MERCANTILE BANK CORP
Form 11-K
June 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from to

Commission File No. 000-26719

Mercantile Bank of Michigan

401(k) Plan

Mercantile Bank Corporation

310 Leonard Street, NW

Grand Rapids, Michigan 49504

(616) 406-3000

REQUIRED INFORMATION

The Mercantile Bank of Michigan 401(k) Plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA). In lieu of the requirements of Items 1, 2 and 3 of Form 11-K for annual reports, the financial statements and schedules of the Plan for the two years ended December 31, 2012 and 2011, which have been prepared in accordance with the financial reporting requirements of ERISA, are included in this report.

Mercantile Bank of Michigan

401(K) Plan

Financial Statements

And Supplemental Schedule

Years Ended December 31, 2012 and 2011

Mercantile Bank of Michigan 401 (k) Plan

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Plan Administrator of

Mercantile Bank of Michigan 401(k) Plan

Grand Rapids, Michigan

We have audited the accompanying statements of net assets available for benefits of Mercantile Bank of Michigan 401(k) Plan (the Plan) as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2012 and 2011, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental Schedule of Assets (Held at End of Year) as of December 31, 2012 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ BDO USA, LLP

Grand Rapids, Michigan

June 28, 2013

Mercantile Bank of Michigan 401 (k) Plan

Statements of Net Assets Available for Benefits

December 31,	**2012**	2011
Assets		
Investments, at fair value		
Mutual funds	**$ 10,174,877**	$ 8,419,249
Mercantile Bank Corporation common stock	**6,078,567**	3,585,387
Common/collective trust	**746,247**	569,494
Money market fund	**10,592**	9,641
Total investments	**17,010,283**	12,583,771
Notes receivable from participants	**304,538**	315,396
Cash	**4,143**	100
Net Assets Available for Benefits, at Fair Value	**17,318,964**	12,899,267
Adjustment from fair value to contract value for interest in common/collective trust relating to fully benefit-responsive investment contracts	**(14,058)**	(13,868)
Net Assets Available for Benefits	**$ 17,304,906**	$ 12,885,399

See accompanying notes to financial statements.

Mercantile Bank of Michigan 401 (k) Plan

Statements of Changes in Net Assets Available for Benefits

Year ended December 31,	**2012**	2011
Additions		
Investment income		
Net appreciation (depreciation) in fair value of investments	**$ 3,547,311**	$ (219,307)
Dividends cash	**347,341**	250,439
Total investment income	**3,894,652**	31,132
Contributions		
Employer	**389,510**	159,739
Employee	**910,652**	910,854
Rollover	**65,324**	24,096
Total contributions	**1,365,486**	1,094,689
Interest from notes receivable	**9,477**	8,451
Total Additions	**5,269,615**	1,134,272
Deductions		
Benefits paid to participants	**846,035**	1,603,618
Administrative expenses	**4,073**	5,097
Total Deductions	**850,108**	1,608,715
Net increase (decrease)	**4,419,507**	(474,443)
Net Assets Available for Benefits, beginning of year	**12,885,399**	13,359,842
Net Assets Available for Benefits, end of year	**$ 17,304,906**	$ 12,885,399

See accompanying notes to financial statements.

Mercantile Bank of Michigan 401 (k) Plan

Notes to Financial Statements

1. Plan Description

The following description of Mercantile Bank of Michigan 401(k) Plan (Plan) provides only general information. Participants should refer to the Plan Agreement or Summary Plan Description for a more complete description of the Plan s provisions.

General

The Plan was established by the Plan Sponsor, Mercantile Bank of Michigan (Bank), effective January 1, 1998. The Plan is a defined contribution plan covering eligible employees who have completed a minimum of one hour of service. Eligible employees can enter the Plan on the first day of the fiscal quarter following date of hire. The Plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Elective deferrals by participants under the Plan provisions are based on a percentage of their compensation, subject to certain limitations as defined by the Plan Agreement. Participants may also roll over account balances from other qualified defined benefit or defined contribution plans into their account. Effective January 1, 2008, participants may elect to make Roth deferral contributions.

The Bank may contribute additional amounts at the discretion of the Bank s Board of Directors in the form of a matching contribution, which is a percentage of the participant s elective contribution for the year. Prior to March 27, 2009, the Bank made matching contributions equal to 100% of the first 5% of compensation deferred by each participant, subject to certain limitations as specified in the Plan Agreement.

Effective March 27, 2009, the Bank suspended the employer matching contributions. The Bank reinstated employer matching contributions beginning with the May 6, 2011 payroll period.

Participant Accounts

Each participant s account is credited with the participant s contributions, allocations of the Bank s matching contribution and Plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s account. Participants may direct the investment of their account balances into various investment options offered by the Plan.

Vesting

Participants are immediately vested in their elective deferrals and employer contributions and earnings thereon.

Mercantile Bank of Michigan 401 (k) Plan

Notes to Financial Statements

Notes Receivable from Participants

Participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their account balance. The notes are secured by the balance in the participant s account and bear interest at rates that are commensurate with local borrowing rates. Interest rates on notes receivable outstanding as of December 31, 2012 ranged from 3.25% to 7.75%. Principal and interest is paid ratably through payroll deductions over a period not to exceed five years, unless the notes were used to purchase a primary residence, in which case the note terms shall not exceed ten years.

Payment of Benefits

Upon separation of service, death, disability or retirement, a participant or his or her beneficiary will receive a distribution of the participant s account as a lump-sum amount. A participant may receive the portion of his or her account invested in Mercantile Bank Corporation common stock in either common shares or cash. Additionally, under certain circumstances of financial hardship, participants are allowed to withdraw funds from the Plan.

Administrative Expenses

Substantially all administrative expenses are paid by the Plan Sponsor. Certain fees incurred as a result of participant-directed transactions (e.g., participant loan origination and distribution fees) are charged directly to the participant s account.

2. Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and changes therein. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants account balances and the amounts reported in the financial statements.

Mercantile Bank of Michigan 401 (k) Plan

Notes to Financial Statements

Concentration of Credit Risk

At December 31, 2012 and 2011, approximately 35.1% and 27.8%, respectively, of the Plan s assets were invested in Mercantile Bank Corporation common stock. A significant decline in the market value of the common stock would significantly affect the net assets available for benefits.

Investment Valuation and Income Recognition

The Plan s investments are stated at fair value. Fair value is the price that would be received to sell an asset (an exit price) in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan s gains and losses on investments bought and sold as well as held during the year.

Notes Receivable Participant Loans

Participant loans are classified as notes receivable from participants, and are measured at the unpaid principal balance plus unpaid accrued interest. Defaulted loans, if any, are reclassified as distributions based upon the terms of the Plan Document.

Payment of Benefits

Benefits are recorded when paid.

New Accounting Pronouncement

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amended ASC 820, Fair Value Measurements and Disclosures, to provide a consistent definition of fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. Some of the amendments clarify the application of existing fair value measurement and disclosure requirements, while other amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Adoption of ASU 2011-04 did not have an effect on the Plan s financial statements.

Mercantile Bank of Michigan 401 (k) Plan

Notes to Financial Statements

3. Investments

In accordance with ASC 820, *Fair Value Measurements and Disclosures,* the Plan utilizes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, other inputs that are observable or can be corroborated by observable market data.

Level 3 - Inputs to the valuation methodology are both significant to the fair value measurement and unobservable.

The following valuation methodologies were used to measure the fair value of the Plan s investments. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Money market and mutual funds - Valued at quoted market prices in an exchange and active market, which represent the net asset values (NAV) of shares held by the Plan.

Mercantile Bank Corporation common stock - Valued at the closing price reported on the active market on which the security is traded.

Common/collective trust (CCT): The Plan s interest in the Union Bond & Trust Company Morley Stable Value Fund (the Fund) is valued based on information reported by the issuer, The Union Bond & Trust Company (Union) using the net asset value from the audited financial statements of the Fund. Union determines fair value based on the underlying investments (primarily conventional, synthetic and separate account investment contracts, and cash equivalents). Investment contracts held by a defined contribution plan are required to be reported at fair value, with an adjustment to contract value in the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The contract value of the CCT represents contributions plus earnings, less participant withdrawals and administrative expenses. The investment objective of the Fund is to provide preservation of capital, relatively stable returns consistent with its comparatively low risk profile, and liquidity for benefit-responsive payments. Withdrawals from the Fund for benefit payments and participant transfers to noncompeting options to be paid to plan participants are made within 30 days after written notification has been received. All plan sponsor-directed full or partial withdrawals are subject to a twelve month advance written notice requirement.

The Plan s valuation methods may result in a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although Plan management believes the valuation methods are appropriate and consistent with the market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Mercantile Bank of Michigan 401 (k) Plan

Notes to Financial Statements

The tables below set forth by level within the fair value hierarchy the Plan s investments as of December 31, 2012 and 2011. There have been no significant transfers in or out of Levels 1, 2 or 3 in 2012 or 2011.

	Investments at Fair Value			
December 31, 2012	Level 1	Level 2	Level 3	Total
Mutual funds				
Domestic stock funds	$ 4,557,179	$	$	$ 4,557,179
International stock funds	4,024,854			4,024,854
Fixed income funds	769,518			769,518
Balanced funds	560,268			560,268
Lifestyle/asset allocation funds	263,058			263,058
Total mutual funds	10,174,877			10,174,877
Common stock	6,078,567			6,078,567
Common/collective trust		746,247		746,247
Money market fund	10,592			10,592
Investments, at fair value	$ 16,264,036	$ 746,247	$	$ 17,010,283

	Investments at Fair Value			
December 31, 2011	Level 1	Level 2	Level 3	Total
Mutual funds				
Domestic stock funds	$ 4,634,543	$	$	$ 4,634,543
International stock funds	2,545,817			2,545,817
Fixed income funds	687,670			687,670
Balanced funds	486,093			486,093
Lifestyle/asset allocation funds	65,126			65,126
Total mutual funds	8,419,249			8,419,249
Common stock	3,585,387			3,585,387
Common/collective trust		569,494		569,494
Money market fund	9,641			9,641
Investments, at fair value	$ 12,014,277	$ 569,494	$	$ 12,583,771

Mercantile Bank of Michigan 401 (k) Plan

Notes to Financial Statements

Investments that represent 5% or more of the fair value of the Plan s net assets available for benefits are as follows:

December 31,	**2012**	2011
Mutual Funds		
American Funds Growth Fund of America	**$ 1,422,903**	$ 1,218,579
Franklin Mutual Beacon	**1,020,757**	898,597
American Funds EuroPacific Growth	**904,912**	775,035
Royce Value Investment	*	803,983
American Funds Investment Company of America	*	684,612
Mercantile Bank Corporation common stock	**6,078,567**	3,585,387

* Below 5% of net assets available for benefits.

During 2012 and 2011, the Plan s investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in fair value as follows:

Year Ended December 31,	**2012**	2011
Mutual funds	**$ 1,031,370**	$ (782,714)
Common/collective trust	**4,733**	8,123
Common stock	**2,511,208**	555,284
Net Appreciation (Depreciation) in Fair Value of Investments	**$ 3,547,311**	$ (219,307)

4. Related Party Transactions

Parties-in-interest are defined under Department of Labor (DOL) regulations as any fiduciary of the Plan, any party rendering service to the Plan, the employer and certain other parties. Professional fees for the administration and audit of the Plan are paid by the Bank.

Certain Plan investments are managed by Charles Schwab Trust Company (Schwab) and Union Bond and Trust Company (Union). Schwab and Union are custodians as defined by the Plan; therefore, these transactions qualify as party-in-interest transactions.

The 368,398 and 367,732 shares of Mercantile Bank Corporation common stock held by the Plan as of December 31, 2012 and 2011, respectively, represent approximately 4.23% and 4.27% of the Corporation s outstanding shares as of December 31, 2012 and 2011, respectively.

Cash dividends of $32,809 were paid to the Plan by Mercantile Bank Corporation during 2012. There were no cash dividends paid on company stock in 2011.

Mercantile Bank of Michigan 401 (k) Plan

Notes to Financial Statements

5. Plan Termination

Although it has not expressed any intent to do so, the Bank has the right under the Plan to terminate the Plan, subject to the provisions of ERISA.

6. Tax Status

The Internal Revenue Service has determined and informed the Bank by a letter dated August 20, 2010 that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter; however the Plan Administrator believes that the Plan is designed and is being operated in compliance with the applicable requirements of the IRC. The related trust, therefore, is not subject to tax under present tax law.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan Administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2012 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there currently are no audits for any tax periods in progress. The Plan Administrator believes it is no longer subject to tax examinations for years prior to 2009.

Mercantile Bank of Michigan 401 (k) Plan

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

EIN: 38-3360868

Plan Number: 001

December 31, 2012

(a)	(b) Identity of Issuer, Borrower, Lessor or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
	Mutual funds			
	AllianzGI Convertible Fund I	1 share	**	$ 10
	American Funds EuroPacific Growth	22,371 shares	**	904,912
	American Funds Growth Fund of America	41,986 shares	**	1,422,903
	American Funds Investment Company of America	24,847 shares	**	747,640
	American Funds New World	12,173 shares	**	656,017
	American Funds Target Date 2015	8,915 shares	**	85,669
	American Funds Target Date 2025	3,219 shares	**	31,579
	American Funds Target Date 2035	4,931 shares	**	49,357
	American Funds Target Date 2045	8,060 shares	**	81,240
	American Funds Target Date 2055	1,253 shares	**	15,213
	American Funds Capital World Growth and Income	22,595 shares	**	835,799
	Columbia Small Cap Value	1,046 shares	**	43,435
	Franklin Income	250,120 shares	**	560,268
	Franklin Mutual Beacon	76,864 shares	**	1,020,757
	Neuberger Berman Mid Cap Growth	65,840 shares	**	767,035
	Oppenheimer Developing Markets	1,816 shares	**	63,331
	Perkins MidCap Value	2,723 shares	**	58,053
	PIMCO FDS COM RLRT STR P	5,104 shares	**	33,842
	PIMCO High Yield	12,651 shares	**	121,958
	PIMCO Total Return	54,601 shares	**	613,718
	Royce Value Investment	75,133 shares	**	852,011
	Thornburg Investment Income Builder	40,649 shares	**	765,008
	Touchtone Sands Capital Inst Growth	1,913 shares	**	32,752
	Vanguard 500 Index Investor	3,139 shares	**	412,370
	Total mutual funds			10,174,877
	Common stock			
*	Mercantile Bank Corporation	368,398 shares	**	6,078,567
*	Common/collective trust			
	Union Bond & Trust Company Stable Value Fund	31,914 shares	**	746,247
*	Money market fund			

	Schwab Value Advantage Fund	10,592 shares	**	10,592
	Total Investments, at Fair Value			$ 17,010,283
*	**Notes receivable from participants**	(3.25% to 7.75%)		$ 304,538

* A party-in-interest as defined by ERISA.
** The cost of participant-directed investments is not required to be disclosed.

Exhibit to Report on Form 11-K

Exhibit No.	Exhibit Description
23.1	Consent of Independent Registered Public Accounting Firm

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Mercantile Bank of Michigan

401(k) Plan

Date: June 28, 2013

By: /s/ Lonna L. Wiersma
Lonna L. Wiersma, Trustee

Exhibit Index

Exhibit No.	Exhibit Description
23.1	Consent of Independent Registered Public Accounting Firm