

CHEMICAL FINANCIAL CORP
Form 10-Q/A
November 13, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2006
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____
Commission File Number: 000-08185

CHEMICAL FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Michigan
(State or Other Jurisdiction
of Incorporation or Organization)

38-2022454
(I.R.S. Employer
Identification No.)

333 East Main Street
Midland, Michigan
(Address of Principal Executive Offices)

48640
(Zip Code)

(989) 839-5350

(Registrant's Telephone Number, Including Area Code)

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 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 the Registrant's Common Stock, \$1 par value, as of October 31, 2006, was 24,804,242 shares.

This Amendment No. 1 to Form 10-Q is filed solely for the purpose of correcting typographical errors contained in Notes C, D and F to the financial statements and the Analysis of Changes in Interest Income and Interest Expense Tables for the three and nine months ended September 30, 2006 contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1. Financial Statements**Chemical Financial Corporation and Subsidiary
Consolidated Statements of Financial Position (In thousands, except share data)**

	September 30, 2006	December 31, 2005	September 30, 2005
	(Unaudited)		(Unaudited)
Assets			
Cash and cash equivalents:			
Cash and cash due from banks	\$ 87,430	\$ 145,575	\$ 111,115
Federal funds sold	86,500	6,600	76,300
Interest-bearing deposits with banks	5,230	5,321	36,337
	179,160	157,496	223,752
Investment securities:			
Available for sale (at estimated fair market value)	537,449	594,491	633,394
Held to maturity (estimated fair market value - \$100,581 at 9/30/06, \$127,044 at 12/31/05 and \$132,367 at 9/30/05)	100,980	127,806	132,898
	638,429	722,297	766,292
Other securities	23,368	21,051	21,051
Loans held for sale	29,578	3,519	6,710
Loans:			
Commercial	539,349	517,852	504,189
Real estate commercial	725,988	704,684	708,152
Real estate construction	162,762	158,376	146,973
Real estate residential	820,798	785,160	777,124
Consumer	568,935	540,623	557,256
	2,817,832	2,706,695	2,693,694
Less: Allowance for loan losses	35,348	34,148	34,603
	2,782,484	2,672,547	2,659,091
Premises and equipment	47,559	45,058	45,123
Goodwill	71,369	63,293	63,293
Other intangible assets	9,193	8,203	8,901
Interest receivable and other assets	58,166	55,852	47,948
	\$ 3,839,306	\$ 3,749,316	\$ 3,842,161
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest-bearing	\$ 524,373	\$ 542,014	\$ 521,969
Interest-bearing	2,432,561	2,277,866	2,386,605
	2,956,934	2,819,880	2,908,574
Interest payable and other liabilities	27,135	28,008	29,118
Securities sold under agreements to repurchase	166,451	125,598	127,613

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Reverse repurchase agreements - short-term	-	10,000	10,000
Federal Home Loan Bank advances - short-term	30,000	68,000	25,000
Federal Home Loan Bank advances - long-term	150,072	196,765	243,959
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Total liabilities	3,330,592	3,248,251	3,344,264
Shareholders' equity:			
Common stock, \$1 par value per share:			
Authorized - 30,000,000 shares			
Issued and outstanding - 24,798,856 shares at 9/30/06, 25,079,403 shares at 12/31/05 and 25,126,561 shares at 9/30/05	24,799	25,079	25,127
Surplus	367,991	376,046	377,469
Retained earnings	121,546	106,507	100,598
Accumulated other comprehensive loss	(5,622)	(6,567)	(5,297)
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Total shareholders' equity	508,714	501,065	497,897
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Total Liabilities and Shareholders' Equity	\$ 3,839,306	\$ 3,749,316	\$ 3,842,161
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See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Consolidated Statements of Income (Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
	(In thousands, except per share amounts)			
Interest Income				
Interest and fees on loans	\$ 47,843	\$ 42,023	\$ 137,027	\$ 121,055
Interest on investment securities:				
Taxable	6,006	6,684	18,524	21,754
Tax-exempt	661	539	1,892	1,551
Total interest on investment securities	6,667	7,223	20,416	23,305
Interest on other securities	178	266	867	705
Interest on federal funds sold	785	682	2,357	1,586
Interest on deposits with unaffiliated banks	83	226	557	741
Total interest income	55,556	50,420	161,224	147,392
Interest Expense				
Interest on deposits	18,016	11,851	49,586	31,522
Interest on securities sold under agreements to repurchase	1,665	641	3,929	1,403
Interest on reverse repurchase agreements - short-term	-	92	154	123
Interest on Federal Home Loan Bank advances - short-term	1,282	233	2,301	269
Interest on Federal Home Loan Bank advances - long-term	1,854	2,457	5,707	7,284
Total interest expense	22,817	15,274	61,677	40,601
Net Interest Income	32,739	35,146	99,547	106,791
Provision for loan losses	1,750	1,500	2,610	2,960
Net interest income after provision for loan losses	30,989	33,646	96,937	103,831
Noninterest Income				
Service charges on deposit accounts	5,308	5,406	15,761	15,136
Trust and investment services revenue	1,745	1,891	5,844	5,963
Other charges and fees for customer services	2,308	2,388	6,695	5,984
Mortgage banking revenue	476	322	1,389	1,292
Net gains on sales of investment securities	-	3	-	1,174
Other	59	239	557	633
Total noninterest income	9,896	10,249	30,246	30,182
Operating Expenses				
Salaries, wages and employee benefits	13,984	14,372	42,586	43,541
Occupancy	2,270	2,346	7,289	7,067
Equipment	2,169	2,134	6,702	6,686

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Other	5,773	5,987	17,816	17,291
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Total operating expenses	24,196	24,839	74,393	74,585
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Income Before Income Taxes	16,689	19,056	52,790	59,428
Provision for federal income taxes	5,199	5,451	17,174	19,104
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Net Income	\$ 11,490	\$ 13,605	\$ 35,616	\$ 40,324
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Net Income Per Share (Basic)	\$ 0.46	\$ 0.54	\$ 1.42	\$ 1.60
(Diluted)	0.46	0.54	1.42	1.60
Cash Dividends Per Share	0.275	0.265	0.825	0.795

See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
(In thousands, except per share data)					
Balances at January 1, 2005	\$25,169	\$378,694	\$ 80,266	\$707	\$484,836
Comprehensive Income:					
Net income			40,324		
Change in net unrealized losses on securities					
available for sale, net of tax benefit of \$2,822				(5,241)	
Reclassification adjustment for realized net gains included in net income, net of tax expense of \$411				(763)	
Comprehensive income					34,320
Cash dividends paid of \$0.795			(19,992)		(19,992)
Shares issued - stock options	24	661			685
Shares issued - directors' stock purchase plan	6	225			231
Repurchase of 72,200 shares	(72)	(2,111)			(2,183)
Balances at September 30, 2005	\$25,127	\$377,469	\$100,598	\$(5,297)	\$497,897
Balances at January 1, 2006	\$25,079	\$376,046	\$106,507	\$(6,567)	\$501,065
Comprehensive Income:					
Net income			35,616		
Change in net unrealized gains on securities					
available for sale, net of tax expense of \$509				945	
Comprehensive income					36,561
Cash dividends paid of \$0.825			(20,577)		(20,577)
Shares issued - stock options	30	716			746
Shares issued - directors' stock purchase plan	8	247			255
Share-based compensation, net of tax benefit of \$3			7		7
Repurchase of 318,558 shares	(318)	(9,025)			(9,343)
Balances at September 30, 2006	\$24,799	\$367,991	\$121,546	\$(5,622)	\$508,714

See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30	
	2006	2005
	(In thousands)	
Cash Flows From Operating Activities:		
Net income	\$ 35,616	\$ 40,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,610	2,960
Gains on sales of loans	(598)	(863)
Proceeds from sales of loans	82,289	75,974
Loans originated for sale	(84,757)	(79,776)
Loans acquired through branch acquisitions held for sale	(22,993)	-
Net gains on sales of investment securities	-	(1,174)
Net losses on sales of other real estate and repossessed assets	229	158
Depreciation of fixed assets	4,334	4,564
Amortization of intangible assets	2,019	2,496
Net amortization of premium and discount on investment securities	1,052	3,438
Share-based compensation expense	10	-
Net (increase) decrease in interest receivable and other assets	(9,097)	5,558
Net increase (decrease) in interest payable and other liabilities	(479)	547
	10,235	54,206
Cash Flows From Investing Activities:		
Investment securities available for sale:		
Proceeds from maturities, calls and principal reductions	92,233	169,073
Proceeds from sales	-	75,864
Purchases	(34,580)	(192,646)
Investment securities held to maturity:		
Proceeds from maturities, calls and principal reductions	39,250	83,420
Purchases	(12,634)	(40,418)
Other securities:		
Proceeds from sales	2,314	-
Purchases	(4,631)	(1,065)
Net increase in loans	(121,197)	(118,087)
Proceeds from sales and pay-offs of other real estate and repossessed assets	4,046	5,211
Purchases of premises and equipment, net	(7,471)	(2,110)
	(42,670)	(20,758)
Cash Flows From Financing Activities:		
Net decrease in demand deposits and savings accounts	(19,041)	(63,069)
Net increase in time deposits	156,095	108,170

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Net increase in securities sold under agreements to repurchase	40,853	25,779
Net increase (decrease) in reverse repurchase agreements	(10,000)	10,000
Increase in Federal Home Loan Bank (FHLB) advances - short-term	135,000	25,000
Repayment of FHLB advances - short-term	(173,000)	-
Increase in FHLB advances - long-term	25,000	40,000
Repayment of FHLB advances - long-term	(71,693)	(81,037)
Cash dividends paid	(20,577)	(19,992)
Proceeds from directors' stock purchase plan	255	231
Tax benefits from share-based awards	75	132
Proceeds from exercise of stock options	475	339
Repurchases of common stock	(9,343)	(2,183)
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Net cash provided by financing activities	54,099	43,370
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Net increase in cash and cash equivalents	21,664	76,818
Cash and cash equivalents at beginning of year	157,496	146,934
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Cash and Cash Equivalents at End of Period	\$ 179,160	\$ 223,752
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Supplemental disclosure of cash flow information:

Interest paid	\$ 61,216	\$ 39,846
Federal income taxes paid	17,850	18,250
Loans transferred to other real estate and repossessed assets	8,650	5,082

See notes to consolidated financial statements.

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2006

Note A: Basis of Presentation

The accompanying unaudited consolidated financial statements of Chemical Financial Corporation (the "Corporation") have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial condition and results of operations of the Corporation for the periods presented. Operating results for the three and nine months ended September 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 Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

Certain prior year amounts have been reclassified to place them on a basis comparable with the current period's financial statements. Such reclassifications had no impact on net income or shareholders' equity.

Share-Based Compensation

Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment" (SFAS 123(R)), using the modified-prospective transition method. Under that method, compensation cost is recognized for all share-based payments granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123).

The resulting fair value of share-based awards is recognized as compensation expense on a straight-line basis over the vesting period for awards granted prior to the adoption of SFAS 123(R) and over the requisite service period for awards granted after the adoption of SFAS 123(R). The requisite service period is the shorter of the vesting period or the period to retirement eligibility.

Income Taxes

The difference between the federal statutory income tax rate and the Corporation's effective federal income tax rate is primarily a function of the proportion of the Corporation's interest income exempt from federal taxation, nondeductible interest expense and other nondeductible expenses relative to pretax-income and tax credits.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases at the enacted tax rates expected to be applied to taxable income in the years in which those differences are expected to be recovered or settled. Reserves for contingent tax liabilities are reviewed quarterly for adequacy based upon developments in tax law and the status of audit examinations.

Earnings Per Share

All earnings per share amounts have been presented to conform to the requirements of SFAS No. 128, "Earnings Per Share." Basic earnings per share excludes any dilutive effect of stock options. Basic earnings per share for the

Corporation is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share for the Corporation is computed by dividing net income by the sum of the weighted average number of common shares outstanding and the dilutive effect of outstanding employee stock options.

Chemical Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2006

Note A: Basis of Presentation (continued)

The following table summarizes the number of shares used in the numerator and denominator of the basic and diluted earnings per share computations:

Three Months Ended September 30		Nine Months Ended September 30	
2006	2005	2006	2005

(In thousands)