

Philip Morris International Inc.
Form 10-Q
April 25, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2019
OR

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

For the transition period from _____ to _____
Commission File Number 001-33708
Philip Morris
International
Inc.

(Exact name of registrant as specified in its charter)

Virginia 13-3435103
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

120 Park Avenue 10017
New York, New York
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (917) 663-2000

Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At April 22, 2019, there were 1,555,802,811 shares outstanding of the registrant's common stock, no par value per share.

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In this report, “PMI,” “we,” “us” and “our” refer to Philip Morris International Inc. and its subsidiaries.

Trademarks and service marks in this report are the registered property of, or licensed by, the subsidiaries of Philip Morris International Inc. and are italicized.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Philip Morris International Inc. and Subsidiaries
 Condensed Consolidated Statements of Earnings
 (in millions of dollars, except per share data)
 (Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Revenues including excise taxes	\$17,705	\$18,426
Excise taxes on products	10,954	11,530
Net revenues	6,751	6,896
Cost of sales	2,465	2,615
Gross profit	4,286	4,281
Marketing, administration and research costs (Notes 19 & 20)	2,217	1,833
Amortization of intangibles	19	22
Operating income	2,050	2,426
Interest expense, net	152	227
Pension and other employee benefit costs (Note 3)	21	6
Earnings before income taxes	1,877	2,193
Provision for income taxes	424	559
Equity investments and securities (income)/loss, net	(11) (13
Net earnings	1,464	1,647
Net earnings attributable to noncontrolling interests	110	91
Net earnings attributable to PMI	\$1,354	\$1,556
Per share data (Note 6):		
Basic earnings per share	\$0.87	\$1.00
Diluted earnings per share	\$0.87	\$1.00

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of dollars)
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Net earnings	\$1,464	\$1,647
Other comprehensive earnings (losses), net of income taxes:		
Change in currency translation adjustments:		
Unrealized gains (losses), net of income taxes of (\$128) in 2019 and \$192 in 2018	286	(371)
(Gains)/losses transferred to earnings - deconsolidation of RBH, net of income taxes of \$- in 2019 and \$- in 2018 (Note 20)	502	—
Change in net loss and prior service cost:		
Amortization of net losses, prior service costs and net transition costs, net of income taxes of (\$4) in 2019 and (\$11) in 2018	63	50
(Gains)/losses transferred to earnings - deconsolidation of RBH, net of income taxes of (\$15) in 2019 and \$- in 2018 (Note 20)	27	—
Change in fair value of derivatives accounted for as hedges:		
Gains (losses) recognized, net of income taxes of \$1 in 2019 and \$10 in 2018	(1)	(64)
(Gains) losses transferred to earnings, net of income taxes of \$1 in 2019 and (\$1) in 2018	(4)	2
Total other comprehensive earnings (losses)	873	(383)
Total comprehensive earnings	2,337	1,264
Less comprehensive earnings attributable to:		
Noncontrolling interests	109	56
Comprehensive earnings attributable to PMI	\$2,228	\$1,208

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries
 Condensed Consolidated Balance Sheets
 (in millions of dollars)
 (Unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	\$ 3,081	\$ 6,593
Trade receivables (less allowances of \$25 in 2019 and \$25 in 2018)	2,958	2,950
Other receivables	577	614
Inventories:		
Leaf tobacco	2,294	2,318
Other raw materials	1,548	1,405
Finished product	4,476	5,081
	8,318	8,804
Other current assets	807	481
Total current assets	15,741	19,442
Property, plant and equipment, at cost	14,299	14,557
Less: accumulated depreciation	7,405	7,356
	6,894	7,201
Goodwill (Note 4)	5,775	7,189
Other intangible assets, net (Note 4)	2,129	2,278
Investments in unconsolidated subsidiaries and equity securities (Notes 11&14)	4,578	1,269
Deferred income taxes	951	977
Other assets	1,974	1,445
TOTAL ASSETS	\$ 38,042	\$ 39,801

See notes to condensed consolidated financial statements.

Continued

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Philip Morris International Inc. and Subsidiaries
 Condensed Consolidated Balance Sheets (Continued)
 (in millions of dollars, except share data)
 (Unaudited)

	March 31, 2019	December 31, 2018
LIABILITIES		
Short-term borrowings (Note 10)	\$ 1,551	\$ 730
Current portion of long-term debt (Note 10)	5,582	4,054
Accounts payable	1,812	2,068
Accrued liabilities:		
Marketing and selling	580	732
Taxes, except income taxes	4,354	5,088
Employment costs	713	794
Dividends payable	1,783	1,783
Other	1,741	1,366
Income taxes	370	576
Total current liabilities	18,486	17,191
Long-term debt (Note 10)	23,131	26,975
Deferred income taxes	921	898
Employment costs	2,958	3,083
Income taxes and other liabilities	2,731	2,393
Total liabilities	48,227	50,540
Contingencies (Note 8)		
STOCKHOLDERS' (DEFICIT) EQUITY		
Common stock, no par value (2,109,316,331 shares issued in 2019 and 2018)	—	—
Additional paid-in capital	1,907	1,939
Earnings reinvested in the business	30,588	31,014
Accumulated other comprehensive losses	(9,237)	(10,111)
	23,258	22,842
Less: cost of repurchased stock (553,520,033 and 554,736,610 shares in 2019 and 2018, respectively)	35,226	35,301
Total PMI stockholders' deficit	(11,968)	(12,459)
Noncontrolling interests	1,783	1,720
Total stockholders' deficit	(10,185)	(10,739)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	\$ 38,042	\$ 39,801

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions of dollars)
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	\$1,464	\$1,647
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	240	242
Deferred income tax (benefit) provision	(94)	26
Cash effects of changes in:		
Receivables, net	4	(113)
Inventories	237	338
Accounts payable	(7)	(62)
Accrued liabilities and other current assets	(855)	(509)
Income taxes	(251)	(315)
Pension plan contributions	(17)	(25)
Other	520	(1) 151
Net cash provided by operating activities	1,241	1,380
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(324)	(365)
Investments in unconsolidated subsidiaries and equity securities	(24)	(18)
Deconsolidation of RBH (Note 20)	(1,346) ⁽²⁾	—
Net investment hedges	91	(665)
Other	7	30
Net cash used in investing activities	(1,596)	(1,018)

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows (Continued)
 (in millions of dollars)
 (Unaudited)

	For the Three Months Ended March 31, 2019 2018	
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Short-term borrowing activity by original maturity:		
Net issuances - maturities of 90 days or less	\$(167)	\$103
Issuances - maturities longer than 90 days	989	—
Long-term debt repaid	(2,137)	—
Dividends paid	(1,780)	(1,659)
Sale (purchase) of subsidiary shares to/(from) noncontrolling interests (Note 17)	—	(91)
Other	(56)	(91)
Net cash used in financing activities	(3,151)	(1,738)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(28)	131
Cash, cash equivalents and restricted cash ⁽³⁾ :		
Increase (Decrease)	(3,534)	(1,245)
Balance at beginning of period	6,620	8,476
Balance at end of period	\$3,086	\$7,231

⁽¹⁾ Includes the Loss on Deconsolidation of RBH (\$239 million), the Canadian tobacco litigation-related charge (\$194 million) and the Asset impairment and exit cost charge (\$20 million) that were included in marketing, administration and research costs in the condensed consolidated statements of earnings for the three months ended March 31, 2019. For further details on these charges, see Note 19. Asset Impairment and Exit Costs and Note 20. Deconsolidation of RBH.

⁽²⁾ Includes deconsolidation of RBH cash and cash equivalents of \$1,323 million and restricted cash of \$23 million.

⁽³⁾ The amounts for cash and cash equivalents shown above include restricted cash of \$5 million and \$31 million as of March 31, 2019 and 2018, respectively, and \$27 million and \$29 million as of December 31, 2018, and 2017, respectively, which were included in other current assets in the condensed consolidated balance sheets.

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries
 Condensed Consolidated Statements of Stockholders' (Deficit) Equity
 For the Three Months Ended March 31, 2019 and 2018
 (in millions of dollars, except per share amounts)
 (Unaudited)

	PMI Stockholders' (Deficit) Equity					
	Additional Common Stock Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Noncontrolling Interests	Total
Balances, January 1, 2018	\$-1,972	\$ 29,859	\$ (8,535)	\$ (35,382)	\$ 1,856	\$(10,230)
Net earnings		1,556			91	1,647
Other comprehensive earnings (losses), net of income taxes			(344)		(39)	(383)
Issuance of stock awards	(29)			74		45
Dividends declared (\$1.07 per share)		(1,668)				(1,668)
Payments to noncontrolling interests					(36)	(36)
Adoption of new accounting standards		238				238
Other (Note 17)	(87)		(4)		(4)	(95)
Balances, March 31, 2018	\$-1,856	\$ 29,985	\$ (8,883)	\$ (35,308)	\$ 1,868	\$(10,482)
Balances, January 1, 2019	\$-1,939	\$ 31,014	\$ (10,111)	\$ (35,301)	\$ 1,720	\$(10,739)
Net earnings		1,354			110	1,464
Other comprehensive earnings (losses), net of income taxes			345		(1)	344
Issuance of stock awards	(32)			75		43
Dividends declared (\$1.14 per share)		(1,780)				(1,780)
Payments to noncontrolling interests					(46)	(46)
Deconsolidation of RBH (Note 20)			529			529
Balances, March 31, 2019	\$-1,907	\$ 30,588	\$ (9,237)	\$ (35,226)	\$ 1,783	\$(10,185)

See notes to condensed consolidated financial statements.

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Philip Morris International Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Background and Basis of Presentation:

Background

Philip Morris International Inc. is a holding company incorporated in Virginia, U.S.A., whose subsidiaries and affiliates and their licensees are engaged in the manufacture and sale of cigarettes and other nicotine-containing products, including reduced-risk products, in markets outside of the United States of America. Throughout these financial statements, the term "PMI" refers to Philip Morris International Inc. and its subsidiaries.

Reduced-risk products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRP's in various stages of development, scientific assessment and commercialization.

Basis of Presentation

The interim condensed consolidated financial statements of PMI are unaudited. These interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and such principles are applied on a consistent basis. It is the opinion of PMI's management that all adjustments necessary for a fair statement of the interim results presented have been reflected therein. All such adjustments were of a normal recurring nature. Net revenues and net earnings attributable to PMI for any interim period are not necessarily indicative of results that may be expected for the entire year.

As of March 22, 2019, PMI deconsolidated the financial results of its Canadian subsidiary, Rothmans, Benson & Hedges Inc. ("RBH") from PMI's financial statements. For further details, see Note 20. Deconsolidation of RBH.

These statements should be read in conjunction with the audited consolidated financial statements and related notes, which appear in PMI's Annual Report on Form 10-K for the year ended December 31, 2018.

Note 2. Stock Plans:

In May 2017, PMI's shareholders approved the Philip Morris International Inc. 2017 Performance Incentive Plan (the "2017 Plan"). The 2017 Plan replaced the 2012 Performance Incentive Plan, and there will be no additional grants under the replaced plan. Under the 2017 Plan, PMI may grant to eligible employees restricted shares and restricted share units, performance-based cash incentive awards and performance-based equity awards. Up to 25 million shares of PMI's common stock may be issued under the 2017 Plan. At March 31, 2019, shares available for grant under the 2017 Plan were 20,190,170.

In May 2017, PMI's shareholders also approved the Philip Morris International Inc. 2017 Stock Compensation Plan for Non-Employee Directors (the "2017 Non-Employee Directors Plan"). The 2017 Non-Employee Directors Plan replaced the 2008 Stock Compensation Plan for Non-Employee Directors, and there will be no additional grants under the replaced plan. A non-employee director is defined as a member of the PMI Board of Directors who is not a full-time employee of PMI or of any corporation in which PMI owns, directly or indirectly, stock possessing at least 50% of the total combined voting power of all classes of stock entitled to vote in the election of directors in such corporation. Up to 1 million shares of PMI common stock may be awarded under the 2017 Non-Employee Directors Plan. At

March 31, 2019, shares available for grant under the plan were 974,344.

Restricted share unit (RSU) awards

During the three months ended March 31, 2019 and 2018, shares granted to eligible employees, the weighted-average grant date fair value per share and the recorded compensation expense related to RSU awards were as follows:

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Philip Morris International Inc. and Subsidiaries
 Notes to Condensed Consolidated Financial Statements
 (Unaudited)

Number of Shares Granted	Weighted-Average Grant Date Fair Value Per Award	Compensation Expense Related to RSU Awards (in millions)
2019 1,621,070	\$ 77.13	\$ 36
2018 1,249,650	\$ 100.70	\$ 38

As of March 31, 2019, PMI had \$203 million of total unrecognized compensation cost related to non-vested RSU awards. The cost is recognized over the original restriction period of the awards, which is typically three years after the date of the award, or upon death, disability or reaching the age of 58.

During the three months ended March 31, 2019, 1,022,598 RSU awards vested. The grant date fair value of all the vested awards was approximately \$91 million. The total fair value of RSU awards that vested during the three months ended March 31, 2019 was approximately \$86 million.

Performance share unit (PSU) awards

During the three months ended March 31, 2019 and 2018, PMI granted PSU awards to certain executives. The PSU awards require the achievement of certain performance factors, which are predetermined at the time of grant, typically over a three-year performance cycle with performance metrics for such PSUs consisting of PMI's Total Shareholder Return (TSR) relative to a predetermined peer group and on an absolute basis (50% weight), PMI's currency-neutral compound annual adjusted operating income growth rate, excluding acquisitions (30% weight), and PMI's performance against specific measures of PMI's transformation (20% weight). The aggregate of the weighted performance factors for the three metrics determines the percentage of PSUs that will vest at the end of the three-year performance cycle. The minimum percentage of such PSUs that can vest is zero, with a target percentage of 100 and a maximum percentage of 200. Each such vested PSU entitles the participant to one share of common stock. An aggregate weighted PSU performance factor of 100 will result in the targeted number of PSUs being vested. At the end of the performance cycle, participants are entitled to an amount equivalent to the accumulated dividends paid on common stock during the performance cycle for the number of shares earned.

During the three months ended March 31, 2019 and 2018, shares granted to eligible employees, the grant date fair value per share and the recorded compensation expense related to PSU awards were as follows:

Number of Shares Granted	PSU Grant Date Fair Value Subject to Other Performance Factors Per Share	PSU Grant Date Fair Value Subject to TSR Performance Factor Per Share	Compensation Expense Related to PSU Awards (in millions)
2019 625,200	\$ 77.20	\$ 83.59	\$ 18
2018 401,500	\$ 100.69	\$ 118.98	\$ 21

The grant date fair value of the PSU awards subject to the other performance factors was determined by using the average of the high and low market price of PMI's stock at the date of the grant. The grant date fair value of the PSU

market based awards subject to the TSR performance factor was determined by using the Monte Carlo simulation model. The following assumptions were used to determine the grant date fair value of the PSU awards subject to the TSR performance factor:

	2019	2018
Risk-free interest rate ^(a)	2.4 %	2.3 %
Expected volatility	21.4% ^(b)	19.6% ^(c)

^(a) Based on the U.S. Treasury yield curve.

^(b) Determined using the observed historical volatility.

^(c) Determined using a weighted-average of historical and implied volatility.

As of March 31, 2019, PMI had \$52 million of total unrecognized compensation cost related to non-vested PSU awards. The cost is recognized over the performance cycle of the awards, or upon death, disability or reaching the age of 58.

15,000 - - \$8.57

01/17/2018

- -
Craig A. Hankinson

- - - -

(1)All options listed have vested.

Retirement, Termination or Change in Control Payments

The Company sponsors a 401(k) plan which covers substantially all employees. Employees may elect to contribute to the plan up to the maximum percentage of compensation and dollar amount subject to statutory limitations. Prior to 2010, the Company made matching contributions equal to 100% of the first 3% of employee contributions and 50% of employee contributions in excess of 3%, up to 6%. Effective January 1, 2010, the Company suspended matching contributions until such time as the Board of Directors determines to reinstate them.

Named executive officers may participate in the Company's 401(k) plan, which will provide payment following retirement dependent on contributions by the officer and the Company during their term as an employee. Named executive officers are not eligible for other Company benefits following retirement.

Compensation of Directors

During 2011, non-employee directors of the Company and the Bank received compensation according to the following fee structure. Employee directors did not receive any compensation for their service as a director during 2011.

Director Fee Structure for the Company

Annual cash retainer of \$5,000.
 Per meeting fee of \$750.
 Audit Committee annual fee of \$2,000 (instead of per meeting fee).
 Compensation Committee per meeting fee of \$450.
 Governance Committee per meeting fee of \$450.

Director Fee Structure for the Bank

Annual cash retainer of \$10,000.
 Per meeting fee of \$750.
 Loan Committee annual fee of \$3,000 (instead of per meeting fee).
 Trust Committee annual fee of \$1,000 (instead of per meeting fee).
 Asset Liability Management Committee annual fee of \$1,000 (instead of per meeting fee).

The Company's Chairman of the Board, Mr. Richard L. Postma, does not accept compensation of any kind for his service as a director or as Chairman of the Board of the Company or the Bank.

The following table sets forth the compensation paid to Company directors for services rendered during 2011.

Name	Fees			Total
	Earned or Paid in Cash (\$)(1)	Stock Option Awards (\$)(2)	All Other Compensation	
Mark J. Bugge (3)	39,250	-	-	39,250
Wayne J. Elhart	33,500	-	-	33,500
Charles A. Geenen	37,000	-	-	37,000
Robert L. Herr	38,000	-	-	38,000
Birgit M. Klohs	33,750	-	-	33,750
Arend D. Lubbers	38,000	-	-	38,000
Douglas B. Padnos	34,500	-	-	34,500
Richard L. Postma	-	-	-	-
Thomas P. Rosenbach	41,500	-	-	41,500
Thomas J. Wesholski	43,000	-	11,500 (4)	54,500

(1) Amounts in this column reflect amounts paid in cash for services as a director in 2011.

(2) Option Awards were not granted in 2011. The aggregate number of option awards outstanding at December 31, 2011 for each named director were as follows: Mr. Lubbers 27,758 and Mr. Wesholski 10,732.

(3) Fees paid to VA Enterprises for Mr. Bugge's services as a director.

(4) Represents consulting fees paid to Mr. Wesholski pursuant to a consulting agreement. Under the agreement, the consulting services Mr. Wesholski provided to the Company include (i) advice, consultation and assistance to management and personnel relating to business development and (ii) general business advice and consultation

regarding banking and management matters to support the Board of Directors and management as requested. The term of the agreement expired on March 31, 2011 and prior to Mr. Wesholski's appointment to the Audit Committee.

Ownership of Macatawa Stock

Five Percent Shareholders

The following table sets forth the number of shares of Macatawa common stock reported to be beneficially owned by each person or group which is known to the Company to be a beneficial owner of 5% or more of Macatawa's outstanding shares of common stock as of December 31, 2011. This information is based entirely on the most recent Schedule 13-D or Schedule 13-G, as applicable, or amendment filed by the listed parties as of December 31, 2011. The Company is not responsible for the accuracy of this information.

Name of Beneficial Owner	Sole Voting Power	Sole Dispositive Power	Shared Voting or Dispositive Power	Total Beneficial Ownership	Percent of Class(1)	
White Bay Capital, LLLP(2) 3133 Orchard Vista Drive, S.E. Grand Rapids, Michigan 49546	3,604,202	3,604,202	0	3,604,202	13.3	%
Richard L. Postma (3) 201 Ionia Avenue SW Grand Rapids, Michigan 49503	1,460,843	1,460,843	0	1,460,843	5.4	%

(1) The percentages set forth in this column were calculated on the basis of 27,082,823 shares of common stock outstanding as of December 31, 2011.

(2) Based on a Schedule 13D dated as of June 29, 2011 filed by White Bay Capital, LLLP. White Bay Capital, LLLP owns 20,000 shares of Series A Preferred Stock that is convertible into common stock, subject to a limitation that it cannot be converted into common stock to the extent such conversion would cause the holder to own more than 9.9% of the Company's outstanding common stock at the time. If White Bay Capital, LLLP converted all 20,000 shares of Series A Preferred stock, the 2,234,636 resulting shares of common stock along with the 1,369,566 shares of common stock it also owns would represent 13.3% of the Company's outstanding common stock. The Stephen A. Van Andel 2009 WBC Trust is the general partner of White Bay Capital, LLLP. Stephen A. Van Andel is the sole trustee of the Trust and has the authority to vote any common stock into which the Series A Preferred Stock may be converted.

(3) Based on a Schedule 13D dated June 29, 2011 filed by Richard L. Postma.

Ownership of Management

The table below sets forth the number of shares of Macatawa common stock that each of our directors and nominees for director, each named executive officer in the Summary Compensation Table above, and all directors, nominees for director and named executive officers of Macatawa as a group are deemed to have beneficially owned as of December 31, 2011. Ownership of less than 1% of the outstanding shares of common stock is indicated by asterisk.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)		Total Beneficial Ownership(2)	Percent of Class(4)
	Sole Voting and Dispositive Power(2)	Shared Voting or Dispositive Power(3)		
Mark J. Bugge	10,670	0	10,670	*
Wayne J. Elhart	1,464	72,104	73,568	*
Charles A. Geenen	115,722	0	115,722	*
Ronald L. Haan	230,478	7,333	237,811	*
Craig A. Hankinson	0	7,500	7,500	*
Robert L. Herr	8,000	1,000	9,000	*
Birgit M. Klohs	2,567	0	2,567	*
Arend D. Lubbers.	32,019	9,628	41,647	*
Douglas B. Padnos(5)	65,865	9,597	75,462	*
Richard L. Postma	1,460,843	0	1,460,843	5.4 %
Thomas P. Rosenbach	14,000	0	14,000	*
Jon W. Swets	110,466	1,995	112,461	*
Thomas J. Wesholski	32,344	0	32,344	*
All directors, nominees and executive officers as a group (13 persons)	2,084,438	109,157	2,193,595	8.0 %

(1)The number of shares stated is based on information provided by each person listed and includes shares personally owned by the person and shares which, under applicable regulations, are considered to be otherwise beneficially owned by the person as of December 31, 2011.

(2)These numbers include shares held directly, shares subject to options that are currently exercisable or that will be exercisable within 60 days after December 31, 2011, and common shares issuable upon the conversion of preferred stock. Each listed person with such stock options and the number of shares subject to such stock options, or with such preferred stock and the number of common shares into which the preferred stock is convertible, is shown in the chart below:

	Stock Options	Conversion of Preferred Stock
Mark J. Bugge	0	0
Wayne J. Elhart	0	0
Charles A. Geenen	0	0
Ronald L. Haan	97,772	0
Craig A. Hankinson	0	0
Robert L. Herr	0	0
Birgit M. Klohs	0	0
Arend D. Lubbers.	27,758	0
Douglas B. Padnos(8)	0	55,865
Richard L. Postma	0	0
Thomas P. Rosenbach	0	0
Jon W. Swets	59,958	0
Thomas J. Wesholski	10,732	0
All directors, nominees and executive officers as a group (13 persons)	196,220	55,865

- (3) These numbers include shares over which the listed person is legally entitled to share voting or dispositive power by reason of joint ownership, trust or other contract or property right, and shares held by spouses, children or other relatives over whom the listed person may have influence by reason of relationship.
- (4) The percentages set forth in this column were calculated on the basis of 27,082,823 shares of common stock outstanding as of December 31, 2011, plus shares of common stock subject to options held by the applicable listed person or persons that are currently exercisable or that will be exercisable within 60 days after December 31, 2011 and shares of preferred stock that are convertible into common stock.
- (5) Mr. Padnos also holds sole and total beneficial ownership of 500 shares of Series A Preferred Stock representing 1.6% of that class of stock. No other director or named executive officer has beneficial ownership of any shares of Macatawa preferred stock.

Transactions with Related Persons

Directors, officers, principal shareholders and their associates and family members were customers of, and had transactions (including loans and loan commitments) with, the Bank in the ordinary course of business during 2011 and 2010. All such loans and commitments were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the lender and did not involve more than a normal risk of collectibility or present other unfavorable features. Similar transactions may be expected to take place in the ordinary course of business in the future. None of these loan relationships presently in effect are in default as of the date of this proxy statement.

The Bank has an outstanding loan to Robert E. DenHerder, who resigned from his position as a director of the Company and the Bank effective August 18, 2010. The largest aggregate amount of principal outstanding on the loan during the period from January 1, 2010 to the date of this proxy statement was \$1,990,694, the amount of principal outstanding on the loan as of February 29, 2012 was \$1,815,619, the amount of principal and interest paid on the loan during the period from January 1, 2010 to February 29, 2012 was \$401,300, and the rate of interest on the loan is 6.0%. Although this loan did not involve more than the normal risk of collectability or present other unfavorable features when it was made in February 1998 as a line of credit and an additional amortizing loan in June 2004, this loan was classified as substandard in June 2010 due to the declining value of the collateral used to secure the loan and

concerns over the prospects for repayment in full. Mr. DenHerder has paid all scheduled payments of principal and interest under this loan when and as due in 2010 and 2011, and to the date of this proxy statement.

The Audit Committee Charter requires the Audit Committee to review and approve all transactions between the Company and related persons which are required to be reported under Securities and Exchange Commission Regulation S-K, Item 404.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Macatawa's directors and officers and persons who beneficially own more than 10% of the outstanding shares of Macatawa common stock to file reports of ownership and changes in ownership of shares of common stock with the SEC. Directors, officers and greater than 10% beneficial owners are required by SEC regulations to furnish Macatawa with copies of all Section 16(a) reports they file with the SEC. Based solely on our review of the copies of such reports received by us, or written representations from certain reporting persons that no reports on Form 5 were required for those persons for 2011, we believe that there have been no failures to timely file required reports by our directors and officers.

Shareholder Proposals

Any proposal of a shareholder intended to be presented for action at the 2013 annual meeting of the Company must be received by the Company on or before January 8, 2013, if the shareholder wishes the proposal to be included in the Company's proxy materials for that meeting. For all other proposals, notice must be received by the Company, before March 9, 2013 but after February 7, 2013. All proposals must be mailed to the Company at P.O. Box 3119, Holland, Michigan 49422-3119.

Solicitation of Proxies

We will initially solicit proxies by mail. In addition, directors, officers and associates of Macatawa and its subsidiaries may solicit proxies by telephone or facsimile or in person without additional compensation. Proxies may be solicited by nominees and other fiduciaries who may mail materials to or otherwise communicate with the beneficial owners of shares held by them. We will bear all costs of the preparation and solicitation of proxies, including the charges and expenses of brokerage firms, banks, trustees or other nominees for forwarding proxy material to beneficial owners.

Additional Information

An Annual Report on Form 10-K for the year ended December 31, 2011, including the financial statements and the financial statement schedules, will be provided free of charge to shareholders upon written request. Write to Macatawa Bank Corporation, Attention: Jon W. Swets, Secretary, P.O. Box 3119, Holland, Michigan 49422-3119. The Form 10-K may also be accessed under the "Investor Relations" section of our website, www.macatawabank.com, by clicking the "Documents/SEC Filings/Annual Report" link. The Form 10-K and certain other periodic filings are filed with the SEC. The SEC maintains an Internet web site that contains reports and other information regarding companies, including the Company, that file electronically. The SEC's web site address is <http://www.sec.gov>.

As permitted by Securities and Exchange Commission rules, only one copy of this 2012 Proxy Statement and the 2011 Annual Report to Shareholders is being delivered to multiple shareholders sharing the same address who have notified us of their election to receive only one copy of such documents. We will deliver on a one-time basis, promptly upon written or oral request from a shareholder at a shared address, a separate copy of our 2012 Proxy Statement and the 2011 Annual Report to Shareholders. Shareholders sharing an address who are currently receiving multiple copies of the proxy statement and annual report to shareholders may instruct us to deliver a single copy of such documents on an ongoing basis. Such instructions must be in writing, must be signed by each shareholder who is currently receiving a separate copy of the documents, and will continue in effect unless and until we receive contrary instructions as provided below. Any shareholder sharing an address may request to receive and instruct us to send separate copies of the proxy statement and annual report to shareholders on an ongoing basis by written or oral request. We will begin sending separate copies of such documents within thirty days of receipt of such instructions. All requests or instructions should be addressed to Macatawa Bank Corporation, Attn: Bryan Barker, 10753 Macatawa Drive, Holland, Michigan 49424.

BY ORDER OF THE BOARD OF DIRECTORS

Jon W. Swets
Secretary
March 23, 2012

Your vote is important. Even if you plan to attend the meeting, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY. See the information in the Introduction section of our proxy statement regarding how to revoke a proxy and how to vote in person.

