MERCANTILE BANK CORP
Form 424B4
September 19, 2003

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Registration Statement Nos. 333-107814
333-108929

PROSPECTUS

1,195,310 Shares

MERCANTILE BANK CORPORATION

Common Stock

We are selling 1,195,310 shares of our common stock. Our common stock is traded on the Nasdaq National Market under the symbol MBWM.

On September 18, 2003, the last sale price of our common stock as reported by the Nasdaq National Market was $33.45 per share.

You should consider the risks which we have described in the Risk Factors beginning on page 8 before buying shares of our common stock.

	Per Share	Total
Public offering price	$ 33.26000	$ 39,756,010.60
Underwriting discount	$ 1.91245	$ 2,285,970.61
Proceeds, before expenses, to Mercantile Bank Corporation	$ 31.34755	$ 37,470,039.99

This is a firm commitment underwriting. The underwriters may purchase up to an additional 179,296 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus, to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits or obligations of any bank and are not insured by the Bank Insurance Fund or the Federal Deposit Insurance Corporation or any other governmental agency.

The underwriters expect to deliver the shares to purchasers on or about September 24, 2003.

RAYMOND JAMES

STIFEL, NICOLAUS & COMPANY

Incorporated

OPPENHEIMER

The date of this prospectus is September 19, 2003

MERCANTILE BANK CORPORATION LOCATIONS

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus. Because this is a summary, it may not contain all of the information that may be important to you. You should read the entire prospectus, our financial statements (including the related notes) and the other information that is incorporated by reference into this prospectus before making a decision to invest in our common stock.

Unless the text clearly suggests otherwise, references in this prospectus to us, we, our, or the company include Mercantile Bank Corporation and its consolidated subsidiaries.

Mercantile Bank Corporation

We are a single bank holding company headquartered in Wyoming, Michigan, a suburb of Grand Rapids. Grand Rapids is the second largest city in the State of Michigan. Our bank, Mercantile Bank of West Michigan, together with its subsidiaries, provide a wide variety of commercial and retail banking and related services primarily to small-to medium-sized businesses, and to a lesser extent, individuals and governmental units based in and around Grand Rapids from our main office and four additional full-service branches located throughout the Grand Rapids area. We serve primarily the Kent and Ottawa Counties of western Michigan. In addition, we have recently opened a loan production office in Holland, Michigan, a community located thirty miles southwest of Grand Rapids.

As part of our goal of increasing our fee-based income and strengthening our customer relationships, we have expanded the non-bank financial products and services we provide our customers. In October 2000, we formed Mercantile Bank Mortgage Company, a wholly-owned subsidiary of our bank, to increase the profitability and efficiency of our bank s mortgage loan function. In 2002, we formed Mercantile BIDCO, Inc., a non-depository Michigan financial institution operating as a Michigan Business and Industrial Development Company, which offers equipment lease financing, asset-based loans, junior debt facilities and other financing arrangements. Also in 2002, we introduced Mercantile Insurance Center, Inc., a wholly-owned subsidiary of our bank, which offers a wide variety of personal and small business insurance products on an agency basis. We also offer investment products and services to our customers through our joint brokerage relationship with Raymond James Financial Services, Inc.

At June 30, 2003, we had total assets of $1.0 billion, loans of $866 million, deposits of $844 million and shareholders equity of $83 million. For the six month period ended June 30, 2003, our total revenues were $28.3 million, our net income was $4.8 million, and our diluted earnings per share were $0.86.

Our principal executive offices are located at 5650 Byron Center Avenue SW, Wyoming, Michigan 49509. Our telephone number is 616-406-3000 and our website address is www.mercbank.com.

Financial Highlights

We have grown significantly since our bank opened in December 1997. We posted our first profit in the third quarter of 1998, only nine months after our bank opened. Since inception, management has focused on achieving profitable internal growth while maintaining strong asset quality. Over the past five and a half years, we have achieved significant growth in assets, loans, deposits and earnings per share, as highlighted below:

- Our total assets have grown from $24 million at December 31, 1997, to $1.0 billion at June 30, 2003.
- Our total loans have grown from $13 million at December 31, 1997, to $886 million at June 30, 2003.
- Our total deposits have grown from $10 million at December 31, 1997, to $844 million at June 30, 2003, including $242 million of local deposits at June 30, 2003.
- Our diluted earnings per share have increased from $(0.50) for the year ended December 31, 1998, to $1.41 for the year ended December 31, 2002. Diluted earnings per share for the first half of 2003 were $0.86.

Our return on average equity was 10.3% for the year ended December 31, 2002, and 11.8%, on an annualized basis, for the first six months of 2003.

Our asset quality has remained strong. Our ratio of non-performing loans to total loans was 0.10% at December 31, 2002, and 0.06% at June 30, 2003. Our ratio of net loan charge-offs to average total loans was 0.09% for the year ended December 31, 2002, and 0.05%, on an annualized basis, for the first six months of 2003.

Since 1998, our efficiency ratio has improved from 70.9% to 50.8% for the first six months of 2003, while we have added branches. Currently we have five banking offices and one loan production office.

Growth Strategy

We attribute our growth and profitability to our success in capitalizing on opportunities created by the significant market disruption caused by the consolidation of the financial services firms in our market area that has resulted in the dislocation of customers as well as employees of these firms. We intend to continue to expand our business through internal growth as well as selective geographic expansion, while maintaining our historically low efficiency ratio and strong asset quality. Our strategy for achieving these objectives includes:

Continuing our primary focus on commercial and commercial real estate lending to small to medium-sized businesses in and around our existing market area, with a goal of providing superior customer service and maintaining strong asset quality.

Seeking to recruit experienced commercial lenders and other banking professionals with significant relationships in and knowledge of our markets.

Expanding into selective new markets by establishing new branches or through possible acquisitions of existing branches or institutions.

Expanding our product lines and adding additional financial services in order to diversify our revenue base, increase our fee income and strengthen our customer relationships.

Seeking to attract new and larger loan relationships as we continue to grow. In particular, we believe we can continue to capitalize on opportunities created by continued market disruption as a result of the consolidation of the financial services firms in our market area.

Operating Strategy

Focus on locally-owned and operated businesses.

Our lending activities focus primarily on providing local businesses with commercial business loans and loans secured by owner-occupied real estate. Typically, we seek commercial lending relationships with customers borrowing from $250,000 to $5.0 million. Our legal lending limit was approximately $19 million as of June 30, 2003, and this limit accommodates the vast majority of credit opportunities we encounter. If local businesses have credit needs beyond the scope of our lending capacity, we may participate out a portion of the credit with other financial institutions in order to accommodate our customers needs. As of June 30, 2003, we had 13 relationships borrowing more than $5.0 million from our bank**.**

Employing fewer, but highly qualified and productive individuals and focusing on low net overhead ratios.

Key to our growth and profitability is our management s extensive experience in providing community banking services and our ability to create a culture committed to both proactive sales and disciplined credit quality. Our practice of employing fewer, but highly qualified and productive individuals at all levels of the organization is key to maintaining a decentralized management structure. These individuals are able to manage large loan portfolios, which increases interest income while controlling personnel costs. Our commercial lending focus allows us to generate larger relationships than a retail focus would allow, which permits us to grow our assets with fewer individuals.

Operating a limited number of offices with a high asset base per office.

We currently have five full-service banking offices and one loan production office. We actively solicit local deposits to fund our asset growth. We grew our local deposit base 36.6% in 2002 and 18.1% in the first six months of 2003. However, our loan portfolio has increased faster than our local deposits. Because of this, we acquire out-of-area deposits from across the country to help fund our growth and because they typically are a lower cost of funds than local deposits. We believe that our ability to attract adequate funding with minimal branching allows us to grow at a lower overhead cost. Our efficiency ratio for the first six months of 2003 was 50.8%. We plan to continue using out-of-area deposits because we believe that this large and lower cost source of funds gives us a competitive advantage in our market.

Maintaining strong asset quality.

Equally important as our growth is our emphasis on the quality of our loan portfolio and the adequacy of our allowance for loan and lease losses. For the fiscal years since our opening, our ratio of annual net loan charge-offs to average loans has not exceeded 0.09%, and for the six-months ended June 30, 2003 our ratio was 0.05%, on an annualized basis. Our ratio of nonperforming loans to total loans was 0.06% at June 30, 2003. In addition to controlling provision for loan and lease loss expense, we believe that strong asset quality results in greater operating performance because it minimizes the time and money spent managing problem assets. At the same time we understand the risks associated with our loan portfolio and maintain a loan loss reserve that we believe is appropriate. At June 30, 2003, our ratio of allowance for loan and lease losses to total loans was 1.40%.

Market Area

We consider our market area to include the Kent and Ottawa Counties of western Michigan, including the city of Grand Rapids, the second largest city in the state of Michigan, and the city of Holland, Michigan. Kent County, which encompasses most of the Grand Rapids metropolitan area, has a diverse economy based primarily on manufacturing, retail and service businesses. Based on U.S. Census data for 2000, Kent County had approximately 575,000 people and approximately 210,000 households. According to the FDIC, total deposits in Kent County, including those of banks and thrifts, were approximately $7.9 billion at June 30, 2002. The largest city in Ottawa County is Holland, Michigan. Ottawa County has approximately 240,000 people and approximately 80,000 households, according to 2000 U.S. Census data. Total deposits in Ottawa County were approximately $2.9 billion at June 30, 2002, according to the FDIC.

Our bank s main office is currently located in downtown Grand Rapids. However, we have plans underway to construct a new facility just north of the center of downtown Grand Rapids which is expected to serve as our bank s new main office as well as house our loan operations function. Construction of this new office is expected to be completed by mid-2005. Our additional bank branches are strategically located in communities in and around Grand Rapids. We have a combined branch and operations center in Wyoming, Michigan, a southwestern suburb of Grand Rapids, where our administrative headquarters as well as the main offices of the company are located. We also have a branch in Comstock Park, Michigan, a northwestern suburb of Grand Rapids, which also includes a retail loan center, and a branch in Kentwood, Michigan, in the southeastern part of Grand Rapids. In May, 2003, we opened our Knapp s Corner branch, located in northeastern Grand Rapids, and a loan production office in Holland, Michigan.

Recent Developments

We experienced approximately $82.2 million of loan growth during the first two months of the third quarter of 2003. During periods of significant loan growth, our earnings may be negatively impacted because growth in net interest income may lag the timing of additions we make to our allowance for loan losses to reflect the growth. Our policies call for additions of approximately $1.1 million to our loan loss reserve levels associated with this growth which we will record as a portion of our third quarter 2003 provision for loan losses. This will affect our short-term earnings.

The Offering

Common stock offered	1,195,310 shares
Common stock to be outstanding upon completion of this offering	6,624,436 shares (1)
Use of proceeds	We intend to use the net proceeds from this offering to increase our capital position in anticipation of future growth, and for other general corporate purposes. Promptly following the completion of this offering, we intend to contribute substantially all of the net proceeds to our bank to increase its capital position.
Cash dividends	We paid cash dividends in the amount of $0.08 per share on our common stock on March 10, 2003, June 10, 2003 and September 10, 2003. We currently expect to continue to pay a quarterly cash dividend, although there can be no assurance that we will continue to do so.
Risk factors	See Risk Factors beginning on page 8 and other information included or incorporated by reference in this prospectus for a discussion of factors you should consider before deciding to invest in our common stock.
Nasdaq National Market Symbol	MBWM.

(1) The number of shares outstanding after this offering set forth above does not include 330,093 shares reserved for issuance under our stock option plans, of which options to purchase 241,014 shares at a weighted average price of $12.96 were outstanding at September 18, 2003. If issued, these reserved shares would represent 5.7% of our shares outstanding before the offering, and 4.8% of our outstanding shares after giving effect to the sale of 1,195,310 shares in this offering. In addition, as of September 18, 2003, we had reserved for issuance 247,538 shares under our dividend reinvestment plan and 25,315 shares under our employee stock purchase plan.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes certain of the consolidated financial information for us and our consolidated subsidiaries. You should read this table in conjunction with our consolidated financial statements and the related notes incorporated by reference into this prospectus. Results for past periods are not necessarily indicative of results that may be expected for any future period.

	As of or For the Six Months Ended June 30,		As of or For the Year Ended December 31,				
	2003	**2002**	**2002**	**2001**	**2000**	**1999**	**1998**
	(unaudited)		(In thousands except per share data)				
Summary Income Statement Data							
Interest income	$ 26,108	$ 22,679	$ 47,632	$ 44,619	$ 36,835	$ 22,767	$ 10,168
Interest expense	11,803	11,910	23,978	28,201	24,560	13,330	5,629
Net interest income	14,305	10,769	23,654	16,418	12,275	9,437	4,539
Provision for loan and lease losses	1,470	1,142	3,002	2,370	1,854	1,961	2,572
Noninterest income	2,212	1,130	3,053	1,879	1,192	847	488
Noninterest expense	8,390	6,046	12,781	9,454	7,515	5,888	3,564
Income (loss) before income tax expense and cumulative effect of change in accounting principle	6,657	4,711	10,924	6,473	4,098	2,435	(1,109)
Income tax expense	1,884	1,391	3,167	1,990	1,303	292	
Income (loss) before cumulative effect of change in accounting principle	4,773	3,320	7,757	4,483	2,795	2,143	(1,109)
Cumulative effect of change in accounting principle						(42)	
Net income (loss)	$ 4,773	$ 3,320	$ 7,757	$ 4,483	$ 2,795	$ 2,101	$ (1,109)
Summary Balance Sheet Data							
Total assets	$ 1,034,774	$ 781,977	$ 921,855	$ 698,682	$ 512,746	$ 368,037	$ 216,237
Cash and cash equivalents	37,339	16,551	28,117	19,938	18,102	13,650	6,456
Securities	103,817	83,543	96,893	78,818	60,457	41,957	24,160
Loans and leases, net of deferred fees	866,009	667,862	771,554	587,248	429,804	308,006	184,745
Allowance for loan and lease losses	12,158	9,562	10,890	8,494	6,302	4,620	2,765
Bank owned life insurance policies	15,581	4,082	14,876	3,991			
Deposits	843,587	644,648	754,113	569,077	425,740	294,829	171,998
Securities sold under agreements to repurchase	39,690	39,636	50,335	36,485	32,151	26,607	17,038
Federal Home Loan Bank advances	45,000		15,000				
Trust preferred securities	16,000	16,000	16,000	16,000	16,000	16,000	
Shareholders equity	83,457	75,024	79,834	71,463	31,854	27,968	26,701

5

	As of or For the Six Months Ended June 30,		As of or For the Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(unaudited)		(In thousands except per share data)				
Selected Financial Ratios							
Return on average assets(1)	0.99%	0.90%	0.97%	0.74%	0.63%	0.71%	(0.86)%
Return on average equity(2)	11.81%	9.16%	10.30%	9.05%	9.48%	7.70%	(6.40)%
Net interest margin(3)	3.24%	3.22%	3.19%	2.89%	2.90%	3.30%	3.61%
Net interest spread on average assets(3)	3.08%	3.10%	3.04%	2.78%	2.81%	3.19%	3.47%
Efficiency ratio	50.80%	50.81%	47.86%	51.67%	55.80%	57.25%	70.90%
Noninterest income to average assets	0.46%	0.31%	0.38%	0.31%	0.27%	0.29%	0.37%
Noninterest expense to average assets	1.73%	1.65%	1.60%	1.57%	1.69%	1.99%	2.72%
Nonperforming loans and leases to total loans and leases	0.06%	0.07%	0.10%	0.24%	0.02%	0.00%	0.00%
Net charge-offs to average total loans and leases	0.05%	0.02%	0.09%	0.04%	0.05%	0.04%	0.00%
Allowance for loans and leases to total loans and leases	1.40%	1.43%	1.41%	1.45%	1.47%	1.50%	1.50%
Tier 1 leverage capital	9.85%	11.87%	10.72%	13.00%	8.59%	10.88%	13.83%
Tier 1 leverage risk-based capital	10.13%	11.91%	10.85%	13.00%	8.59%	10.64%	11.79%
Total risk-based capital	11.38%	13.16%	12.10%	14.25%	10.97%	13.67%	13.01%
Average equity to average assets	8.40%	9.87%	9.44%	8.21%	6.63%	9.20%	14.10%
Per Share Data(4)							
Net income (loss):							
Basic before cumulative effect of change in accounting principle	$ 0.88	$ 0.61	$ 1.43	$ 1.11	$ 0.98	$ 0.75	$ (0.50)
Diluted before cumulative effect of change in accounting principle	0.86	0.60	1.41	1.10	0.97	0.74	(0.50)
Basic	0.88	0.61	1.43	1.11	0.98	0.73	(0.50)
Diluted	0.86	0.60	1.41	1.10	0.97	0.72	(0.50)
Book value at end of period	$ 15.39	$ 13.88	$ 14.77	$ 13.22	$ 11.10	$ 9.77	$ 9.33
Cash dividends	0.16						

(1) Net income divided by average total assets.

(2) Net income divided by average common equity.

(3) To compute these ratios, we adjust GAAP reported net interest income by the tax equivalent adjustment amount (assuming a 34% tax rate) to account for the tax attributes on federally tax exempt municipal securities. For GAAP purposes, tax benefits associated with federally tax exempt municipal securities are

recorded as a benefit in income tax expense. The following table reconciles reported net interest income to net interest income on a tax equivalent basis for the periods presented:

Reconciliation of net interest income to net interest income on a tax equivalent basis	
For the Six Months Ended June 30,	For the Year Ended December 31,
2003	