

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-Q**

---

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-25927

---

**MACATAWA BANK CORPORATION**

(Exact name of issuer as specified in its charter)

**Michigan**  
(State of other jurisdiction of  
incorporation or organization)

**38-3391345**  
(I.R.S. Employer  
Identification No.)

**10753 Macatawa Drive, Holland, Michigan 49424**  
(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (616) 820-1444**

Indicate by check 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 whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 16,209,608 shares of the Company's Common Stock (no par value) were outstanding as of August 3, 2006.

---

---

[Table of Contents](#)

**INDEX**

	<b><u>Page Number</u></b>
Part I.	
<a href="#">Financial Information:</a>	
<a href="#">Item 1.</a>	
<a href="#">Consolidated Financial Statements</a>	3
<a href="#">Notes to Consolidated Financial Statements</a>	9
<a href="#">Item 2.</a>	
<a href="#">Management's Discussion and Analysis of Results of Operations and Financial Condition</a>	19
<a href="#">Item 3.</a>	
<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	27
<a href="#">Item 4.</a>	
<a href="#">Controls and Procedures</a>	28
Part II.	
<a href="#">Other Information:</a>	
<a href="#">Item 1.</a>	
<a href="#">Legal Proceedings</a>	28
<a href="#">Item 1.A.</a>	
<a href="#">Risk Factors</a>	30
<a href="#">Item 2.</a>	
<a href="#">Changes in Securities and Use of Proceeds</a>	30
<a href="#">Item 3.</a>	
<a href="#">Defaults Upon Senior Securities</a>	30
<a href="#">Item 4.</a>	
<a href="#">Submission of Matters to a Vote of Security Holders</a>	30
<a href="#">Item 5.</a>	
<a href="#">Other Information</a>	31
<a href="#">Item 6.</a>	
<a href="#">Exhibits</a>	31
<a href="#">Signatures</a>	32

[Table of Contents](#)

**Part I Financial Information**

**Item 1.**

MACATAWA BANK CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of June 30, 2006 (unaudited) and December 31, 2005

(dollars in thousands)	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
Cash and due from banks	\$ 43,346	\$ 49,101
Securities available for sale	165,964	156,696
Securities held to maturity	2,715	3,907
Federal Home Loan Bank stock	13,910	13,910
Loans held for sale	2,346	2,331
Total loans	1,653,035	1,547,879
Allowance for loan losses	<u>(22,145)</u>	<u>(20,992)</u>
	1,630,890	1,526,887
Premises and equipment – net	56,569	53,028
Accrued interest receivable	9,485	8,366
Goodwill	23,915	23,915
Acquisition intangibles	1,748	1,941
Bank-owned life insurance	21,279	20,814
Other assets	9,151	9,094
Total assets	<u>\$ 1,981,318</u>	<u>\$ 1,869,990</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing	\$ 174,516	\$ 188,762
Interest-bearing	<u>1,398,585</u>	<u>1,319,010</u>
Total	1,573,101	1,507,772
Federal funds purchased	25,701	25,809
Federal Home Loan Bank advances	187,722	145,161
Long-term debt	41,238	41,238
Accrued expenses and other liabilities	<u>5,657</u>	<u>8,266</u>
Total liabilities	1,833,419	1,728,246
Shareholders' equity		
Preferred stock, no par value, 500,000 shares authorized; no shares issued and outstanding		
Common stock, no par value, 40,000,000 shares authorized; 16,205,196 shares and 10,227,992 issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	152,951	136,583
Retained earnings	42	8,040
Accumulated other comprehensive income (loss)	<u>(5,094)</u>	<u>(2,879)</u>
Total shareholders' equity	147,899	141,744
Total liabilities and shareholders' equity	<u>\$ 1,981,318</u>	<u>\$ 1,869,990</u>

See accompanying notes to consolidated financial statements

[Table of Contents](#)

MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
Three and Six Month Periods Ended June 30, 2006 and 2005  
(unaudited)

(dollars in thousands, except per share data)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
<b>Interest income</b>				
Loans, including fees	\$ 30,889	\$ 23,565	\$ 59,268	\$ 45,124
Securities	1,799	1,652	3,484	3,154
FHLB Stock	191	138	362	267
Other	17	2	23	11
Total interest income	<u>32,896</u>	<u>25,357</u>	<u>63,137</u>	<u>48,556</u>
<b>Interest expense</b>				
Deposits	12,833	7,011	24,313	13,336
Other	3,088	2,859	5,535	4,889
Total interest expense	<u>15,921</u>	<u>9,870</u>	<u>29,848</u>	<u>18,225</u>
<b>Net interest income</b>	<b>16,975</b>	<b>15,487</b>	<b>33,289</b>	<b>30,331</b>
Provision for loan losses	800	1,125	1,500	2,025
<b>Net interest income after provision for loan losses</b>	<b>16,175</b>	<b>14,362</b>	<b>31,789</b>	<b>28,306</b>
<b>Noninterest income</b>				
Service charges and fees	1,300	1,155	2,386	1,879
Gain on sales of loans	511	536	923	1,094
Trust fees	796	716	1,622	1,432
Other	1,022	962	1,892	1,637
Total noninterest income	<u>3,629</u>	<u>3,369</u>	<u>6,823</u>	<u>6,042</u>
<b>Noninterest expense</b>				
Salaries and benefits	6,293	5,430	12,330	10,834
Occupancy of premises	835	749	1,720	1,590
Furniture and equipment	774	720	1,572	1,423
Legal and professional fees	259	199	482	386
Marketing and promotion	321	249	677	462
Data processing fees	433	384	864	769
Other	2,418	2,341	4,773	4,459
Total noninterest expenses	<u>11,333</u>	<u>9,962</u>	<u>22,418</u>	<u>19,923</u>
<b>Income before income tax expense</b>	<b>8,471</b>	<b>7,769</b>	<b>16,194</b>	<b>14,425</b>
Income tax expense	2,715	2,507	5,217	4,628
<b>Net income</b>	<b>\$ 5,756</b>	<b>\$ 5,262</b>	<b>\$ 10,977</b>	<b>\$ 9,797</b>
Basic earnings per share	\$ .36	\$ .33	\$ .68	\$ .61
Diluted earnings per share	.35	.32	.66	.60
Cash dividends per share	.12	.10	.23	.18

See accompanying notes to consolidated financial statements

[Table of Contents](#)

MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Three and Six Month Periods Ended June 30, 2006 and 2005  
(unaudited)

(dollars in thousands)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net income	\$ 5,756	\$ 5,262	\$ 10,977	\$ 9,797
Other comprehensive income/(loss), net of tax:				
Net change in unrealized gains/(losses) on securities	(1,289)	1,289	(1,585)	(202)
Net change in unrealized gains/(losses) on derivative instruments	(210)	691	(630)	(386)
<b>Comprehensive income</b>	<b>\$ 4,257</b>	<b>\$ 7,242</b>	<b>\$ 8,762</b>	<b>\$ 9,209</b>

See accompanying notes to consolidated financial statements

[Table of Contents](#)

MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Six Month Periods Ended June 30, 2006 and 2005  
(unaudited)

(dollars in thousands, except per share data)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
<b>Balance, January 1, 2005</b>	<b>\$124,389</b>	<b>\$ 4,277</b>	<b>\$ 408</b>	<b>\$ 129,074</b>
Net income for six months ended June 30, 2005		9,797		9,797
Other comprehensive income/(loss), net of tax:				
Net change in unrealized gain/(loss) on securities			(202)	(202)
Net change in unrealized gain/(loss) on derivative instruments			(386)	(386)
Comprehensive income				9,209
Issued 42,294 shares for stock option exercises (net of 1,875 shares exchanged and including \$41 of tax benefit)	576			576
Issued 1,328,409 shares in payment of 15% stock dividend	10,863	(10,898)		(35)
Cash dividends at \$.18 per share		(2,856)		(2,856)
<b>Balance, June 30, 2005</b>	<b>\$135,828</b>	<b>\$ 320</b>	<b>\$ (180)</b>	<b>\$ 135,968</b>
<b>Balance, January 1, 2006</b>	<b>\$136,583</b>	<b>\$ 8,040</b>	<b>\$ (2,879)</b>	<b>\$ 141,744</b>
Net income for six months ended June 30, 2006		10,977		10,977
Other comprehensive income/(loss), net of tax:				
Net change in unrealized gain/(loss) on securities			(1,585)	(1,585)
Net change in unrealized gain/(loss) on derivative instruments			(630)	(630)
Comprehensive income				8,762
Issued 62,731 shares for stock option exercises (net of 4,816 shares exchanged and including \$79 of tax benefit)	868			868
Issued 513,283 shares in payment of 5% stock dividend	15,127	(15,180)		(53)
Issued 5,401,190 shares in payment of 3-for-2 stock split				
Stock option compensation expense	373			373
Cash dividends at \$.23 per share		(3,795)		(3,795)
<b>Balance, June 30, 2006</b>	<b>\$152,951</b>	<b>\$ 42</b>	<b>\$ (5,094)</b>	<b>\$ 147,899</b>

See accompanying notes to consolidated financial statements

[Table of Contents](#)

MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Six Month Periods Ended June 30, 2006 and 2005  
(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
<b>Cash flows from operating activities</b>		
Net income	\$ 10,977	\$ 9,797
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,702	1,566
Stock option compensation expense	373	—
Provision for loan losses	1,500	2,025
Origination of loans for sale	(53,996)	(62,594)
Proceeds from sales of loans originated for sale	54,845	63,496
Gain on sales of loans	(923)	(1,094)
Net change in:		
Accrued interest receivable and other assets	(816)	(777)
Bank-owned life insurance	(465)	(333)
Accrued expenses and other liabilities	(1,337)	3,334
Net cash from operating activities	11,860	15,420
<b>Cash flows from investing activities</b>		
Loan originations and payments, net	(106,772)	(76,424)
Purchases of securities available for sale	(13,881)	(37,571)
Purchases of FHLB stock	—	(1,422)
Maturities and calls of securities available for sale	1,990	13,189
Principal paydowns on securities	1,342	98
Additions to premises and equipment	(5,017)	(3,126)
Net cash used in investing activities	(122,338)	(105,256)
<b>Cash flows from financing activities</b>		
Net increase/(decrease) in deposits	65,329	(13,875)
Net increase/(decrease) in short term borrowings	(108)	20,434
Proceeds from Federal Home Loan Bank advances	75,000	360,000
Repayments of Federal Home Loan Bank advances	(32,439)	(268,421)
Cash dividends paid	(3,848)	(2,891)
Proceeds from exercises of stock options	789	535
Net cash from financing activities	104,723	95,782
Net change in cash and cash equivalents	(5,755)	5,946
Cash and cash equivalents at beginning of period	49,101	31,711
<b>Cash and cash equivalents at end of period</b>	<b>\$ 43,346</b>	<b>\$ 37,657</b>

See accompanying notes to consolidated financial statements

[Table of Contents](#)

MACATAWA BANK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
Six Month Periods Ended June 30, 2006 and 2005  
(unaudited)

(dollars in thousands)	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Supplemental cash flow information		
Interest paid	\$ 30,366	\$ 17,225
Income taxes paid	5,800	4,300
Supplemental noncash disclosures:		
Transfers from loans to other real estate	1,328	2,151

See accompanying notes to consolidated financial statements



MACATAWA BANK CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation:** The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Macatawa Bank, and its wholly-owned subsidiary, Macatawa Bank Mortgage Company; and Macatawa Investment Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company also owns all of the common stock of Macatawa Statutory Trust I and Macatawa Statutory Trust II. These are grantor trusts that issued trust preferred securities and are not consolidated with the Company per FASB Interpretation No. 46.

**Basis of Presentation:** The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's 2005 Annual Report containing financial statements for the year ended December 31, 2005.

All per share amounts and average shares outstanding have been adjusted for all periods presented to reflect the 5% stock dividend distributed on May 30, 2006, the 3-for-2 stock split distributed on June 29, 2006, and the 15% stock dividend distributed on May 27, 2005.

**Stock Compensation:** On January 1, 2006, the Company adopted FAS 123, Revised, which requires all public companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. As amended, this applies to awards granted or modified beginning with the first quarter of 2006. Compensation cost was also recorded for prior option grants that vested after the date of adoption. For the three months ended June 30, 2006, the Company recorded compensation cost for stock options of \$185,000, or \$145,000 after tax, representing \$0.01 per share. For the six month period ended June 30, 2006 the Company recorded compensation cost for stock options of \$373,000, or \$293,000 after tax, representing \$0.02 per share. Future compensation cost for stock options is expected to be recognized as follows (in thousands):

Remainder of 2006	\$284
2007	319
2008	276
2009	3
Total	<u>\$882</u>

Employee compensation expense under stock option plans was reported using the intrinsic value method for the three and six month periods ended June 30, 2005. No compensation cost related to stock options was recognized during the three and six month periods ended June 30, 2005, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. Had compensation cost for stock options been measured using the fair value method, net income and basic and diluted earnings per share would have been the pro forma amounts indicated below (dollars in thousands, except per share data).

[Table of Contents](#)

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

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income as reported	\$ 5,262	\$ 9,797
Stock-based compensation cost, net of tax	(87)	(146)
Pro forma net income	5,175	9,651
Basic earnings per share as reported	.33	.61
Pro forma basic earnings per share	.32	.60
Diluted earnings per share as reported	.32	.60
Pro forma diluted earnings per share	.31	.59

**NOTE 2 – SECURITIES**

The amortized cost and fair values of securities were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
<b>June 30, 2006</b>				
Available for Sale:				
U.S. Treasury and federal agency securities	\$121,932	\$ 33	\$ (4,274)	\$117,691
State and municipal bonds	47,756	340	(782)	47,314
Other Equity Securities	1,000	—	(41)	959
	<u>\$170,688</u>	<u>\$ 373</u>	<u>\$ (5,097)</u>	<u>\$165,964</u>
Held to Maturity:				
State and municipal bonds	<u>\$ 2,715</u>	<u>\$ 53</u>	<u>\$ (13)</u>	<u>\$ 2,755</u>
<b>December 31, 2005</b>				
Available for Sale:				
U.S. Treasury and federal agency securities	\$111,102	\$ 103	\$ (2,644)	\$108,561
State and municipal bonds	46,878	609	(345)	47,142
Other Equity Securities	1,000	—	(7)	993
	<u>\$158,980</u>	<u>\$ 712</u>	<u>\$ (2,996)</u>	<u>\$156,696</u>
Held to Maturity:				
State and municipal bonds	<u>\$ 3,907</u>	<u>\$ 80</u>	<u>\$ (13)</u>	<u>\$ 3,974</u>

[Table of Contents](#)

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

**NOTE 2 – SECURITIES** (Continued)

Securities with unrealized losses at June 30, 2006 and December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>June 30, 2006</b>						
U.S. Treasury and federal agency securities	\$36,854	\$ (782)	\$78,751	\$ (3,492)	\$115,605	\$ (4,274)
State and municipal bonds	28,713	(508)	5,753	(287)	34,466	(795)
Other Equity Securities	959	(41)	—	—	959	(41)
<b>Total temporarily impaired</b>	<b>\$66,526</b>	<b>\$ (1,331)</b>	<b>\$84,504</b>	<b>\$ (3,779)</b>	<b>\$151,030</b>	<b>\$ (5,110)</b>

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>December 31, 2005</b>						
U.S. Treasury and federal agency securities	\$70,531	\$ (1,299)	\$33,654	\$ (1,345)	\$104,185	\$ (2,644)
State and municipal bonds	16,419	(153)	5,842	(205)	22,261	(358)
Other Equity Securities	993	(7)	—	—	993	(7)
<b>Total temporarily impaired</b>	<b>\$87,943</b>	<b>\$ (1,459)</b>	<b>\$39,496</b>	<b>\$ (1,550)</b>	<b>\$127,439</b>	<b>\$ (3,009)</b>

For unrealized losses on securities, no loss has been recognized into income because management has the intent and ability to hold these securities for the foreseeable future and the declines are largely due to differences in market interest rates as compared to those of the underlying securities. The declines in fair value are considered temporary and are expected to recover as the bonds approach their maturity date.

Contractual maturities of debt securities at June 30, 2006 were as follows (dollars in thousands):

	Held-to-Maturity Securities		Available-for-Sale Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 715	\$ 709	\$ 7,000	6,897
Due from one to five years	383	376	117,257	113,165
Due from five to ten years	—	—	17,333	17,436
Due after ten years	1,617	1,670	28,098	27,507
	<b>\$ 2,715</b>	<b>\$ 2,755</b>	<b>\$ 169,688</b>	<b>\$ 165,005</b>

[Table of Contents](#)

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

**NOTE 3 – LOANS**

Loans were as follows (in thousands):

	June 30, 2006	December 31, 2005
Commercial	\$ 402,967	\$ 359,036
Commercial mortgage	840,091	793,919
Residential mortgage	230,637	223,390
Consumer	179,340	171,534
	<u>1,653,035</u>	<u>1,547,879</u>
Allowance for loan losses	(22,145)	(20,992)
	<u>\$1,630,890</u>	<u>\$1,526,887</u>

Activity in the allowance for loan losses was as follows (in thousands):

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six months Ended June 30, 2006	Six months Ended June 30, 2005
Balance at beginning of period	\$ 21,391	\$ 19,534	\$ 20,992	\$ 19,251
Provision for loan losses	800	1,125	1,500	2,025
Charge-offs	(248)	(693)	(579)	(1,350)
Recoveries	202	44	232	84
Balance at end of period	<u>\$ 22,145</u>	<u>\$ 20,010</u>	<u>\$ 22,145</u>	<u>\$ 20,010</u>

**NOTE 4 – DEPOSITS**

Deposits are summarized as follows (in thousands):

	June 30, 2006	December 31, 2005
Noninterest-bearing demand	\$ 174,516	\$ 188,762
Money market	410,996	380,216
NOW and Super NOW	236,450	207,947
Savings	43,021	40,612
Certificates of deposit	708,118	690,235
	<u>\$ 1,573,101</u>	<u>\$ 1,507,772</u>

[Table of Contents](#)

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

**NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES**

Advances from the Federal Home Loan Bank were as follows (in thousands):

<u>Principal Terms</u>	<u>Advance Amount</u>	<u>Range of Maturities</u>	<u>Weighted Average Interest Rate</u>
June 30, 2006			
Single maturity fixed rate advances	\$147,000	July 2006 to May 2010	4.46%
Putable advances	31,000	September 2009 to December 2010	5.80%
Amortizable mortgage advances	9,722	February 2008 to July 2018	3.85%
	<u>\$187,722</u>		
December 31, 2005			
Single maturity fixed rate advances	\$104,200	January 2006 to May 2010	3.25%
Putable advances	31,000	September 2009 to December 2010	5.80%
Amortizable mortgage advances	9,961	February 2008 to July 2018	3.90%
	<u>\$145,161</u>		

Each advance is payable at its maturity date and contains a prepayment penalty. These advances were collateralized by securities totaling \$113,755,000 and \$107,581,000 at June 30, 2006 and December 31, 2005, and residential and commercial real estate loans totaling \$554,997,000 and \$526,066,000 under a blanket lien arrangement at June 30, 2006 and December 31, 2005.

Maturities as of June 30, 2006 were as follows (in thousands):

2006	\$ 15,000
2007	47,000
2008	70,712
2009	5,343
2010	41,000
Thereafter	8,667
	<u>\$187,722</u>

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

**NOTE 6 – STOCK OPTIONS**

Options to buy stock are granted to officers and employees under Employee Stock Option Plans (the Employees' Plans), which provide for issue of up to 1,825,890 options. Options are also granted to directors under Directors' Stock Option Plans (the Directors' Plans), which provide for issuance of up to 450,741 options. The exercise price is the market price at the date of grant for all plans. The maximum option term is ten years. The vesting schedule is over a one-year period for both the Employees' Plans and the Directors' Plans for all grants through the third quarter of 2005. Beginning with grants in the fourth quarter of 2005, the vesting schedule was increased to three years. Upon exercise of stock options, the Company issues new shares from its authorized but unissued shares. The amount of options available for future grant at June 30, 2006 is 1,026,817. All per share amounts and average shares outstanding have been adjusted for all periods presented to reflect the 5% stock dividend distributed on May 30, 2006, the 3-for-2 stock split distributed on June 29, 2006, and the 15% stock dividend distributed on May 27, 2005.

A summary of option activity in the plans is as follows, except per option data: (dollars in thousands)

<u>Options</u>	<u>Number Outstanding</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life in Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2006	1,019,559	\$ 13.75		
Granted	4,487	23.28		
Exercised	(106,649)	9.18		
Forfeited	(2,643)	17.54		
Outstanding at June 30, 2006	<u>914,754</u>	<u>\$ 14.32</u>	<u>6.94</u>	<u>\$ 8,297</u>
Exercisable at June 30, 2006	<u>685,247</u>	<u>\$ 11.25</u>	<u>6.12</u>	<u>\$ 8,319</u>

The weighted-average fair value of the 4,487 options granted during the six months ended June 30, 2006 was \$5.93 per option. The weighted-average fair value of the 1,810 and 7,242 options granted during the three and six months ended June 30, 2005 was \$4.65 and \$4.45 per option, respectively. The total intrinsic value of options exercised during the three months ended June 30, 2006 and 2005 was \$248,000 and \$262,000, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$1.5 million and \$965,000, respectively. The total fair value of options vested during the three and six months ended June 30, 2006 was \$8,417 and \$32,276, respectively. No options vested during the three and six months ended June 30, 2005.

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

**NOTE 7 – EARNINGS PER SHARE**

A reconciliation of the numerators and denominators of basic and diluted earnings per share for the three and six month periods ended June 30, 2006 and 2005 are as follows (dollars in thousands, except per share data):

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
<b>Basic earnings per share</b>				
Net income	\$ 5,756	\$ 5,262	\$ 10,977	\$ 9,797
Weighted average common shares outstanding	16,200,172	16,051,168	16,181,716	16,032,349
Basic earnings per share	<u>\$ 0.36</u>	<u>\$ 0.33</u>	<u>\$ 0.68</u>	<u>\$ 0.61</u>
<b>Diluted earnings per share</b>				
Net income	\$ 5,756	\$ 5,262	\$ 10,977	\$ 9,797
Weighted average common shares outstanding	16,200,172	16,051,168	16,181,716	16,032,349
Add: Dilutive effects of assumed exercise of stock options	<u>341,959</u>	<u>404,235</u>	<u>380,902</u>	<u>397,478</u>
Weighted average common and dilutive potential common shares outstanding	<u>16,542,131</u>	<u>16,455,403</u>	<u>16,562,618</u>	<u>16,429,827</u>
Diluted earnings per share	<u>\$ 0.35</u>	<u>\$ 0.32</u>	<u>\$ 0.66</u>	<u>\$ 0.60</u>

Stock options for 229,979 shares of common stock were not considered in computing diluted earnings per share for the three months ended June 30, 2006. There were no antidilutive shares for the three months ended June 30, 2005. Stock options for 229,979 and 1,810 shares of common stock were not considered in computing diluted earnings per share for the six months ended June 30, 2006 and 2005, respectively, because they were antidilutive.

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

**NOTE 8 – CONTINGENCIES**

The Company and its subsidiaries periodically become defendants in certain claims and legal actions arising in the ordinary course of business.

On July 8, 2003, the Company filed a Form 8-K (dated July 1, 2003) with the Securities and Exchange Commission reporting events related to a former trust customer, Trade Partners, Inc. (“Trade Partners”), of the former Grand Bank, which the Company acquired effective April 1, 2002. Trade Partners was involved in purchasing and selling interests in viaticals, which are interests in life insurance policies of the terminally ill or elderly. Beginning in 1996, Grand Bank served as a custodian and escrow agent with respect to viaticals purchased by Trade Partners and sold to investors. Two lawsuits were filed, one in December 2002 and another in March 2003, against Trade Partners, Grand Bank and the Company alleging that Grand Bank breached certain escrow agreements related to viatical settlement contracts. Both of these lawsuits have been dismissed although the plaintiffs reserved the right to pursue the claims in the future. A third lawsuit was filed in April 2003 by two individual investors against Grand Bank, the Company, Trade Partners and certain individuals and entities associated with Trade Partners. The claims against Grand Bank and the Company in this lawsuit have been settled and dismissed with prejudice. In May 2003 a purported class action complaint was filed against the Company. 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. The Company has answered the complaint denying the material allegations and raising certain affirmative defenses. Management believes the Company has strong defenses and will vigorously defend the cases.

Trade Partners is now in receivership. The supervising court authorized the receiver to borrow money from Macatawa Bank to pay premiums, if needed. Macatawa Bank extended 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.

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. This carrier on July 21, 2006 notified the Company that it was seeking through arbitration a declaration that based on its asserted coverage defenses its policy does not cover this matter. On or about July 21, 2006, Federal Insurance Company notified the Company that it has filed an Arbitration Demand with the American Arbitration Association. In the Arbitration Demand Federal Insurance Company seeks a declaration that based upon its asserted coverage defenses its policy does not cover this matter. 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.

The legal actions involving Trade Partners have not progressed to trial and the outcome of such actions is uncertain. While we are therefore unable to determine at this time whether or to what extent these actions may impact the Company, the Company believes it has strong defenses and fully intends to defend any and all such actions vigorously.



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

**NOTE 9 – HEDGING ACTIVITIES**

The Company's asset/liability management policy includes guidelines for measuring and monitoring interest rate risk. Within these guidelines, parameters have been established for maximum fluctuations in net interest income. Possible fluctuations are measured and monitored using simulation analysis. The policies provide for the use of derivative instruments and hedging activities to aid in managing interest rate risk to within the policy parameters.

The Company's assets are comprised of a large portion of loans on which the interest rates are variable. As such, the Company may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates. Interest rate swap arrangements may be utilized to hedge against these fluctuations in cash flows.

The Company has entered into interest rate swap arrangements ("swaps"), all of which are classified as cash flow hedges that convert the variable rate cash inflows on certain of its loans to fixed rates of interest. These swaps pay interest to the Company at a fixed rate and require interest payments from the Company at a variable rate. All of these swaps were fully effective during 2005 and the first six months of 2006. At June 30, 2006, it is anticipated that approximately \$889,000, net of tax, of net unrealized losses on these cash flow hedges will be reclassified to earnings over the next twelve months.

Summary information about interest rate swaps were as follows (dollars in thousands).

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Notional amounts	\$ 80,000	\$ 80,000
Weighted average pay rates	8.25%	7.25%
Weighted average receive rates	6.42%	6.42%
Weighted average maturity	2.5 years	3.0 years
Unrealized loss related to interest rate swaps	\$ (3,115)	\$ (2,146)

**NOTE 10 – ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition and measurement threshold for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not completed its evaluation of the impact of the adoption of FIN 48.

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

**NOTE 11 – REGULATORY MATTERS**

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If the Bank is only adequately capitalized, regulatory approval is required to accept brokered deposits; and if the Bank is undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

At June 30, 2006 and December 31, 2005, actual capital levels and minimum required levels were (in thousands):

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>June 30, 2006</b>						
Total capital (to risk weighted assets)						
Consolidated	\$189,831	10.9%	\$ 139,919	8.0%	\$ 174,899	10.0%
Bank	182,792	10.5	139,366	8.0	174,207	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	165,969	9.5	69,960	4.0	104,939	6.0
Bank	161,016	9.2	69,683	4.0	104,524	6.0
Tier 1 capital (to average assets)						
Consolidated	165,969	8.6	77,114	4.0	96,392	5.0
Bank	161,016	8.4	76,965	4.0	96,206	5.0
<b>December 31, 2005</b>						
Total capital (to risk weighted assets)						
Consolidated	\$179,756	11.1%	\$ 129,959	8.0%	\$ 162,448	10.0%
Bank	173,481	10.7	129,733	8.0	162,167	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	157,450	9.7	64,979	4.0	97,469	6.0
Bank	153,210	9.5	64,867	4.0	97,300	6.0
Tier 1 capital (to average assets)						
Consolidated	157,450	8.7	72,799	4.0	90,999	5.0
Bank	153,210	8.4	72,677	4.0	90,846	5.0

The Company and the Bank were categorized as well capitalized at June 30, 2006 and December 31, 2005. There are no conditions or events since June 30, 2006 that management believes have changed either institution's category.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

Macatawa Bank Corporation is a Michigan corporation and is the holding company for two wholly owned subsidiaries, Macatawa Bank and Macatawa Investment Services, Inc. and for two trusts, Macatawa Statutory Trust I and Macatawa Statutory Trust II. Macatawa Bank Corporation is a financial holding company pursuant to Title I of the Gramm-Leach-Bliley Act. 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, providing a full range of commercial and consumer banking and trust services in Kent County, Ottawa County, and northern Allegan County, Michigan. Macatawa Investment Services is a broker/dealer that provides various services including discount brokerage and consultation regarding mutual funds and annuities. Macatawa Statutory Trusts I and II are grantor trusts and issued \$20.0 million each of pooled trust preferred securities. These trusts are not consolidated in the Corporation's financial statements. For further information regarding consolidation, see the Notes to the Consolidated Financial Statements included herein. Macatawa Bank Mortgage Company, a subsidiary of Macatawa Bank, originates and sells residential mortgage loans into the secondary market on a servicing released basis.

While maintaining asset quality and improving profitability, we have experienced rapid and substantial growth since opening Macatawa Bank in November of 1997. We first became profitable in 1999 and have increased earnings each year since then with 2005 net income reaching \$20.9 million. Since our inception in 1997, we have raised approximately \$100.6 million in capital through private and public common stock offerings and trust preferred offerings to facilitate our growth and progress over these years.

We believe that growth in core deposits is key to our long-term success and is our primary funding source for asset growth. Establishing a branching network in our markets has been of high importance in order to facilitate this core deposit growth. We have gained community awareness and acceptance in our markets through this expanding branch network and our high service quality standards.

The West Michigan markets within which we operate continue to provide significant expansion opportunities for us. We opened our twenty-fourth branch on the west side of the greater Grand Rapids area during the second quarter of 2006. Because of the significance of the greater Grand Rapids market and the great opportunity for market share growth, we anticipate additional branch openings in this market. We also continue to enjoy success in building new and existing relationships in both our Holland/Zeeland and Grand Haven markets. We anticipate that we will continue to experience growth in our balance sheet and in our earnings due to these expansion opportunities.

## RESULTS OF OPERATIONS

**Summary:** Net income for the quarter ended June 30, 2006 was \$5.8 million, an increase of 9% as compared to second quarter 2005 net income of \$5.3 million. Earnings per share on a diluted basis were \$0.35 for the second quarter of 2006 compared to \$0.32 for the same period in 2005. Net income for the six months ended June 30, 2006 was \$11.0 million, an increase of 12% over the \$9.8 million for the same period in the prior year. Earnings per share on a diluted basis were \$0.66 for the six months ended June 30, 2006 compared to \$0.60 for the same period in the prior year.

The increases in net income for both the three and six months ended June 30, 2006 compared to the same periods in the prior year were primarily due to increases in net interest income and noninterest income and partially offset by an increase in noninterest expense. Also contributing to the overall increases in net income for both the three and six months ended June 30, 2006 was a decrease in the provision for loan losses.

**Net Interest Income:** Net interest income totaled \$17.0 million for the second quarter of 2006, an increase of \$1.5 million or 10%, as compared to the second quarter of 2005. Net interest income for the first six months of 2006 totaled \$33.3 million, an increase of 10% as compared to \$30.3 million for the same period in 2005. The improvement in net interest income for both the three and six month periods was the result of strong growth in average earning assets. Average earning assets increased \$185.3 million to \$1.82 billion for the second quarter of 2006 compared to \$1.63 billion for the second quarter of 2005. Average earning assets increased \$180.4 million to \$1.78 billion for the six month period ended June 30, 2006 compared to \$1.60 billion for the same period of the prior year. The increases in average earning assets for both the three and six months ended June 30, 2006 represent an 11% increase when compared to the same periods of the prior year. The net interest margin decreased 8 basis points to 3.74% for the second quarter of 2006 and 7 basis points to 3.76% for the first six months of 2006 when compared to the same periods in the prior year.

During both the three and six month periods, the increase in the cost of funds exceeded the increase in the yield on earning assets and is the primary reason for the decrease in the net interest margin. The yield on earning assets increased by 101 basis points for both the three and six months ended June 30, 2006 as compared to the same periods in the prior year. The cost of funds increased 120 basis points and 121 basis points, respectively, for the three and six months ended June 30, 2006 as compared to the same periods in the prior year. The increases in short-term rates that began in mid-2004 and have continued into 2006 have caused an increase in the yield on our variable rate loan portfolio and are the primary reasons for the increase in the yield on earning assets. An increase in the rates paid on our deposit accounts, the rollover of time deposits at higher rates and a shift to higher costing sources of funds are the primary reasons for the increase in the cost of funds. The rates paid on time deposits and other rate sensitive products have reached attractive levels causing deposit customers to shift funds from transaction accounts, primarily money market accounts, into these higher rate accounts.

Anticipated growth in earning assets is expected to continue to increase levels of net interest income. We do not, however, expect future changes in short-term interest rates to have a significant impact on our net interest margin considering the Company's move to a more balanced sensitivity to interest rate changes.

## Table of Contents

The following table shows an analysis of net interest margin for the three-month periods ending June 30, 2006 and 2005.

	For the three months ended June 30,					
	2006			2005		
	Average Balance	Interest Earned or paid	Average Yield Or cost	Average Balance	Interest Earned Or paid	Average Yield or cost
	(Dollars in thousands)					
<b>Assets</b>						
Taxable securities	\$ 122,195	\$ 1,265	4.14%	\$ 111,939	\$ 1,136	4.06%
Tax-exempt securities (1)	50,811	534	6.47%	48,762	516	6.54%
Loans	1,627,407	30,889	7.52%	1,456,499	23,565	6.42%
Federal Home Loan Bank stock	13,910	191	5.42%	13,024	138	4.20%
Federal funds sold	1,484	17	4.67%	254	2	3.96%
Total interest earning assets (1)	1,815,807	32,896	7.25%	1,630,478	25,357	6.24%
Noninterest earning assets:						
Cash and due from banks	35,949			26,363		
Other	97,643			99,016		
Total assets	<u>\$1,949,399</u>			<u>\$1,755,857</u>		
<b>Liabilities</b>						
NOWs and MMDAs	\$ 629,203	4,890	3.12%	\$ 605,170	2,748	1.82%
Savings	42,118	61	0.58%	41,592	48	0.47%
IRAs	36,013	378	4.21%	30,214	264	3.50%
Time deposits	683,121	7,504	4.40%	494,987	3,951	3.20%
Federal Home Loan Bank advances	175,667	2,004	4.51%	207,486	1,944	3.71%
Long-term debt	41,238	824	7.91%	41,238	625	6.00%
Federal funds borrowed and other borrowings	20,531	260	5.01%	36,622	290	3.13%
Total interest bearing liabilities	1,627,891	15,921	3.91%	1,457,309	9,870	2.70%
Noninterest bearing liabilities:						
Noninterest bearing demand accounts	166,257			158,722		
Other noninterest bearing liabilities	6,999			5,807		
Shareholders' equity	148,252			134,019		
Total liabilities and shareholders' equity	<u>\$1,949,399</u>			<u>\$1,755,857</u>		
Net interest income		<u>\$16,975</u>			<u>\$15,487</u>	
Net interest spread (1)			3.34%			3.54%
Net interest margin (1)			3.74%			3.82%
Ratio of average interest earning assets to average interest bearing liabilities	111.54%			111.88%		

(1) Yield adjusted to fully tax equivalent.

## Table of Contents

The following table shows an analysis of net interest margin for the six-month periods ending June 30, 2006 and 2005.

	For the six months ended June 30,					
	2006			2005		
	Average Balance	Interest Earned or paid	Average Yield Or cost	Average Balance	Interest Earned Or paid	Average Yield or cost
	(Dollars in thousands)					
<b>Assets</b>						
Taxable securities	\$ 118,057	\$ 2,411	4.08%	\$ 105,372	\$ 2,132	4.05%
Tax-exempt securities (1)	50,940	1,073	6.48%	48,157	1,022	6.56%
Loans	1,596,188	59,268	7.40%	1,432,484	45,124	6.28%
Federal Home Loan Bank stock	13,910	362	5.18%	12,678	267	4.18%
Federal funds sold	983	23	4.56%	1,010	11	2.25%
Total interest earning assets (1)	1,780,078	63,137	7.13%	1,599,701	48,556	6.12%
Noninterest earning assets:						
Cash and due from banks	36,085			35,278		
Other	97,094			91,508		
Total assets	<u>\$1,913,257</u>			<u>\$1,726,487</u>		
<b>Liabilities</b>						
NOWs and MMDAs	\$ 616,015	8,978	2.94%	\$ 633,357	5,388	1.72%
Savings	41,424	119	0.58%	40,325	82	0.41%
IRAs	34,957	710	4.10%	29,502	500	3.42%
Time deposits	681,083	14,506	4.29%	483,958	7,366	3.07%
Federal Home Loan Bank advances	159,035	3,425	4.28%	175,217	3,255	3.70%
Long-term debt	41,238	1,594	7.69%	41,238	1,192	5.75%
Federal funds borrowed and other borrowings	21,244	516	4.83%	29,977	442	2.93%
Total interest bearing liabilities	1,594,996	29,848	3.76%	1,433,574	18,225	2.55%
Noninterest bearing liabilities:						
Noninterest bearing demand accounts	163,716			153,262		
Other noninterest bearing liabilities	7,592			6,616		
Shareholders' equity	146,953			133,035		
Total liabilities and shareholders' equity	<u>\$1,913,257</u>			<u>\$1,726,487</u>		
Net interest income		<u>\$33,289</u>			<u>\$30,331</u>	
Net interest spread (1)			3.37%			3.57%
Net interest margin (1)			3.76%			3.83%
Ratio of average interest earning assets to average interest bearing liabilities	111.60%			111.59%		

(1) Yield adjusted to fully tax equivalent.

---

## Table of Contents

**Provision for Loan Losses:** The provision for loan losses for the three and six month periods ended June 30, 2006 was \$800,000 and \$1.5 million compared to \$1.1 million and \$2.0 million for the same periods in the prior year. The amounts of loan loss provision in both the current and prior year periods were a byproduct of establishing our allowance for loan losses at levels deemed necessary in our methodology for determining the adequacy of the allowance. For more information about our allowance for loan losses and our methodology for establishing its level, see the discussion below under Portfolio Loans and Asset Quality.

**Noninterest Income:** Noninterest income for the three and six month periods ended June 30, 2006 was \$3.6 million and \$6.8 million, respectively, from \$3.4 million and \$6.0 million for the same periods in the prior year. An increase in revenue from service charges on deposits accounted for the majority of the increase for both the three and six month periods. Continued growth in the number of demand deposit accounts was the primary reason for the \$145,000 increase for the second quarter. In addition to this growth, an overdraft privilege service implemented for deposit customers during the second quarter of 2005 was the primary reason for the \$507,000 increase for the six month period end June 30, 2006. Gains on loans sold decreased \$25,000 and \$171,000, respectively, during the three and six month periods due to a decline in mortgage loan origination volume as mortgage interest rate levels have increased. Trust fees and other income, including brokerage fees and other financial service fees, increased modestly during the three and six month periods as a result of continued expansion of our customer base. Included in other income for the three and six months ended June 30, 2005 was a \$200,000 gain on the sale of a commercial property held as other real estate.

**Noninterest Expense:** Noninterest expense for the three and six month periods ended June 30, 2006 increased to \$11.3 million and \$22.4 million, respectively, from \$10.0 million and \$19.9 for the same periods in the prior year. Salaries and benefits, which represented the largest category of the increase, increased by \$863,000 and \$1.5 million, respectively, compared to the same periods in the prior year. Effective January 1, 2006, we adopted FAS 123, Revised, and accordingly, we recorded stock option compensation expense of \$185,000 and \$373,000 for the three and six months ended June 30, 2006. The remaining increase related to additional staffing for new branch locations and in each line of business and in support departments consistent with growth of the Bank. These increased costs reflect our attention to properly managing and supporting our growth and our interest in creating a platform for strong future growth. Occupancy and furniture and equipment expense has increased along with our branch expansion, which included one new location and a relocation of one of our branch sites since the second quarter of last year. In general, other expense categories have remained relatively flat or increased consistent with growth of the Bank. Although we expect noninterest expense levels to generally rise with our growth, we expect efficiency to improve by better utilizing our capacity as we grow. We believe the additional capacity within our branch network will continue to provide future growth opportunities without significant additional costs.

## FINANCIAL CONDITION

**Summary:** Our total assets were \$1.98 billion at June 30, 2006, an increase of \$111.3 million from \$1.87 billion at December 31, 2005. The growth in assets was primarily from an increase of \$105.2 million in total portfolio loans and \$9.3 million in securities available for sale. Cash and cash equivalents decreased \$5.8 million slightly offsetting the increases in portfolio loans and securities available for sale. Cash levels were higher than normal at December 31, 2005 due to a large inflow of customer deposits that occurred at year-end. The growth in assets was funded by an increase of \$65.3 million in deposits and \$42.6 million in Federal Home Loan Bank borrowings.

**Securities Available for Sale:** Securities available for sale were \$166.0 million at June 30, 2006 compared to \$156.7 million at December 31, 2005. The increase was from purchases of U.S. Government Agency securities and reflects our interest in maintaining the diversity in our asset base.

**Portfolio Loans and Asset Quality:** Total portfolio loans were \$1.65 billion at June 30, 2006 compared to \$1.55 billion at December 31, 2005. Commercial loans continue to be the driver of our loan portfolio growth. Of the \$105.2 million in growth during the first six months of 2006, \$90.1 million or 86% was from our commercial loan portfolios. Commercial and commercial real estate loans accounted for approximately 75% of the total loan portfolio at June 30, 2006 and approximately 74% at December 31, 2005. Residential mortgage loans comprised 14% of the portfolio, while consumer loans were 11% of total loans at June 30, 2006.

## Table of Contents

The loan growth we have experienced continues to reflect the acceptance of our community banking philosophy in the communities we serve. During the second quarter of 2006, loans grew approximately \$62.9 million after \$42.3 million of growth in the first quarter of 2006, and compared to \$43.7 million of growth in the second quarter of 2005. We continue to see slow improvement in the West Michigan economy and accordingly, we have seen recent signs of favorable new business activity among our business customers. We expect our growth rates to continue for the remainder of 2006.

Nonperforming assets are comprised of nonperforming loans, foreclosed assets and repossessed assets. Our nonperforming loans include loans on non-accrual status, restructured loans, as well as loans delinquent more than 90 days, but still accruing. Foreclosed and repossessed assets include assets acquired in settlement of loans. Nonperforming loans to total loans increased to 0.35% at June 30, 2006 from 0.27% at December 31, 2005 and nonperforming assets to total assets increased to 0.38% at June 30, 2006 from 0.26% at December 31, 2005. The balance in nonperforming loans at June 30, 2006 is a number of smaller commercial relationships for which we are considered to be well collateralized or adequately reserved.

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

(Dollars in thousands)	June 30, 2006	December 31, 2005
Nonaccrual loans	\$5,529	\$ 3,977
Loans 90 days past due and still accruing	252	227
Total nonperforming loans	5,781	4,204
Foreclosed assets	1,673	527
Repossessed assets	52	165
Total nonperforming assets	\$7,506	\$ 4,896
Nonperforming loans to total loans	0.35%	0.27%
Nonperforming assets to total assets	0.38%	0.26%

**Allowance for loan losses:** The allowance for loan losses as of June 30, 2006 was \$22.1 million, or 1.34% of total portfolio loans, compared to \$21.0 million, or 1.36% of total portfolio loans at December 31, 2005. The provision for loan losses declined \$525,000 to \$1.5 million for the six months ended 2006 compared to \$2.0 million for the same period of the prior year primarily due to the decline in net charge-offs. Net charge-offs for the six months ended June 30, 2006 totaled \$347,000 as compared to \$1.3 million for the same period in 2005. The ratio of net charge-offs to average loans was 0.04% on an annualized basis for the first six months of 2006 compared to 0.18% for the first six months of 2005.

Our allowance for loan losses is maintained at a level management considers appropriate based upon our regular, quarterly assessments of the probable estimated losses inherent in the loan portfolio. Our methodology for measuring the appropriate level of allowance relies on several key elements, which include specific allowances for loans considered impaired, a formula allowance for graded loans, and general allocations based on historical trends for pools of similar loan types.

Specific allowances are established in cases where senior credit management has identified significant conditions or circumstances related to an individually impaired credit that we believe indicates the probability that a loss has been incurred. This amount is determined by methods prescribed by SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". The specific allowance for impaired loans was \$320,000 at June 30, 2006 and \$333,000 at December 31, 2005.



---

## Table of Contents

The formula allowance is calculated by applying loss factors to outstanding loans based on the internal risk grade of such loans. We use a loan rating method based upon an eight point system. Loans are assigned a loss allocation factor for each loan classification category. The lower the grading assigned to a loan category, the greater the allocation percentage that is applied. Changes in risk grade of both performing and nonperforming loans affect the amount of the formula allowance. Because of the relatively unseasoned nature of our loan portfolio and the rapid loan growth we have experienced since inception, our actual historical loan loss experience remains limited. Accordingly, our loss factors are primarily based upon our analysis of the banking industry's historical loan loss experience, including the historical loan loss experience within the current markets we operate. These factors are monitored against our loss experience as our portfolios' age, and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the analysis date. The formula allowance was \$20.1 million at June 30, 2006 compared to \$18.6 million at December 31, 2005. The increase in the formula allowance for the period is primarily associated with the continuing growth in the commercial loan portfolio.

Groups of homogeneous loans, such as residential real estate, open- and closed-end consumer loans, etc., receive general allowance allocations based on loss trends. In lieu of an established loan loss trend for Macatawa Bank, we use historical loss trends based on industry experience and peers in determining an adequate allowance for probable losses associated with these pools of loans. General economic and business conditions, credit quality trends, collateral values, seasoning of the portfolios and recent loss experience are conditions considered in connection with allocation factors for these similar pools of loans. The general allowance was \$1.7 million at June 30, 2006 compared to \$2.1 million at December 31, 2005. The decline in the general allowance was due to improvement in past due consumer loan balances.

**Deposits and Other Borrowings:** Total deposits increased \$65.3 million to \$1.57 billion at June 30, 2006 compared to \$1.51 billion at December 31, 2005. The growth for the first six months of 2006 has been primarily in certain interest bearing checking and money market accounts and certificates of deposit, as market rates on these deposit types have begun to increase from historic lows and become more attractive to our customers. We opened approximately 5,546 new checking accounts during the first six months of 2006. It is expected that as these new accounts develop into more full relationships, they will further contribute to deposit growth. With our continued focus on quality customer service, the desire of customers to deal with a local bank, and the convenience of our expanding and maturing branch network, we expect further growth in our core transaction deposits.

The increase in other borrowings of \$42.6 million was related to an increase in Federal Home Loan Bank advances to support the asset growth we experienced during the first half of 2006.

## CAPITAL RESOURCES AND LIQUIDITY

**Capital Resources:** Total shareholders' equity increased \$6.2 million during the first six months to \$147.9 million at June 30, 2006, as the retention of earnings was partially offset by a reduction in accumulated other comprehensive income.

Net income generated during the first six months of 2006 of \$11.0 million was partially offset by cash dividends of \$3.8 million, or \$.23 per share. We began paying cash dividends at the end of 2000 and have increased the amount of the dividend each year since then. It is anticipated that we will continue to pay quarterly cash dividends in the future. We have also paid a stock dividend each year beginning in 2001. On May 30, 2006, a 5% stock dividend was paid to shareholders of record as of May 12, 2006, representing our sixth consecutive annual stock dividend. In addition, a 3-for-2 stock split was paid June 29, 2006 to shareholders of record as of June 9, 2006. All per share and average share information in this report has been adjusted to reflect the effect of the dividend and the split.

---

## Table of Contents

The change in accumulated other comprehensive income was due to a decrease in both the market value of securities available for sale and the derivative instruments associated with the Company's interest rate swap arrangements due principally to the general rise in interest rates during the first six months of 2006. For more information regarding our interest rate swap arrangements see the Notes to the consolidated financial statements.

At June 30, 2006 and December 31, 2005, our total capital to risk-weighted assets was 10.9% and 11.1%, respectively. Our Tier 1 Capital as a percent of average assets was 8.6% and 8.7% at June 30, 2006 and December 31, 2005, respectively. Both ratios continue to be maintained at levels in excess of the regulatory minimums for *well capitalized* institutions. The ratios remained relatively stable since the beginning of the year as our strong earnings during the quarter kept pace with the growth in our assets.

**Liquidity:** The liquidity of a financial institution reflects its ability to measure and monitor a variety of sources and uses of funds. Our Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus on developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for growing our investment and loan portfolios. Our sources of liquidity include our borrowing capacity with the Federal Home Loan Bank and federal funds purchased lines with our correspondent banks, loan payments by our borrowers, maturities and sales of our securities available for sale, growth of our deposits and deposit equivalents, federal funds sold, and the various capital resources discussed above. Liquidity management involves the ability to meet the cash flow requirements of our customers. Our customers may be either borrowers with credit needs or depositors wanting to withdraw funds. We feel our liquidity position is sufficient to meet these needs.

## Forward Looking Statements

This report includes "forward-looking statements" as that term is used in the securities laws. All statements regarding our expected financial position, business and strategies are forward-looking statements. In addition, the words "anticipates," "believes," "estimates," "seeks," "expects," "plans," "intends," and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. The presentation and discussion of the provision and allowance for loan losses, statements concerning future profitability or future growth or increases, and statements about the adequacy of our capital resources are examples of inherently forward looking statements in that they involve judgments and statements of belief as to the outcome of future events. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and our future prospects include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in our market area and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning us and our business, including additional factors that could materially affect our financial results, is included in our filings with the Securities and Exchange Commission.

## [Table of Contents](#)

### Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk Analysis

Our primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of our transactions are denominated in U.S. dollars with no specific foreign exchange exposure. Macatawa Bank has only limited agricultural-related loan assets, and therefore has no significant exposure to changes in commodity prices. Our market risk exposure is mainly comprised of our sensitivity to interest rate risk. Our balance sheet has sensitivity, in various categories of assets and liabilities, to changes in prevailing rates in the U.S. for prime rate, mortgage rates, U.S. Treasury rates and various money market indexes. Our asset/liability management process aids us in providing liquidity while maintaining a balance between interest earning assets and interest bearing liabilities.

We utilize a simulation model as our primary tool to assess the direction and magnitude of variations in net interest income and the economic value of equity (“EVE”) resulting from potential changes in market interest rates. Key assumptions in the model include contractual cash flows and maturities of interest-sensitive assets and interest-sensitive liabilities, prepayment speeds on certain assets, and changes in market conditions impacting loan and deposit pricing. We also include pricing floors on discretionary priced liability products which limit how low various checking and savings products could go under declining interest rates. These floors reflect our pricing philosophy in response to changing interest rates.

We forecast the next twelve months of net interest income under an assumed environment of gradual changes in market interest rates under various scenarios. The resulting change in net interest income is an indication of the sensitivity of our earnings to directional changes in market interest rates. The simulation also measures the change in EVE, or the net present value of our assets and liabilities, under an immediate shift, or shock, in interest rates under various scenarios, as calculated by discounting the estimated future cash flows using market-based discount rates.

The following table shows the impact of changes in interest rates on net interest income over the next twelve months and EVE based on our balance sheet as of June 30, 2006 (dollars in thousands).

<u>Interest Rate Scenario</u>	<u>Economic Value of Equity</u>	<u>Percent Change</u>	<u>Net Interest Income</u>	<u>Percent Change</u>
Interest rates up 200 basis points	\$ 185,815	(8.98)%	\$ 74,890	3.84%
Interest rates up 100 basis points	193,704	(5.12)	73,565	2.01
No change in interest rates	204,150	—	72,118	—
Interest rates down 100 basis points	210,077	2.90	70,432	(2.34)
Interest rates down 200 basis points	213,604	4.63	68,613	(4.86)

If interest rates were to increase, this analysis suggests that we are positioned for a slight improvement in net interest income over the next twelve months. Further, our balanced sensitivity in time horizons beyond one year results in little fluctuation in EVE under the various rate shock scenarios.

We also forecast the impact of immediate and parallel interest rate shocks on net interest income under various scenarios to measure the sensitivity of our earnings under extreme conditions.

The quarterly simulation analysis is monitored against acceptable interest rate risk parameters by the Asset/Liability Committee and reported to the Board of Directors.

In addition to changes in interest rates, the level of future net interest income is also dependent on a number of other variables, including: the growth, composition and absolute levels of loans, deposits, and other earning assets and interest-bearing liabilities; economic and competitive conditions; potential changes in lending, investing and deposit gathering strategies; and client preferences.

---

## Table of Contents

### **Item 4: 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 Form 10-Q Quarterly Report, have concluded that 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-Q Quarterly Report was being prepared.
- (b) Changes in Internal Controls. During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

### **PART II – OTHER INFORMATION**

#### **Item 1. 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. The class has not been certified. A hearing on plaintiffs' motion for certification is scheduled to be held in September 2006. The Company has answered this complaint denying the material allegations and raising certain affirmative defenses.

In late July 2005 counsel to the Trade Partners Receiver filed another purported class action on behalf of Kelly Priest and certain trusts controlled by Gary Towle and his wife, making substantially the same allegations as in the Jenkins complaint, but on behalf of a class which was asserted to comprise all investors who are holders of allowed claims in the Trade Partners receivership. This case has been subsumed within and superseded by the Jenkins case, described above, and the operative class allegations are those now set forth in the Jenkins case. Counsel to the Trade Partners receiver has withdrawn from this litigation, though the Trade Partners receiver has stated that he is cooperating with class counsel.

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

---

## Table of Contents

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 July 15, 2006, the receiver reported that he has received since the inception of the receivership cash payments for death benefit claims aggregating approximately \$29.2 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 July 15, 2006 the receiver reported cash on hand of approximately \$36.3 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 in June 2004 proposed a plan of distribution of the assets of Trade Partners. No hearing was ever set on that plan. 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 July 15, 2006 payments aggregating approximately \$24.4 million had been received on policies transferred pursuant to the sale agreement, plus another \$714,148.46 on policies that matured after the sale but before transfer.

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 receiver reported as of July 15, 2006 that claims against the receivership estate totaling \$158,276,599.98 have been approved, and reported total active claims of \$178,993,717.57. The receiver further reported that as of July 15, 2006 "emergency distributions" totaling \$344,844.25 had been made as advances to certain investors.

The proposed disclosure statement that accompanied the July 21, 2006 proposed amended plan of distribution states that the receiver estimates that he will have approximately \$42.5 million available for distribution when he proposes to commence distributions in late 2006. The receiver proposes to complete distributions in 2007. The disclosure statement estimates that approved claims will total approximately \$162,052,663.83. The disclosure statement indicates that Trade Partners investors should therefore expect to receive initial distributions totaling about 26.39% of their approved claims, and estimates that another 8% of such approved claims will ultimately be distributed.

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

## Table of Contents

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. On or about July 21, 2006, Federal Insurance Company notified the Company that it has filed an Arbitration Demand with the American Arbitration Association. In the Arbitration Demand Federal Insurance Company seeks a declaration that based upon its asserted coverage defenses its policy does not cover this matter. 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.

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 1A. Risk Factors.**

There have been no material changes in the risk factors applicable to the Company from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2005.

### **Item 2. Changes in Securities and Use of Proceeds.** None.

### **Item 3. Defaults Upon Senior Securities.** None.

### **Item 4. Submission of Matters to a Vote of Securities Holders.**

The annual meeting of shareholders was held on April 20, 2006, at which the shareholders of Macatawa Bank Corporation voted to:

- a) Elect two directors for a term of three years. The results are as follows:

<u>Director Nominee</u>	<u>For</u>	<u>Withheld</u>
Benj. A. Smith, III	8,145,968	993,240
G. Thomas Boylan	8,748,440	390,768

- b) Approve the Macatawa Bank Corporation 2006 Stock Compensation Plan. The results are as follows:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
8,834,424	281,073	23,710

- c) Approve the Macatawa Bank Corporation 2006 Directors Stock Compensation Plan. The results are as follows:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
8,578,975	468,671	91,560

- d) Amend the Amended and Restated Articles of Incorporation of the Company to increase the authorized common stock from 20,000,000 shares to 40,000,000 shares, no par value. The results are as follows:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
8,603,318	515,428	20,461

---

[Table of Contents](#)

**Item 5. Other Information.** None.

**Item 6. Exhibits.**

- 3.1 Amendment to Articles of Incorporation of Macatawa Bank Corporation.
- 10.1 Macatawa Bank Corporation 2006 Stock Compensation Plan (incorporated by reference to Appendix A to the Macatawa Bank Corporation Proxy Statement on Form DEF 14A for the 2006 Annual Meeting as filed with the Securities and Exchange Commission on March 9, 2006).
- 10.2 Macatawa Bank Corporation 2006 Directors Stock Compensation Plan (incorporated by reference to Appendix B to the Macatawa Bank Corporation Proxy Statement on Form DEF 14A for the 2006 Annual Meeting as filed with the Securities and Exchange Commission on March 9, 2006).
- 10.3 Form of Stock Option Agreement for non-qualified stock options.
- 10.4 Form of Stock Option Agreement for incentive stock options.
- 10.5 Form of Stock Option Agreement under the Directors' Stock Compensation Plan.
- 31.1 Certificate of the Chief Executive Officer of Macatawa Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of the Chief Financial Officer of Macatawa Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of the Chief Executive Officer and the Senior Vice President 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.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, to be signed on its behalf by the undersigned, thereunto duly authorized.

MACATAWA BANK CORPORATION

/s/ Benj. A. Smith, III

Benj. A. Smith, III  
Chairman and Chief Executive Officer

/s/ Jon W. Swets

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

DATE: August 3, 2006



EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
3.1	Amendment to Articles of Incorporation of Macatawa Bank Corporation.
10.1	Macatawa Bank Corporation 2006 Stock Compensation Plan (incorporated by reference to Appendix A to the Macatawa Bank Corporation Proxy Statement on Form DEF 14A for the 2006 Annual Meeting as filed with the Securities and Exchange Commission on March 9, 2006).
10.2	Macatawa Bank Corporation 2006 Directors Stock Compensation Plan (incorporated by reference to Appendix B to the Macatawa Bank Corporation Proxy Statement on Form DEF 14A for the 2006 Annual Meeting as filed with the Securities and Exchange Commission on March 9, 2006).
10.3	Form of Stock Option Agreement for non-qualified stock options.
10.4	Form of Stock Option Agreement for incentive stock options.
10.5	Form of Stock Option Agreement under the Directors' Stock Compensation Plan.
31.1	Certificate of the Chief Executive Officer of Macatawa Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certificate of the Chief Financial Officer of Macatawa Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certificate of the Chief Executive Officer and the Senior Vice President 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.

MICHIGAN DEPARTMENT OF LABOR AND ECONOMIC GROWTH BUREAU OF COMMERCIAL SERVICES																			
Date Received	(FOR BUREAU USE ONLY)																		
This document is effective on the date filed, unless a subsequent effective date within 90 days after received date is stated in the document.																			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="3">Name</td> </tr> <tr> <td colspan="3">HARVEY KONING</td> </tr> <tr> <td colspan="3">Address</td> </tr> <tr> <td colspan="3">P.O. BOX 352</td> </tr> <tr> <td>City</td> <td>State</td> <td>Zip Code</td> </tr> <tr> <td>GRAND RAPIDS</td> <td>MI</td> <td>49501-0352</td> </tr> </table>		Name			HARVEY KONING			Address			P.O. BOX 352			City	State	Zip Code	GRAND RAPIDS	MI	49501-0352
Name																			
HARVEY KONING																			
Address																			
P.O. BOX 352																			
City	State	Zip Code																	
GRAND RAPIDS	MI	49501-0352																	
EFFECTIVE DATE:																			

Document will be returned to the name and address you enter above.  
If left blank document will be mailed to the registered office.

**CERTIFICATE OF AMENDMENT TO THE ARTICLES OF INCORPORATION**  
**For use by Domestic Profit and Nonprofit Corporations**  
(Please read information and instructions on the last page)

*Pursuant to the provisions of Act 284, Public Acts of 1972 (profit corporations), or Act 162, Public Acts of 1982 (nonprofit corporations), the undersigned corporation executes the following Certificate:*

1. The present name of the corporation is:     MACATAWA BANK CORPORATION

2. The identification number assigned by the Bureau is:     

3. Article III of the Articles of Incorporation is hereby amended to read as follows:

The first paragraph of Article III is amended to read as follows:

Article III

The total number of shares of all classes of capital stock which the Corporation shall have the authority to issue is forty million five hundred thousand (40,500,000) shares, of which forty million (40,000,000) shall be common stock and five hundred thousand (500,000) shares shall be series preferred stock.

**COMPLETE ONLY ONE OF THE FOLLOWING:**

**4. (For amendments adopted by unanimous consent of incorporators before the first meeting of the board of directors or trustees.)**

The foregoing amendment to the Articles of Incorporation was duly adopted on the day of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ in accordance with the provisions of the Act by the unanimous consent of the incorporator(s) before the first meeting of the Board of Directors or Trustees.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Type or Print Name)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Type or Print Name)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Type or Print Name)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Type or Print Name)

**5. (For profit and nonprofit corporations whose Articles state the corporation is organized on a stock or on a membership basis.)**

The foregoing amendment to the Articles of Incorporation was duly adopted on the 20th day of April, 2006, by the shareholders if a profit corporation, or by the shareholders or members if a nonprofit corporation (check one of the following)

- at a meeting the necessary votes were cast in favor of the amendment.
- by written consent of the shareholders or members having not less than the minimum number of votes required by statute in accordance with Section 407(1) and (2) of the Act if a nonprofit corporation, or Section 407(1) of the Act if a profit corporation. Written notice to shareholders or members who have not consented in writing has been given. (Note: Written consent by less than all of the shareholders or members is permitted only if such provision appears in the Articles of Incorporation.)
- by written consent of all the shareholders or members entitled to vote in accordance with section 407(3) of the Act if a nonprofit corporation, or Section 407(2) of the Act if a profit corporation.
- by consents given by electronic transmission in accordance with Section 407(3) if a profit corporation.
- by the board of a profit corporation pursuant to section 611(2).

Profit Corporations and Professional Service Corporations
Signed this _____ day of May, 2006
By _____ /s/ Philip J. Koning (Signature of an authorized officer or agent)
Philip J. Koning, President
_____ (Type or Print Name)

Nonprofit Corporations
Signed this _____ day of _____, _____
By _____ (Signature of President, Vice-President, Chairperson or Vice-Chairperson)
_____ (Type or Print Name)

Name of person or organization remitting fees:

Macatawa Bank Corporation

Preparer's name and business telephone number:

HARVEY KONING

(616) 336-6588

**INFORMATION AND INSTRUCTIONS**

1. This form may be used to draft your Certificate of Amendment to the Articles of Incorporation. A document required or permitted to be filed under the act cannot be filed unless it contains the minimum information required by the act. The format provided contains only the minimal information required to make the document fileable and may not meet your needs. This is a legal document and agency staff cannot provide legal advice.
2. Submit one original of this document. Upon filing, the document will be added to the records of the Bureau of Commercial Services. The original will be returned to your registered office address, unless you enter a different address in the box on the front of this document.  
  
Since this document will be maintained on electronic format, it is important that the filing be legible. Documents with poor black and white contrast, or otherwise illegible, will be rejected.
3. This Certificate is to be used pursuant to the provisions of section 631 of Act 284, P.A. of 1972 or Act 162, P.A. of 1982, for the purpose of amending the Articles of Incorporation of a domestic profit corporation or nonprofit corporation. Do not use this form for restated articles.
4. Item 2 - Enter the identification number previously assigned by the Bureau. If this number is unknown, leave it blank.
5. Item 3 - The article(s) being amended must be set forth in its entirety. However, if the article being amended is divided into separately identifiable sections, only the sections being amended need be included.
6. For nonprofit charitable corporations, if an amendment changes the term of existence to other than perpetual, Attorney General Consent should be obtained at the time of dissolution. Contact Michigan Attorney General, Consumer Protection and Charitable Trust Division (517) 373-1152.
7. This document is effective on the date endorsed "filed" by the Bureau. A later effective date, no more than 90 days after the date of delivery, may be stated as an additional article.
8. Signatures:  
**Profit Corporations:** (Complete either Item 4 or Item 5)  
1) Item 4 must be signed by at least a majority of the Incorporators listed in the Articles of Incorporation.  
2) Item 5 must be signed by an authorized officer or agent of the corporation.  
  
**Nonprofit Corporations:** (Complete either Item 4 or Item 5)  
1) Item 4 must be signed by all of the incorporators listed in the Articles of Incorporation.  
2) Item 5 or 6 must be signed by either the president, vice-president, chairperson or vice-chairperson.
9. NONREFUNDABLE FEE: Make remittance payable to the State of Michigan. Include corporation name and identification number on check or money order  
**\$10.00**

**ADDITIONAL FEES DUE FOR INCREASED AUTHORIZED SHARES OF PROFIT CORPORATIONS ARE:**

each additional 20,000 authorized shares or portion thereof	\$30.00
maximum fee per filing for first 10,000,000 authorized shares	\$5,000.00
each additional 20,000 authorized shares or portion thereof in excess of 10,000,000 shares	\$30.00
maximum fee per filing for authorized shares in excess of 10,000,000 shares	\$200,000.00

**To submit by mail:**

Michigan Department of Labor and Economic Growth  
 Bureau of Commercial Services - Corporation Division  
 P.O. Box 30054  
 Lansing, Michigan 48909

**To submit in person:**

2501 Woodlake Circle  
 Okemos, MI  
 Telephone: (517) 241-6470  
  
 Fees may be paid by VISA or Mastercard when delivered in person to our office.

**MICH-ELF (Michigan Electronic Filing System):**

First Time Users: Call (517) 241-6470, or visit our website at <http://www.michigan.gov/corporations>  
 Customer with MICH-ELF Filer Account: Send document to (517) 636-6437.

The Department of Labor and Economic Growth will not discriminate against any individual or group because of race, sex, religion, age, national origin, color, marital status, disability or political beliefs. If you need help with reading, writing, hearing, etc., under the Americans with Disabilities Act, you may make your needs known to this agency.

**MACATAWA BANK CORPORATION**  
**2006 STOCK COMPENSATION PLAN**  
**STOCK OPTION AGREEMENT**  
**(Nonqualified Stock Option)**

This **STOCK OPTION AGREEMENT** is made this {Date}, between **MACATAWA BANK CORPORATION** (the "Company") and **employee name**, an employee of the Company or one of its subsidiaries (the "Employee"), pursuant to the Macatawa Bank Corporation 2006 Stock Compensation Plan (the "Plan"). All capitalized defined terms in this Agreement shall have the meaning ascribed to such terms in the Plan, unless otherwise defined in this Agreement.

**IT IS AGREED AS FOLLOWS:**

1. Grant of Option. Pursuant to the Plan, the Company hereby grants to the Employee the option to purchase [Number of Shares] shares of the Company's common stock, no par value, on the terms and conditions herein set forth (the "Option"). All of the shares covered by this Option shall be considered and hereby are designated as Nonqualified Stock Options.
2. Purchase Price. The purchase price of the shares covered by this Option shall be [Price per share] per share. The "Committee" (provided for in Article 3 of the Plan) has determined that such price represents one hundred percent 100% of the fair market value of a share of the Company's common stock on this date.
3. Term of Option. The term of this Option shall be for a period of ten (10) years from the date hereof, subject in each case to earlier termination as provided in subsequent paragraphs of this Agreement.
4. Employee's Agreement. In consideration of the granting of the Option, the Employee agrees to remain in the employ of the Company for a period of at least thirty six (36) months from the date hereof (the "Minimum Employment Period"). Such employment, subject to the provisions of any written contract between the Company and the Employee, shall be at the pleasure of the Board of Directors, and this Option Agreement shall not impose on the Company any obligation to retain the Employee in its employ for any period. In the event of the termination of employment of the Employee for any reason during the Minimum Employment Period, this Option shall terminate, unless this Option becomes exercisable as provided in Paragraph 9.
5. Exercise of Option. Except as provided in paragraph 9, this Option shall not be exercisable prior to the expiration of the Minimum Employment Period. Thereafter, this Option may be exercised in whole or in part, at any time and from time to time. This Option may not be exercised as to less than 100 shares at any one time, unless the number purchased is the total number at that time purchasable under this Option. This Option shall be exercised by written notice to the Company. The notice shall state the number of shares with respect to which the Option is being exercised, shall be signed by the person exercising this Option, and shall be accompanied by payment of the full purchase price of the shares in such form as the Committee may accept. This Option agreement shall be submitted to the Company with the notice for purposes of recording the shares being purchased, if exercised in part, or for purposes of cancellation if all shares subject to this Option are being purchased. In the event the Option shall be exercised pursuant to paragraph 8(c) hereof by any person other than the Employee, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. To the extent determined by the Committee in its sole discretion, payment of the purchase price shall be made by: (a) cash, check, bank draft, or money order, payable to the order of the Company; (b) the delivery by the Employee of unencumbered shares of common stock of the Company with a Fair Market Value on the last trading day preceding payment equal to the total purchase price of the shares to be purchased;

(c) a combination of (a) and (b), except that no shares of stock which have been held for less than six months may be delivered in payment of the exercise price. Upon exercise of all or a portion of this Option, the Company shall issue to the Employee a stock certificate representing the number of shares with respect to which this Option was exercised.

6. **Tax Withholding.** The exercise of this Option is subject to the satisfaction of withholding tax or other withholding liabilities, if any, under federal, state and local laws in connection with such exercise or the delivery or purchase of shares pursuant hereto. The exercise of this Option shall not be effective unless applicable withholding shall have been effected or obtained in the following manner or in any other manner acceptable to the Committee. Unless otherwise prohibited by the Committee, Optionee may satisfy any such withholding tax obligation by any of the following means or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold from the shares otherwise issuable to Optionee as a result of the exercise of this Option a number of shares having a fair market value as of the date that the amount of tax to be withheld is to be determined ("Tax Date"), which shall be the date of exercise of the Option, less than or equal to the amount of the withholding tax obligation; or (c) delivering to the Company unencumbered shares of the Company's common stock owned by Optionee having a fair market value, as of the Tax Date, less than or equal to the amount of the withholding tax obligation.

7. **Nontransferability of Option.** This Option shall not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated other than by will or by the laws of descent and distribution, and shall not be subject to execution, levy, attachment or similar process. Any attempted sale, transfer, assignment, pledge, hypothecation or other disposition of this Option contrary to the terms hereof, and any execution, levy, attachment or similar process upon the Option, shall be null and void and without effect. Following any transfer, this Option shall continue to be subject to the same terms and conditions immediately prior to transfer. The designation of a person entitled to exercise this Option after the Employee's death will not be deemed a transfer.

#### 8. **Termination of Employment**

(a) Termination of Employment for Reasons Other Than Retirement, Disability or Death. Upon Termination of Employment for any reason other than Retirement or on account of Disability or death, this Option shall, to the extent rights to purchase shares hereunder have accrued at the date of such Termination of Employment and shall not have been fully exercised, be exercisable, in whole or in part, at any time within a period of three (3) months following Termination of Employment, subject, however, to prior expiration of the term of this Option and any other limitations upon its exercise in effect at the date of exercise.

(b) Termination of Employment for Retirement or Disability. Upon Termination of Employment by reason of Retirement or Disability, this Option shall, to the extent rights to purchase shares hereunder have accrued at the date of such Retirement or Disability and have not been fully exercised, be exercisable, in whole or in part, for a period of three (3) years following such Termination of Employment, subject to any other limitations imposed by the Plan. If the Employee dies after such Retirement or Disability, this Option shall be exercisable in accordance with paragraph 8(c) hereof.

(c) Termination of Employment for Death. Upon Termination of Employment due to death, this Option shall, to the extent rights to purchase shares hereunder have accrued at the date of death and shall not have been fully exercised, be exercisable, in whole or in part, by the personal representative of the Employee's estate, by any person or persons who shall have acquired this Option directly from the Employee by bequest or inheritance, by a person designated to exercise the Option after the Employee's death, or a Permitted Transferee only under the following circumstances and during the following periods: (i) if the Employee dies while employed by the Company or a subsidiary, at any time within three (3) years after his or her death, or (ii) if the Employee dies during the extended exercise period following termination of employment specified in paragraph 8(b), at any time within the longer of such extended period or one (1) year after his or her death, subject, in any case, to the earlier expiration of this Option.

(d) Termination of Option. If this Option is not exercised within whichever of the exercise periods specified in paragraph 8(a), 8(b) or 8(c) is applicable, this Option shall terminate upon expiration of such exercise period.

9. Changes in Capital Structure. The number of shares covered by this Option, and the price per share, shall be proportionately adjusted for any increase or decrease in the number of issued shares of common stock of the Company resulting from any combination of shares or the payment of a stock dividend on the Company's common stock or any other increase or decrease in the number of shares effected without receipt of consideration by the Company.

In the event of a "Change of Control" (as defined in Section 12.2 of the Plan) of the Company, this Option will be and become fully vested and exercisable irrespective of the Minimum Employment Period and irrespective of any vesting schedule set forth in this Agreement, unless in the case of a transaction described in clause (iii) or (iv), of Section 12.2 of the Plan, provisions are made in connection with such transaction for the continuance of the Plan and the assumption of this Option or the substitution for this Option of a new option covering the stock of a successor employer corporation, or a parent or subsidiary thereof, covering the stock of a successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices.

In the event of a change in the common stock of the Company as presently constituted, which is limited to a change of all its authorized shares into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the shares subject to this Option.

Except as expressly provided in this paragraph 9, the Employee shall have no rights by reason of: (i) any subdivision or combination of shares of stock of any class, (ii) the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class; or (iii) any dissolution, liquidation, merger or consolidation or spinoff of assets or stock of another corporation. Except as provided in this paragraph 9, any issue by the company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to this Option.

The grant of this Option shall not affect in anyway the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

10. Rights as a Shareholder. Neither the Employee nor a transferee of this Option shall have any rights as a shareholder with respect to any shares covered hereby until the date he or she shall have become the holder of record of such shares. No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date on which he or she shall have become the holder of record thereof, except as provided in paragraph 9 hereof.

11. Modification, Extension and Renewal. Subject to the terms and conditions and within the limitations of the Plan, the Committee, subject to approval of the Board of Directors, may modify or renew this Option, or accept its surrender (to the extent not theretofore exercised) and authorize the granting of a new option or options in substitution therefore (to the extent not theretofore exercised). Notwithstanding the foregoing, no modification shall, without the consent of the Employee, alter or impair any rights or obligations hereunder.

12. Postponement of Delivery of Shares and Representations. The Company, in its discretion, may postpone the issuance and/or delivery of shares upon any exercise of this Option until completion of such stock exchange listing, or registration, or other qualification of such shares under any state and/or federal law,

rule or regulation as the Company may consider appropriate, and may require any person exercising this Option to make such representations, including a representation that it is the Employee's intention to acquire shares for investment and not with a view to distribution thereof, and furnish such information as it may consider appropriate in connection with the issuance or delivery of shares in compliance with applicable laws, rules and regulations. In such event, no shares shall be issued to such holder unless and until the Company is satisfied with the accuracy of any such representations.

13. Subject to Plan. This Option is subject to the terms and provisions of the Plan. If any inconsistency exists between the provisions of this Agreement and the Plan, the Plan shall govern.

14. Nonqualified Stock Option. This Option is a Nonqualified Stock Option. This Option does not qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

In Witness Whereof, this Stock Option Agreement has been executed the date first above written.

**MACATAWA BANK CORPORATION**

**BY**

\_\_\_\_\_  
PHILIP J. KONING

**ITS**

**SECRETARY**

**EMPLOYEE**

\_\_\_\_\_  
**PRINT NAME**

**ADDRESS**

**SS#:**



**MACATAWA BANK CORPORATION**  
**2006 STOCK COMPENSATION PLAN**  
**STOCK OPTION AGREEMENT**  
**(Incentive Stock Option)**

This **STOCK OPTION AGREEMENT** is made this **DATE**, between **MACATAWA BANK CORPORATION** (the "Company") and **Employee Name**, an employee of the Company or one of its subsidiaries (the "Employee"), pursuant to the Macatawa Bank Corporation 2006 Stock Compensation Plan (the "Plan"). All capitalized defined terms in this Agreement shall have the meaning ascribed to such terms in the Plan, unless otherwise defined in this Agreement.

**IT IS AGREED AS FOLLOWS:**

1. Grant of Option. Pursuant to the Plan, the Company hereby grants to the Employee the option to purchase \_\_\_\_\_ shares of the Company's common stock, no par value, on the terms and conditions herein set forth (the "Option"). All of the shares covered by this Option shall be considered and hereby are designated as incentive stock options ("ISOs") qualifying under the provisions of Section 422 of the Internal Revenue Code of 1986, as amended, to the maximum extent permitted under Section 422.
2. Purchase Price. The purchase price of the shares covered by this Option shall be \$\_\_\_\_\_ per share. The "Committee" (provided for in Article 3 of the Plan) has determined that such price represents one hundred percent 100% of the fair market value of a share of the Company's common stock on this date.
3. Term of Option. The term of this Option shall be for a period of ten (10) years from the date hereof, subject in each case to earlier termination as provided in subsequent paragraphs of this Agreement.
4. Employee's Agreement. In consideration of the granting of the Option, the Employee agrees to remain in the employ of the Company for a period of at least thirty six (36) months from the date hereof (the "Minimum Employment Period"). Such employment, subject to the provisions of any written contract between the Company and the Employee, shall be at the pleasure of the Board of Directors, and this Option Agreement shall not impose on the Company any obligation to retain the Employee in its employ for any period. In the event of the termination of employment of the Employee for any reason during the Minimum Employment Period, this Option shall terminate, unless this Option becomes exercisable as provided in Paragraph 9.
5. Exercise of Option. Except as provided in paragraph 9, this Option shall not be exercisable prior to the expiration of the Minimum Employment Period. Thereafter, this Option may be exercised in whole or in part, at any time and from time to time. This Option may not be exercised as to less than 100 shares at any one time, unless the number purchased is the total number at that time purchasable under this Option. This Option shall be exercised by written notice to the Company. The notice shall state the number of shares with respect to which the Option is being exercised, shall be signed by the person exercising this Option, and shall be accompanied by payment of the full purchase price of the shares in such form as the Committee may accept. This Option agreement shall be submitted to the Company with the notice for purposes of recording the shares being purchased, if exercised in part, or for purposes of cancellation if all shares subject to this Option are being purchased. In the event the Option shall be exercised pursuant to paragraph 8(c) hereof by any person other than the Employee, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. To the extent determined by the Committee in its sole discretion, payment of the purchase price shall be made by: (a) cash, check, bank draft, or money order, payable to the order of the Company; (b) the delivery by the Employee of unencumbered shares of common stock of the Company with a Fair Market Value on the last trading day preceding payment equal to the total purchase price of the shares to be purchased;

(c) a combination of (a) and (b), except that no shares of stock which have been held for less than six months may be delivered in payment of the exercise price. Upon exercise of all or a portion of this Option, the Company shall issue to the Employee a stock certificate representing the number of shares with respect to which this Option was exercised.

6. Tax Withholding. The exercise of this Option is subject to the satisfaction of withholding tax or other withholding liabilities, if any, under federal, state and local laws in connection with such exercise or the delivery or purchase of shares pursuant hereto. The exercise of this Option shall not be effective unless applicable withholding shall have been effected or obtained in the following manner or in any other manner acceptable to the Committee. Unless otherwise prohibited by the Committee, Optionee may satisfy any such withholding tax obligation by any of the following means or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold from the shares otherwise issuable to Optionee as a result of the exercise of this Option a number of shares having a fair market value as of the date that the amount of tax to be withheld is to be determined ("Tax Date"), which shall be the date of exercise of the Option, less than or equal to the amount of the withholding tax obligation; or (c) delivering to the Company unencumbered shares of the Company's common stock owned by Optionee having a fair market value, as of the Tax Date, less than or equal to the amount of the withholding tax obligation.

7. Nontransferability of Option. This Option shall not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated other than by will or by the laws of descent and distribution, and shall not be subject to execution, levy, attachment or similar process. Any attempted sale, transfer, assignment, pledge, hypothecation or other disposition of this Option contrary to the terms hereof, and any execution, levy, attachment or similar process upon the Option, shall be null and void and without effect. Following any transfer, this Option shall continue to be subject to the same terms and conditions immediately prior to transfer. The designation of a person entitled to exercise this Option after the Employee's death will not be deemed a transfer.

#### 8. Termination of Employment.

(a) Termination of Employment for Reasons Other Than Retirement, Disability or Death. Upon Termination of Employment for any reason other than Retirement or on account of Disability or death, this Option shall, to the extent rights to purchase shares hereunder have accrued at the date of such Termination of Employment and shall not have been fully exercised, be exercisable, in whole or in part, at any time within a period of three (3) months following Termination of Employment, subject, however, to prior expiration of the term of this Option and any other limitations upon its exercise in effect at the date of exercise.

(b) Termination of Employment for Retirement or Disability. Upon Termination of Employment by reason of Retirement or Disability, this Option shall, to the extent rights to purchase shares hereunder have accrued at the date of such Retirement or Disability and have not been fully exercised, be exercisable, in whole or in part, for a period of three (3) years following such Termination of Employment, subject to any other limitations imposed by the Plan. If the Employee dies after such Retirement or Disability, this Option shall be exercisable in accordance with paragraph 8(c) hereof.

(c) Termination of Employment for Death. Upon Termination of Employment due to death, this Option shall, to the extent rights to purchase shares hereunder have accrued at the date of death and shall not have been fully exercised, be exercisable, in whole or in part, by the personal representative of the Employee's estate, by any person or persons who shall have acquired this Option directly from the Employee by bequest or inheritance, by a person designated to exercise the Option after the Employee's death, or a Permitted Transferee only under the following circumstances and during the following periods: (i) if the Employee dies while employed by the Company or a subsidiary, at any time within three (3) years after his or her death, or (ii) if the Employee dies during the extended exercise period following termination of employment specified in paragraph 8(b), at any time within the longer of such extended period or one (1) year after his or her death, subject, in any case, to the earlier expiration of this Option.

(d) Termination of Option. If this Option is not exercised within whichever of the exercise periods specified in paragraph 8(a), 8(b) or 8(c) is applicable, this Option shall terminate upon expiration of such exercise period.

9. Changes in Capital Structure. The number of shares covered by this Option, and the price per share, shall be proportionately adjusted for any increase or decrease in the number of issued shares of common stock of the Company resulting from any combination of shares or the payment of a stock dividend on the Company's common stock or any other increase or decrease in the number of shares effected without receipt of consideration by the Company.

In the event of a "Change of Control" (as defined in Section 12.2 of the Plan) of the Company, this Option will be and become fully vested and exercisable irrespective of the Minimum Employment Period and irrespective of any vesting schedule set forth in this Agreement, unless in the case of a transaction described in clause (iii) or (iv), of Section 12.2 of the Plan, provisions are made in connection with such transaction for the continuance of the Plan and the assumption of this Option or the substitution for this Option of a new option covering the stock of a successor employer corporation, or a parent or subsidiary thereof, covering the stock of a successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices.

In the event of a change in the common stock of the Company as presently constituted, which is limited to a change of all its authorized shares into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the shares subject to this Option.

Except as expressly provided in this paragraph 9, the Employee shall have no rights by reason of: (i) any subdivision or combination of shares of stock of any class, (ii) the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class; or (iii) any dissolution, liquidation, merger or consolidation or spinoff of assets or stock of another corporation. Except as provided in this paragraph 9, any issue by the company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to this Option.

The grant of this Option shall not affect in anyway the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

10. Rights as a Shareholder. Neither the Employee nor a transferee of this Option shall have any rights as a shareholder with respect to any shares covered hereby until the date he or she shall have become the holder of record of such shares. No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date on which he or she shall have become the holder of record thereof, except as provided in paragraph 9 hereof.

11. Modification, Extension and Renewal. Subject to the terms and conditions and within the limitations of the Plan, the Committee, subject to approval of the Board of Directors, may modify or renew this Option, or accept its surrender (to the extent not theretofore exercised) and authorize the granting of a new option or options in substitution therefore (to the extent not theretofore exercised). Notwithstanding the foregoing, no modification shall, without the consent of the Employee, alter or impair any rights or obligations hereunder.

12. Postponement of Delivery of Shares and Representations. The Company, in its discretion, may postpone the issuance and/or delivery of shares upon any exercise of this Option until completion of such stock

exchange listing, or registration, or other qualification of such shares under any state and/or federal law, rule or regulation as the Company may consider appropriate, and may require any person exercising this Option to make such representations, including a representation that it is the Employee's intention to acquire shares for investment and not with a view to distribution thereof, and furnish such information as it may consider appropriate in connection with the issuance or delivery of shares in compliance with applicable laws, rules and regulations. In such event, no shares shall be issued to such holder unless and until the Company is satisfied with the accuracy of any such representations.

13. Subject to Plan. This Option is subject to the terms and provisions of the Plan. If any inconsistency exists between the provisions of this Agreement and the Plan, the Plan shall govern.

14. ISO Stock Option. Any provision of this Option or the Plan to the contrary notwithstanding, neither the Company, the Company's Board of Directors nor the Committee shall have any authority to take any action or to do anything which would cause the shares designated herein as ISOs to fail to qualify as ISOs within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. Notwithstanding any provision of this Plan providing for an extended period to exercise Options following a termination of employment, an Option will be taxed as an Incentive Stock Option only if it is exercised within the Incentive Stock Option time periods stated in the tax Code (within three months after termination of employment, unless the individual is disabled, in which case the three month period is extended to one year).

In Witness Whereof, this Stock Option Agreement has been executed the date first above written.

**MACATAWA BANK CORPORATION**

**BY** \_\_\_\_\_  
PHILIP J. KONING

**ITS SECRETARY**

**EMPLOYEE**

\_\_\_\_\_  
**PRINT NAME**

**ADDRESS**

**SS#:**

**MACATAWA BANK CORPORATION**  
**2006 DIRECTORS' STOCK COMPENSATION PLAN**  
**STOCK OPTION AGREEMENT**

STOCK OPTION AGREEMENT, made this \_\_\_ day of \_\_\_\_\_, between MACATAWA BANK CORPORATION (herein called the "Company") and Director Name a director of the Company (the "Grantee"), pursuant to the Macatawa Bank Corporation 2006 Directors' Stock Compensation Plan (herein called the "Plan").

IT IS AGREED AS FOLLOWS:

1. Grant of Option

Pursuant to the Plan and the terms of this Agreement, the Company hereby grants to Grantee, an Eligible Director under the terms of the Plan, the option to purchase \_\_\_\_\_ shares of the Company's common stock, no par value, on the terms and conditions herein set forth (the "Option").

2. Purchase Price

The purchase price of the shares covered by this option shall be \$\_\_\_\_\_ per share, which represents one hundred percent (100) of the Fair Market Value of the Company's common stock on this date ("Grant Date").

3. Additional Terms

(a) Exercise Period

The Option may be exercised and Option Shares may be purchased at any time and from time to time on or after the third anniversary of the date of this Agreement and prior to the tenth anniversary of the date of this Agreement ("Exercise Period"), subject to the following:

(1) If Grantee dies while serving as a director of the Company, this Option shall become immediately exercisable as of the date of death and shall remain exercisable until the earlier of (a) the last day of the 36th month after the month of Grantee's death, or (b) the tenth anniversary of the Grant Date; and

(2) This Option may not be exercised after (the earlier of (a) the last day of the 36th month following the month in which Grantee's service as a director terminates, or (b) the tenth anniversary of the Grant Date.

(b) Procedure for Exercise

Subject to conditions of this Agreement, the Option may be exercised at any time and from time to time during the Exercise Period by delivering written notice to the Company, signed by Grantee, a Permitted Transferee, or Post-Death Representative, specifying the number of Option Shares to be purchased and accompanied by this Agreement.

(c) Payment of Option Price

The Option Price shall be paid in full either (1) in cash or (2) through the delivery of unencumbered shares of the Company's common stock owned by the person exercising this Option having a Fair Market Value on the date of exercise equal to the total exercise price, or (3) by a combination of (1) and (2) above, except that (i) any portion of the exercise price representing a fraction of a Share shall be paid in cash, and (ii) no Shares of Stock which have been held for less than six months may be delivered in payment of the exercise price.

---

#### 4. Transferability of Option

Except as otherwise provided in this paragraph, this Option shall not be sold, pledged, assigned or transferred in any way, nor be assignable by operation of law or subject to execution, levy, attachment or similar process. Except as provided in this paragraph, any attempted sale, pledge, assignment or other transfer of this Option contrary to the terms hereof, and any execution, levy, attachment or similar process upon the Option, shall be null and void and without any effect. Notwithstanding the foregoing, this Option shall, subject to the conditions set forth in this paragraph 4, be transferable by the original Grantee by gift, or other transfer that involves no payment of consideration to the original Grantee, at any time after the grant of the Option to the Grantee's spouse and/or the Grantee's descendants or to a trust created primarily for the benefit of the Grantee, the Grantee's spouse and/or the Grantee's descendants ("Authorized Transferee"). Payment of any consideration by an Authorized Transferee to the original Grantee is prohibited and any attempted transfer for consideration shall be void. An Authorized Transferee shall have no right to transfer the Option. An Authorized Transferee shall succeed to all rights and benefits (except the right to further transfer the Option) and be subject to all obligations, conditions and limitations of the original Grantee. However, such rights and benefits (except the rights to further transfer the Option) and obligations, conditions and limitations shall be determined as if the original Grantee continued to hold the Option, whereby, the provisions of this Option Agreement dealing with termination of employment, retirement, disability and death of a Grantee continue to refer to the original Grantee regardless of whether the options are or are not transferred to an Authorized Transferee. In order to transfer this Option, the Grantee must first give prior written notice to the Company's president or chief financial officer stating the name address and tax identification or social security number of the proposed transferee and the relationship of the proposed transferee to the Grantee and certifying that the transfer involves no payment of consideration. This Option may not be transferred if the transfer would constitute a violation of any applicable federal or state securities or other law or valid regulation. As a condition to the transfer of this Option, the Company may require the proposed transferee to make any representations and warranties to the Company as the Company may deem to be required by applicable law or regulation. In such event, the Option may not be transferred unless and until the Company is satisfied with the correctness of any such representation and warranty. Moreover, the Company, in its discretion, may postpone the transfer of this Option until completion of such stock exchange listing, or registration, or other qualification under any state and/or federal law, rule or regulation as the Company may consider appropriate.

#### 5. Conformity with Plan

The Option is intended to conform in all respects with and is subject to all applicable provisions of the Plan which is incorporated herein by reference. Any inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. By executing and returning the enclosed copy of this Agreement, Grantee acknowledges receipt of the Plan and agrees to be bound by all of the terms of the Plan.

#### 6. Service as a Director

Grantee acknowledges that nothing in this Agreement or in the Plan imposes upon the Company, its Board of Directors, or its shareholders any obligation to retain or elect the Grantee as director of the Company for any period.

#### 7. Adjustments

The Company shall make appropriate and proportionate adjustments, to the number of Option Shares and the Option Price to reflect any stock dividend, stock split, or combination of shares, merger, consolidation, or other change in the capitalization of the Company, as provided in Section 11 of the Plan. In the event of any such adjustment, all new, substituted, or additional securities or other property to which Grantee is entitled under the Option shall be included in the term "Option Shares."

8. Postponement of Delivery of Shares and Representations

The Company, in its discretion, may postpone the issuance or delivery of Shares upon any exercise of this Option until completion of the registration, or other qualification of such shares under any state and/or federal law, rule, or regulation as the Company may consider appropriate. The Company may require any person exercising this Option to make such representations, including a representation that it is their intention to acquire Shares for investment and not with a view to distribution thereof, and furnish such information as it may consider appropriate in connection with the issuance or delivery of the Shares in compliance with applicable laws, rules and regulations. No Shares shall be issued unless the Company is satisfied with the accuracy of any such representations.

9. Rights as a Shareholder

The Grantee shall have no rights as a shareholder with respect to any Option Shares until the Grantee becomes the holder of record of such shares.

10. Further Actions

The parties agree to execute such further instruments and to take such further actions as may reasonably be required to carry out the intent of this Agreement.

11. Notice

Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to the other party hereto at the address set forth in this Agreement or at such other address as such party may designate by ten day's advance written notice to the other party.

12. Successors and Assigns

This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon and inure to the benefit of Grantee's heirs, personal representatives, successors, and permitted assigns.

13. Governing Law

This Agreement and all documents contemplated hereby, and all remedies in connection therewith and all questions or transactions relating thereto, shall be construed in accordance with and governed by the laws of the state of Michigan.

14. Entire Agreement

This Agreement constitutes the entire understanding between the Grantee and the Company with respect to the Option Shares and supersedes all other agreements, whether written or oral, with respect to such Shares.

MACATAWA BANK CORPORATION

By: \_\_\_\_\_

Its: \_\_\_\_\_

The undersigned hereby acknowledges having read this Agreement, the Plan and the other enclosures to this Agreement and hereby agrees to be bound by all provisions set forth herein and in the Plan.

GRANTEE

\_\_\_\_\_  
Signature

(Please Print Name)

Address:

I, Benj. A. Smith III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Macatawa Bank Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2006

/s/ Benj. A. Smith, III  
\_\_\_\_\_  
Benj. A. Smith, III  
Chief Executive Officer



I, Jon W. Swets, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Macatawa Bank Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2006

/s/ Jon W. Swets

---

Jon W. Swets

Chief Financial Officer

Benj. A. Smith III, Chief Executive Officer of Macatawa Bank Corporation and Jon W. Swets, Senior Vice President and Chief Financial Officer of Macatawa Bank Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) the information contained in the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 fairly presents, in all material respects, the financial condition and results of operations of Macatawa Bank Corporation.

Dated: August 3, 2006

/s/ Benj. A. Smith, III

Benj. A. Smith, III  
Chief Executive Officer

/s/ Jon W. Swets

Jon W. Swets  
Senior Vice President and Chief Financial Officer