticals, and with respect to loans made by purported class members directly to Trade Partners. Plaintiffs' motion for class certification was denied in November 2006. The Company has answered this complaint denying the material allegations and raising certain affirmative defenses.

Following denial of class certification in the Jenkins case, nine new cases were filed in several different jurisdictions. These complaints are identical in all material respects other than the identity of the plaintiffs, and are substantially identical to the complaint in the Jenkins litigation. None of these complaints contain class action allegations, but the total number of named plaintiffs in all the nine cases is about 1,200. The cases are: Ronald Ash, et. al. v. Macatawa Bank Corporation, et. al. filed November 17, 2006 in the District Court for Oklahoma County, Oklahoma, subsequently removed by the Company to the United States District Court for the Western District of Oklahoma; Steven M. Adamson, et. al. v. Macatawa Bank Corporation, et. al. filed November 15, 2006 in the United States District Court for the Western District of Oklahoma; James Lee Myers et. al. v. Macatawa Bank Corporation, et. al. filed November 14, 2006 in the Superior Court for Los Angeles County, California, subsequently removed by the Company to the United States District Court for the Central District of California; Frank V. Bailey et. al. v. Macatawa Bank Corporation, et. al. filed November 29, 2006 in the United States District Court for the Northern District of Texas; Eddie Elkins, et. al. v. Macatawa Bank Corporation filed January 29, 2007 in the United States District Court for the Western District of Oklahoma; William A. Giese, et. al. v. Macatawa Bank Corporation, et. al. filed November 17, 2006 in the Circuit Court for Kent County, Michigan; Gerald Abraham, et. al. v. Macatawa Bank Corporation, et. al. filed November 29, 2006 in the Circuit Court for Kent County, Michigan; Jorge Acevedo, et. al. v. Macatawa Bank Corporation, et. al. filed December 17, 2006 in the Circuit Court for Kent County, Michigan; and Jose Javier Acasuso, et. al. v. Macatawa Bank Corporation, et. al. filed January 17, 2007 in the Circuit Court for Kent County, Michigan.

The Company believes it has meritorious defenses and intends to vigorously defend these cases.



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On April 15, 2003, the United States District Court for the Western District of Michigan appointed a receiver for Trade Partners. In order to prevent or minimize any loss to investors in the viaticals sold by Trade Partners to investors, the court-appointed receiver has been coordinating the payment of premiums on the approximately 1,000 outstanding viaticated insurance policies in the Trade Partners portfolio so that the policies do not lapse. The receiver informed the Company that nine policies with a total face value of approximately \$1.4 million lapsed for failure to pay premiums prior to the receiver's coordination efforts. In addition, the receiver unsuccessfully contested a partial lapse totaling about \$700,000.

The receiver has received court permission to pool the death benefits of any of the Trade Partners viaticated policies that mature and use the benefits to pay premiums on other viaticated policies. As of January 15, 2007, the receiver reported that he has received since the inception of the receivership cash payments for death benefit claims aggregating approximately \$29.3 million. He reported at the same time that all premium payments were current. He also reported at that time that he had paid premiums on the portfolio approximating \$14.0 million since the inception of the receivership. As of January 15, 2007 the receiver reported cash on hand of approximately \$51.9 million. As additional viaticated policies mature, death benefits from those policies could provide a source of funding for continued premium payments, though the receiver's ability to so use such benefits may be limited or eliminated by the terms of the sale of the portfolio to Universal Settlements International, Inc., described below.

On July 1, 2003, the United States District Court for the Western District of Michigan authorized the receiver to borrow money from Macatawa Bank to pay premiums, if needed. Macatawa Bank agreed to extend a \$4 million line of credit to the receiver, conditioned upon obtaining a security interest in the viaticals. No draws were made against the line, and the line expired during the fourth quarter of 2004.

The receiver received authorization from the Court in July 2005 to sell the entire portfolio, which the receiver said had a face value of approximately \$170 million, to Universal Settlements International, Inc., a Canadian company, for an amount equal to 26.58% of face value, or approximately \$43 million. Under the terms of the sale, payments are to be made by Universal Settlements to the receivership as policy transfers are processed by the issuing insurance companies. The receiver has reported that as of January 15, 2007 payments aggregating approximately \$35.4 million had been received on policies transferred pursuant to the sale agreement.

The receiver on July 21, 2006 filed a proposed amended plan of distribution and related disclosure statement, contemplating a complete liquidation of the assets of Trade Partners. The plan was approved by the Court on January 7, 2007. The receiver reported as of January 15, 2007 that claims against the receivership estate totaling \$169,244,173.13, and that all claims have now been processed.

The receiver reports that he commenced distributions on January 19, 2007. The initial distributions are approximately 26.987% of each allowed and approved claim. There may be additional distributions, but the Company does not know when they might be made or in what amount.

It is possible that one or more additional legal actions may be initiated involving the custodial and escrow agent services provided by Grand Bank in connection with Trade Partners. If any such legal actions are commenced, the Company intends to defend them vigorously. To the extent any pending or future claims allege errors or omissions on the part of Grand Bank or Macatawa Bank, Management believes that some or all liability, if any is proven or established, will be covered by errors and omissions insurance maintained by Grand Bank and Macatawa Bank. The Company has reported the Trade Partners matter to its two insurance carriers. Federal Insurance Company has assumed the Company's defense and has advanced a portion of its defense costs pursuant to a reservation of rights letter asserting certain coverage defenses, and an Interim Funding Agreement. Federal Insurance Company notified the Company on July 21, 2006 that it has filed an Arbitration Demand with the American Arbitration Association, seeking a declaration that based upon its asserted coverage defenses its policy does not cover this matter. The Company and Federal Insurance Company have agreed to defer any proceedings with respect to this Arbitration Demand. The Company believes that Federal Insurance Company is obligated to provide coverage, and the Company intends to vigorously pursue its rights under the insurance policy. The other carrier has taken the position that the duty of defense rests solely with the first carrier, and reserves its rights with respect to indemnity pursuant to a reservation letter asserting certain coverage defenses.

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As of the date hereof, except as disclosed above, there were no material pending legal proceedings, other than routine litigation incidental to the business of banking to which we or any of our subsidiaries are a party of or which any of our properties are the subject.

### ITEM 4: Submission of Matters to a Vote of Security Holders.

No matters were submitted during the fourth quarter of 2006 to a vote of our shareholders.

### ADDITIONAL ITEM: Executive Officers of the Registrant.

The list below identifies those persons designated as executive officers of Macatawa Bank Corporation and Macatawa Bank.

| <b>Name</b>         | <b>Age</b> | <b>Year Elected<br/>an Executive<br/>Officer</b> | <b>Positions<br/>Held</b>                                                                                                 |
|---------------------|------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Benj. A. Smith, III | 63         | 1997                                             | Chairman of the Board<br>and Chief Executive Officer of<br>Macatawa Bank Corporation.                                     |
| Philip J. Koning    | 52         | 1997                                             | President and Chief Executive Officer<br>of Macatawa Bank<br>and Treasurer and Secretary<br>of Macatawa Bank Corporation. |
| Ronald L. Haan      | 53         | 2005                                             | Executive Vice President of Macatawa Bank                                                                                 |
| Jon W. Swets        | 41         | 2002                                             | Senior Vice President and Chief Financial<br>Officer of Macatawa Bank Corporation and<br>Macatawa Bank.                   |

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## PART II

**ITEM 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is quoted on the Nasdaq Global Select Market. High and low sales prices (as reported on the Nasdaq Global Select Market) for each quarter are included in the following table. The information in the following table has been retroactively adjusted to reflect the effect of all stock dividends paid.

| Quarter        | 2006     |          |                    | 2005     |          |                    |
|----------------|----------|----------|--------------------|----------|----------|--------------------|
|                | High     | Low      | Dividends Declared | High     | Low      | Dividends Declared |
| First Quarter  | \$ 25.07 | \$ 22.31 | \$ 0.11            | \$ 20.80 | \$ 16.81 | \$ 0.08            |
| Second Quarter | \$ 24.19 | \$ 20.66 | \$ 0.12            | \$ 22.86 | \$ 16.83 | \$ 0.10            |
| Third Quarter  | \$ 24.04 | \$ 20.99 | \$ 0.12            | \$ 25.40 | \$ 20.63 | \$ 0.10            |
| Fourth Quarter | \$ 23.78 | \$ 20.39 | \$ 0.13            | \$ 24.92 | \$ 20.13 | \$ 0.11            |

On February 22, 2007, there were approximately 738 owners of record and, in addition, approximately 7,888 beneficial owners of our common stock.

The Company declared its first cash dividend, amounting to \$.03 per share, during the fourth quarter of 2000. Quarterly cash dividends totaling \$.14 were paid during 2001, and a 3% stock dividend was declared during the second quarter of 2001. Quarterly cash dividends totaling \$.17 were paid during 2002, and a 4% stock dividend was declared during the second quarter of 2002. Quarterly cash dividends totaling \$.22 were paid during 2003, and a 5% stock dividend was declared during the second quarter of 2003. Quarterly cash dividends totaling \$.27 were paid during 2004, and a 5% stock dividend was declared during the second quarter of 2004. Quarterly cash dividends totaling \$.39 were paid during 2005, and a 15% stock dividend was declared during the second quarter of 2005. Quarterly cash dividends totaling \$.48 were paid during 2006, and a 5% stock dividend was declared in the second quarter of 2006. In addition, a 3-for-2 stock split was paid during the second quarter of 2006. All of these cash dividend amounts have been retroactively adjusted to reflect the effect of the stock dividends.

We intend to continue to declare quarterly cash dividends in the future. We may also consider declaring further stock dividends. We expect to obtain the funds for the payment of future cash dividends from cash currently held and from the dividends we receive from Macatawa Bank out of its earnings. However, there can be no assurance that we will have the financial resources to continue to pay dividends in the future.

The information set forth under the caption "Shareholder Return Performance Graph" in our Annual Report to Shareholders for the year ended December 31, 2006, is incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

**ITEM 6: Selected Financial Data.**

The information set forth under the caption "Selected Consolidated Financial Data" in our Annual Report to Shareholders for the year ended December 31, 2006, is incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

**ITEM 7: Management's Discussion and Analysis of Results of Operations and Financial Condition.**

The information set forth under the caption Management's Discussion and Analysis of Results of Operations and Financial Condition, in our Annual Report to Shareholders for the year ended December 31, 2006, is hereby incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

**ITEM 7A: Quantitative and Qualitative Disclosures About Market Risk.**

The information set forth under the captions Management's Discussion and Analysis of Results of Operations and Financial Condition Sensitivity to Market Risk in our Annual Report to Shareholders for the year ended December 31, 2006, is hereby incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

**ITEM 8: Financial Statements and Supplementary Data.**

The information set forth under the captions Quarterly Financial Data, Report of Independent Registered Public Accounting Firm on Financial Statements, Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Changes in Shareholders Equity, Consolidated Statements of Cash Flows, and Notes to Consolidated Financial Statements in our Annual Report to Shareholders for the year ended December 31, 2006, is hereby incorporated by reference and is filed as part of Exhibit 13 to this Form 10-K Annual Report.

**ITEM 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

There have been no disagreements with our independent public accountants.

**ITEM 9A: Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report, have concluded that as of the end of the period covered by this Report the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them by others within the company, particularly during the period in which this Form 10-K Annual Report was being prepared.

(b) Management's Report on Internal Control over Financial Reporting.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Company management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, has been audited by Crowe Chizek and Company LLC, an independent registered certified public accounting firm, as stated in their report included in Exhibit 13 to this Annual Report on Form 10-K which is incorporated herein by reference.

(c) Changes in Internal Controls.

There were no significant changes in the Company's internal controls over financial reporting during the fourth quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B: Other Information.**

None.

**PART III**

**ITEM 10: Directors, Executive Officers and Corporate Governance.**

The information set forth on pages 3-4, under the caption "Information About Directors", on page 7 under the caption "Audit Committee Report", on page 6 under the caption "Corporate Governance-Director Nominations", and on page 18 under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

Information relating to our Executive Officers is included in Part I hereof entitled "Executive Officers of the Registrant". There are no family relationships between or among the above-named executive officers. There are no arrangements or understandings between any of the above-named officers pursuant to which any of them was named an officer.

We have adopted a Senior Officer Code of Ethics. A copy of our Senior Officer Code of Ethics is available upon request by writing to the Chief Financial Officer, Macatawa Bank Corporation, 10753 Macatawa Drive, Holland, Michigan 49424.

**ITEM 11: Executive Compensation.**

Information relating to compensation of our executive officers and directors is contained under the captions "Compensation of Directors", "Executive Compensation", "Compensation Discussion and Analysis", "Summary Compensation Table" and "Potential Payments Upon Termination or Change of Control" in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 Annual Meeting of Shareholders and the information within those sections is incorporated by reference.

**ITEM 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information relating to security ownership of certain beneficial owners and management is contained on Page 2 under the caption "Voting Securities and Principal Holders Thereof" and on page 16 under the caption "Security Ownership of Management" in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

**Equity Compensation Plan Information.** The Company maintains certain equity compensation plans under which common stock is authorized for issuance to employees, consultants and directors in exchange for services, including the 1998 Stock Compensation Plan, the 1998 Directors' Stock Option Plan, the 2006 Stock Compensation Plan, the 2006 Directors' Stock Compensation Plan, the Grand Bank Financial Corporation 1998 Stock Option Plan and the Grand Bank Financial Corporation Stock Option Plan of 1997.

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The following table sets forth certain information regarding the above referenced equity compensation plans as of December 31, 2006. The following information has been adjusted to reflect the effect of all stock dividends and stock splits.

| <b>Equity Compensation Plan Information</b>                |                                                                                                        |                                                                                    |                                                                                                                                                    |
|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Plan Category</b>                                       | <b>(a)</b>                                                                                             | <b>(b)</b>                                                                         | <b>(c)</b>                                                                                                                                         |
|                                                            | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)</b> | <b>Weighted-average Exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> |
| Equity compensation plans approved by security holders     | 977,152                                                                                                | \$ 15.00                                                                           | 906,872                                                                                                                                            |
| Equity compensation plans not approved by security holders | 0                                                                                                      | N/A                                                                                | 0                                                                                                                                                  |
| Total                                                      | 977,152                                                                                                | \$ 15.00                                                                           | 906,872                                                                                                                                            |

**ITEM 13: Certain Relationships and Related Transactions, and Director Independence.**

Information relating to certain relationships and related transactions is contained on page 17 under the caption "Transactions Involving Management" and on page 5 under the heading "Corporate Governance-Director Independence" in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

**ITEM 14: Principal Accountant Fees and Services.**

Information relating to principal accountant fees and services is contained on page 19, under the caption "Principal Accounting Firm Fees" in our definitive Proxy Statement dated March 6, 2007, relating to our 2007 Annual Meeting of Shareholders and the information within that section is incorporated by reference.

**PART IV**

**ITEM 15: Exhibits and Financial Statement Schedules.**

(a) Financial Statements.

1. The following documents are filed as part of Item 8 of this report:

Report of Independent Registered Public Accounting Firm on Financial Statements  
Consolidated Balance Sheets as of December 31, 2006 and 2005  
Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004  
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004  
Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004  
Notes to Consolidated Financial Statements

2. Schedules to the consolidated financial statements required by Article 9 of Regulation S-X are not required under the related instructions or are inapplicable, and therefore have been omitted.
3. The following exhibits are filed as part of this report: Reference is made to the exhibit index which follows the signature page of this report.

The Registrant will furnish a copy of any exhibits listed on the Exhibit Index to any shareholder of the Registrant without charge upon written request to Chief Financial Officer, Macatawa Bank Corporation, 10753 Macatawa Drive, Holland, Michigan 49424.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, dated March 15, 2007.

### MACATAWA BANK CORPORATION

/s/ Benj. A. Smith, III

Benj. A. Smith, III  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ Jon W. Swets

Jon W. Swets  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 15, 2007 by the following persons on behalf of the Registrant and in the capacities indicated. Each director of the Registrant, whose signature appears below, hereby appoints Benj. A. Smith, III and Philip J. Koning, and each of them severally, as his attorney-in-fact, to sign in his name and on his behalf, as a director of the Registrant, and to file with the Commission any and all Amendments to this Report on Form 10-K.

### Signature

/s/ Benj. A. Smith, III March 15, 2007

Benj. A. Smith, III, Principal Executive Officer and a Director

/s/ Jon W. Swets March 15, 2007

Jon W. Swets, Principal Financial and Accounting Officer

/s/ G. Thomas Boylan March 15, 2007

G. Thomas Boylan, Director

/s/ Robert E. DenHerder March 15, 2007

Robert E. DenHerder, Director

/s/ John F. Koetje March 15, 2007

John F. Koetje, Director

/s/ Philip J. Koning March 15, 2007

Philip J. Koning, Director and President

/s/ Arend D. Lubbers March 15, 2007

Arend D. Lubbers, Director





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### EXHIBIT INDEX

#### **Exhibit Number and Description**

- 3.1 Articles of Incorporation of Macatawa Bank Corporation, as amended, incorporated by reference to Exhibit 3.1 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, and by reference to Exhibit 3.1 to the Macatawa Bank Corporation Form 10-Q for the quarter ended June 30, 2006.
- 3.2 Bylaws of Macatawa Bank Corporation, incorporated by reference to Exhibit 3.2 to the Macatawa Bank Corporation Registration Statement on Form SB-2 (Registration No. 333-45755) together with the Amendment attached hereto.
- 4 Specimen stock certificate of Macatawa Bank Corporation, incorporated by reference to Exhibit 4 to the Macatawa Bank Corporation Registration Statement on Form SB-2 (Registration No. 333-45755).
- 10.1 Macatawa Bank Corporation Stock Compensation Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Form SB-2 Registration Statement (No. 333-45755), as amended by the First Amendment included as Appendix B to the Macatawa Bank Corporation Proxy Statement dated March 5, 1999, for the Annual Meeting of Shareholders held April 15, 1999, as further amended by the Second Amendment included as Appendix A to the Macatawa Bank Corporation Proxy Statement dated March 7, 2002, for the Annual Meeting of Shareholders held April 18, 2002, both of which amendments are incorporated herein by reference.
- 10.2 Macatawa Bank Corporation 1998 Directors' Stock Option Plan incorporated by reference to Exhibit 10.2 to the Registrant's Form SB-2 Registration Statement (No. 333-45755), as amended by the First Amendment included as Appendix B to the Macatawa Bank Corporation Proxy Statement dated March 7, 2002, for the Macatawa Bank Corporation Annual Meeting of Shareholders held April 18, 2002, which is incorporated herein by reference.
- 10.3 Macatawa Bank Corporation 2006 Stock Compensation Plan incorporated by reference to Appendix A to the Macatawa Bank Corporation Proxy Statement dated March 6, 2006.
- 10.4 Macatawa Bank Corporation 2006 Directors' Stock Compensation Plan incorporated by reference to Appendix B to the Macatawa Bank Corporation Proxy Statement dated March 6, 2006.
- 10.5 Employment Agreement between Benj. A. Smith III and Macatawa Bank Corporation dated August 25, 2004, incorporated by reference to Exhibit 10.1 to the Macatawa Bank Corporation Report on Form 8-K dated August 26, 2004.
- 10.6 Agreement and Plan of Merger dated October 11, 2006 by and among Macatawa Bank Corporation, Benj. A. Smith & Associates, Ltd. (Smith & Associates) and Benj. A. Smith, III, incorporated by reference to Exhibit 10.1 to the Macatawa Bank Corporation Current Report on Form 8-K dated October 11, 2006.

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- 10.7 Noncompetition Agreement dated October 11, 2006, by and between Macatawa Bank Corporation and Benj. A. Smith, III, incorporated by reference to Exhibit 10.2 to the Macatawa Bank Corporation Current Report on Form 8-K dated October 11, 2006.
- 10.8 Employment Agreement between Macatawa Bank and Mr. Ray Tooker dated June 22, 2006, incorporated by reference to Exhibit 99 to the Macatawa Bank Corporation Current Report on Form 8-K dated June 22, 2006.
- 10.9 Form of Indemnity Agreement between Macatawa Bank Corporation and each of its directors, incorporated by reference to Exhibit 10.2 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
- 10.10 Investment Management Agreement between Macatawa Bank and Smith & Associates Investment Management Services dated March 11, 2004, incorporated by reference to Exhibit 10.5 to the Macatawa Bank Corporation Annual Report on Form 10-K for the year ended December 31, 2003.
- 10.11 Form of Stock Option Agreement, incorporated by reference to Exhibit 10.6 to the Macatawa Bank Corporation Annual Report on Form 10-K for the year ended December 31, 2004.
- 10.12 Form of Stock Option Agreement for non-qualified stock options, incorporated by reference to Exhibit 10.3 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- 10.13 Form of Stock Option Agreement for incentive stock options, incorporated by reference to Exhibit 10.4 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- 10.14 Form of Stock Option Agreement under the Directors' Stock Compensation Plan, incorporated by reference to Exhibit 10.5 to the Macatawa Bank Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- 10.15 Form of Restricted Stock Agreement.
- 13 Annual Report to Shareholders for the year ended December 31, 2006. This exhibit, except for those portions expressly incorporated by reference in this filing, is furnished for the information of the Securities and Exchange Commission and is not deemed filed as part of this filing. This information was delivered to the Company's shareholders in compliance with Rule 14a-3 of the Securities Exchange Act of 1934, as amended.
- 21 Subsidiaries of the Registrant
- 23 Consent of Crowe Chizek and Company LLC, independent registered public accounting firm
- 24 Power of Attorney (included on the signature page on page 29 of the Annual Report on Form 10-K)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certificate of the Chief Executive Officer and Chief Financial Officer of Macatawa Bank Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.