

MERCANTILE BANK CORP

Form PRE 14A

February 29, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No.    )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

**MERCANTILE BANK CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11  
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4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

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1) Amount Previously Paid:

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CURRENTLY VALID OMB CONTROL NUMBER.  
SEC 1913 (02-02)

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**Notice of Annual Meeting of Shareholders  
To Be Held on April 24, 2008**

To our Shareholders:

The 2008 annual meeting of shareholders of Mercantile Bank Corporation will be held at Cascade Hills Country Club, 3725 Cascade Road SE, Grand Rapids, Michigan on Thursday, April 24, 2008, at 9:00 a.m. local time. The meeting is being held for the purpose of considering and voting on the following matters:

1. Election of five class II directors, each for a three year term.
2. Amending our articles of incorporation to provide for the annual election of all directors.
3. Such other business as may properly be brought before the meeting or any adjournment of the meeting.

All shareholders of record at the close of business on Friday, February 29, 2008 are entitled to notice of and to vote at the meeting, and any postponements or adjournments of the meeting.

Your vote is important. We urge you to sign and return the enclosed proxy as promptly as possible, whether or not you plan to attend the meeting in person. We would appreciate receiving your proxy by Monday, April 14, 2008.

By Order of the Board of Directors,

Michael H. Price  
Chairman of the Board, President and  
Chief Executive Officer

Dated: March 19, 2008

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**Mercantile Bank Corporation**

**Proxy Statement**

**For the Annual Meeting of Shareholders  
To Be Held on April 24, 2008**

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**Mercantile Bank Corporation  
310 Leonard Street NW  
Grand Rapids, Michigan 49504**

**March 19, 2008**

**Proxy Statement**

**For the Annual Meeting of Shareholders  
To Be Held on April 24, 2008**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Mercantile Bank Corporation ( we, our or Mercantile ). The proxies are being solicited for use at the annual meeting of shareholders to be held on Thursday, April 24, 2008 at 9:00 a.m., local time, at Cascade Hills Country Club, 3725 Cascade Road SE, Grand Rapids, Michigan, and at any and all adjournments of the meeting. An annual report that consists of our Annual Report on Form 10-K for the year ended December 31, 2007 and other information is being mailed to shareholders, along with these proxy materials, on or about March 19, 2008.

**Information About the Annual Meeting and Voting**

**What is the purpose of the annual meeting?**

At our annual meeting, shareholders will act upon the matters outlined in the accompanying notice of the meeting, including the election of directors, amending our articles of incorporation to provide for the annual election of all directors, and consideration of such other business as may properly come before the meeting.

**Who is entitled to vote?**

Only shareholders of record at the close of business on the record date, February 29, 2008, are entitled to receive notice of the annual meeting and to vote their shares at the meeting. Holders of Mercantile common stock are entitled to one vote per share.

**What is the difference between a shareholder of record and a street name holder?**

These terms describe how your shares are held. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are a shareholder of record. If your shares are held in the name of a broker, bank, trust or other nominee as a custodian, you are a street name holder.

**Who can attend the meeting?**

All shareholders as of the record date, or their duly appointed proxies, may attend the meeting.

**What is a proxy?**

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A proxy is your legal designation of another person, the proxy, to vote on your behalf. By completing and returning the enclosed proxy card, you are giving the persons appointed as proxies by our Board of Directors the authority to vote your shares as indicated on the proxy card.

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### **What constitutes a quorum?**

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of Mercantile common stock outstanding on the record date will constitute a quorum, permitting business to be conducted at the meeting. As of the record date, \_\_\_\_\_ shares of Mercantile common stock were outstanding and entitled to vote. Proxies that are received and marked as withholding authority, abstentions, and broker non-votes (where a bank, broker or nominee does not exercise discretionary authority to vote on a matter) will be included in the calculation of the number of shares considered to be represented at the meeting.

### **How do I vote?**

If you complete, sign and return the accompanying proxy card, it will be voted as you direct. If no choice is specified on a signed proxy card, the persons named as proxies will vote (1) in favor of the election of all of the nominees for director and the amendment to the articles of incorporation, and (2) in the discretion of the persons named as proxies as to all other matters that may be properly presented at the annual meeting.

If the shares you own are held in street name, your broker, bank or other nominee, as the record holder of your shares, is required to vote your shares according to your instructions. Your broker, bank or other nominee is required to send you directions on how to vote those shares. If you do not give instructions to your broker, bank or other nominee, it will still be able to vote your shares with respect to certain discretionary items, but will not be allowed to vote your shares with respect to certain non-discretionary items. In the case of non-discretionary items, the shares that do not receive voting instructions will be treated as broker non-votes.

If, as of the record date, you are a shareholder of record and you attend the meeting, you may vote in person at the meeting.

### **Can I change my proxy after I return my proxy card?**

Yes. Any proxy may be revoked by a shareholder at any time before it is exercised at the annual meeting by delivering to our Secretary a written notice of revocation or a duly executed proxy bearing a later date, or by voting in person at the meeting.

### **What is the vote required to approve each matter?**

*Election of Directors.* The affirmative vote of the holders of a plurality of the votes cast on the election of directors at the meeting is required for nominees to be elected as directors. Votes withheld and broker non-votes are not counted toward a nominee's total.

*Amending our articles of incorporation to provide for the annual election of directors.* The affirmative vote of at least 66 2/3% of our outstanding shares is required to approve the amendment to our articles of incorporation. For purposes of counting votes on the amendment, abstentions and broker non-votes will have the same effect as a vote against the amendment.

### **Are there other matters to be voted on at the meeting?**

As of the date of this proxy statement, our Board of Directors does not know of any matters which may come before the meeting, other than the election of directors and the amendment of our articles of incorporation described in this proxy statement. Should any other matter requiring a vote of the shareholders arise and be properly presented at the annual meeting, the proxy included with this proxy statement gives the persons named in the proxy and designated to



vote the shares, discretionary authority to vote or otherwise act with respect to any such matter in accordance with their best judgment.

**Table of Contents****Who pays for this proxy solicitation?**

All costs of soliciting proxies will be borne by us. We have engaged The Altman Group, Inc., 1200 Wall Street West, Lyndhurst, New Jersey 07071, to assist us with the proxy solicitation process. For these services, we have agreed to pay The Altman Group a fee of \$4,500 and reimburse it for certain out-of-pocket disbursements and expenses. Our directors, officers, and other employees, and employees of our subsidiary, Mercantile Bank of Michigan (the Bank), may, without compensation other than their regular compensation, solicit proxies by further mailing or personal conversation, or by telephone, facsimile or electronic means. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their out-of-pocket expenses for forwarding soliciting material to the beneficial owners of our common stock.

**Our Board of Directors encourages shareholders to attend the annual meeting. Whether or not you plan to attend, you are urged to submit your proxy. A prompt response will facilitate arrangements for the meeting and your cooperation will be appreciated.**

**Stock Ownership of Certain Beneficial Owners and Management****Stock Owned by Management**

The following table presents information regarding the beneficial ownership of our common stock, as of February 1, 2008, by each of our directors, each nominee for election as a director, our current and former executive officers named in the Summary Compensation Table, and all of our current directors and executive officers as a group.

<b>Name of Beneficial Owner</b>	<b>Amount Beneficially Owned(1)</b>	<b>Percent of Class Beneficially Owned(13)</b>
Betty S. Burton	2,316	*
David M. Cassard	13,038	*
Edward J. Clark	13,578(2)	*
Peter A. Cordes	36,479	*
C. John Gill	61,982(3)	*
Doyle A. Hayes	4,842	*
David M. Hecht	123,147(4)	1.4%
Susan K. Jones	4,262	*
Lawrence W. Larsen	30,411(5)	*
Calvin D. Murdock	25,579(6)	*
Michael H. Price	69,084(7)	*
Merle J. Prins	4,762	*
Timothy O. Schad	2,025	*
Dale J. Visser	294,240(8)	3.5%
Donald Williams, Sr.	2,790(9)	*
Robert B. Kaminski, Jr.	39,821(10)	*
Charles E. Christmas	43,545(11)	*
Gerald R. Johnson, Jr. (former executive officer)	135,997	1.6%
All directors and current executive officers as a group (17 Persons)	771,901(12)	9.0%

Member of our Board of Directors.

\* Less than 1%.

(1) The number of shares beneficially owned includes any shares over which the person has sole or shared voting power or investment power and also any shares that the person can acquire within

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60 days of February 1, 2008 through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole investment and voting power (or shares such power with his or her spouse) over the shares set forth in the table. Includes for Messrs. Clark, Cordes, Hecht, Larsen, Visser and Williams, 1,303 shares, and for Mrs. Burton, Mrs. Jones and Messrs. Cassard, Gill, Hayes, and Murdock, 636 shares, that the director has the right to acquire within 60 days of February 1, 2008 pursuant to our stock option plan for nonemployee directors.

- (2) Includes 1,070 shares that Mr. Clark has the power to vote and dispose of as custodian of four accounts, three of which are for a relative, and one of which is for a friend.
- (3) Includes 19,696 shares held by Mr. Gill's spouse.
- (4) Includes 14,068 shares that Mr. Hecht has sole voting and investment power over as President of the Charles W. Loosemore Foundation, which is the record and beneficial owner of the shares. Mr. Hecht disclaims beneficial ownership of these 14,068 shares.
- (5) Includes 22,109 shares held by Mr. Larsen's spouse.
- (6) Includes 12 shares that Mr. Murdock has the power to vote and dispose of as custodian of an account for a friend's child.
- (7) Includes 11,263 shares that Mr. Price has the right to acquire within 60 days of February 1, 2008 pursuant to stock options and 3,862 shares of restricted stock, awarded under our stock-based compensation plans, and 10,248 shares that Mr. Price owns under the Bank's 401(k) plan.
- (8) Includes 66,751 shares that Mr. Visser has voting and investment power over as trustee of a trust for family members. Mr. Visser disclaims beneficial ownership of these 66,751 shares. Includes 64,247 shares that Mr. Visser has voting and investment power over as trustee of a charitable remainder trust. Mr. Visser disclaims beneficial ownership of these shares, except to the extent of his and his spouse's interest in the trust. Also includes 5,787 shares owned by Mr. Visser's spouse.
- (9) Mr. Williams, Sr. has pledged 300 of these shares as security for a loan.
- (10) Includes 21,270 shares that Mr. Kaminski has the right to acquire within 60 days of February 1, 2008 pursuant to stock options and 2,362 shares of restricted stock, awarded under our stock-based compensation plans, and 4,890 shares that Mr. Kaminski owns under the Bank's 401(k) plan.
- (11) Includes 21,425 shares that Mr. Christmas has the right to acquire within 60 days of February 1, 2008 pursuant to stock options and 2,007 shares of restricted stock, awarded under our stock-based compensation plans, and 15,266 shares that Mr. Christmas owns under the Bank's 401(k) plan. Also includes 1,172 shares that Mr. Christmas's spouse, who was previously employed by the Bank, owns under the Bank's 401(k) plan.
- (12) Includes 65,592 shares that such persons have the right to acquire within 60 days of February 1, 2008 pursuant to stock options and 8,231 shares of restricted stock, awarded under our stock-based compensation plans, and 31,576 shares that such persons own under the Bank's 401(k) plan.
- (13) The percentages shown are based on the 8,526,162 shares of our common stock outstanding as of February 1, 2008, plus the number of shares that the named person or group has the right to acquire within 60 days of February 1, 2008. For purposes of computing the percentages of outstanding shares of common stock held by

each person, any shares that the person has the right to acquire within 60 days after February 1, 2008 are deemed to be outstanding with respect to such person but are not deemed to be outstanding for the purpose of computing the percentage of ownership of any other person.

**Table of Contents****Stock Owned by 5% Beneficial Owner**

The following table presents information regarding the beneficial ownership of our common stock by each person known to us to beneficially own more than 5% of our outstanding shares of common stock as of February 20, 2008.

<b>Name and Address of Beneficial Owner</b>	<b>Amount Beneficially Owned</b>	<b>Percent of Class Beneficially Owned</b>
Wasatch Advisors, Inc. 150 Social Hall Avenue Salt Lake City, Utah 84111(1)	481,824	5.7%

- (1) This information is based on a Schedule 13G dated February 14, 2008 filed by Wasatch Advisors, Inc. reporting as of December 31, 2007. The Schedule 13G discloses that Wasatch Advisors, Inc. has sole voting and dispositive power over all 481,824 of the shares.

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**Election of Directors**

Our articles of incorporation and bylaws provide that our Board of Directors will consist of between six and fifteen directors, with the exact number of directors determined from time to time by our Board of Directors. Our Board of Directors has presently fixed the number of directors at fifteen. Our articles of incorporation and bylaws also provide that the directors will be divided into three classes, class I, class II and class III; with each class serving a staggered three year term, and with the number of directors in each class being as nearly equal as possible.

There are now five directors in each class. The class I, class II and class III directors are currently serving until the annual meeting of shareholders that will be held in 2010, 2008 and 2009, respectively, and until their successors are elected and qualified. At each annual meeting of shareholders, directors of one of the three classes are elected for a term of three years to succeed the directors whose terms are expiring. If the proposal in this proxy statement to amend our articles of incorporation to provide for the annual election of our directors is approved at the annual meeting, then in future years, directors will be elected for one-year terms.

Our Board of Directors has nominated Betty S. Burton, David M. Cassard, Peter A. Cordes, David M. Hecht, and Merle J. Prins as class II directors for three year terms expiring at the 2011 annual meeting. Each of the nominees is presently a class II director whose term expires at the April 24, 2008 annual meeting. The other members of the Board, who are class I and class III directors, will continue in office in accordance with their previous elections until the expiration of their terms at the 2009 or 2010 annual meetings.

Unless otherwise instructed, the persons named as proxies intend to vote all proxies received for the election of the five class II nominees. All of the nominees have indicated their willingness to continue to serve. If any nominee should become unwilling or unavailable to serve, our Board of Directors may select a substitute nominee, and in that event the proxies intend to vote all proxies for the person selected. If a substitute nominee is not selected, the proxies intend to vote for the election of the remaining nominees. Our Board of Directors has no reason to believe that any of the nominees will become unavailable.

In the section below, we provide the names and business experience, for at least the past five years, for the class II director nominees and each other member of our Board of Directors. Each nominee and continuing member of our Board of Directors is also a director of the Bank. There are no family relationships among any of our directors, nominees for director and executive officers.

**Our Board of Directors recommends that you vote for each of the five class II director nominees named above.**

**Nominees for Re-Election as Class II Directors  
for Terms Expiring in 2011  
(Present Terms Expire in 2008)**

**Betty S. Burton**, age 66  
*Director*

Mrs. Burton is the former owner of a business forms and print solutions distribution company. She was a member of the Board and consultant to Wonderland Business Forms from 1999 to 2002, and its President and Chief Executive Officer from 1995 to 1999. Prior to that, Mrs. Burton was a teacher in the Grand Rapids Public School System for over 25 years. Mrs. Burton is a trustee of both the Grand Valley State University Foundation and the Western Michigan University Foundation. She is a graduate of both universities and also of Dartmouth College Tuck School of

Business Minority Executives Program. She has previously served as a member of the Board of Directors of First Michigan Bank-Grand Rapids and



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Butterworth Hospital. Mrs. Burton is very involved in civic and community activities and serves on several boards in the Grand Rapids area. Mrs. Burton has been a member of our Board of Directors since 1998.

**David M. Cassard**, age 54

*Director*

Mr. Cassard is Chairman, Treasurer and a member of the Board of Directors of Waters Corporation, which manages commercial real estate properties in the Grand Rapids metropolitan area. He has served as President and Treasurer of Waters Corporation for over 20 years and became Chairman in 2005. Before joining Waters Corporation, he worked for an international firm of Certified Public Accountants. He is a graduate of the University of Michigan (BBA) and Michigan State University (MBA), and he is a Certified Public Accountant and Certified Property Manager. He currently serves on the City of Grand Rapids Downtown Development Authority and is a member of the City of Grand Rapids Downtown Improvement District Board. He previously served as a member of the Board of Directors of First Michigan Bank-Grand Rapids and was a member of the Board of Directors of First Michigan Bank Corporation and Butterworth Hospital. He holds memberships in several professional organizations and societies, including the American Institute of CPAs, the Michigan Association of CPAs, the Grand Rapids Association of Realtors, the National Association of Realtors and the Institute of Real Estate Management. Mr. Cassard has been a member of our Board of Directors since 2001.

**Peter A. Cordes**, age 67

*Director*

Mr. Cordes has served as President and Chief Executive Officer of GWI Engineering Inc. ( GWI ) of Grand Rapids, Michigan, since 1991. GWI is engaged in the manufacturing of industrial automation systems for customers in a variety of industries in the Midwest. Mr. Cordes purchased GWI in 1991 and is now its sole owner. Mr. Cordes graduated from St. Louis University with a degree in aeronautics. He is a native of Traverse City, Michigan and has spent the last twenty years in Western Michigan. Mr. Cordes has been a member of our Board of Directors since 1997.

**David M. Hecht**, age 70

*Director*

Mr. Hecht is an attorney and has practiced law for 45 years, including the past 33 years in Grand Rapids. From 1993 through 2001, he was the Chairman of the Grand Rapids law firm of Hecht & Lentz, and was a founder of the firm. Mr. Hecht is a native of Grand Rapids and a graduate of the University of Michigan and the University of Wisconsin. He is the President of the Charles W. Loosemore Foundation, a Trustee of the Grand Valley University Foundation, and Past Chair of the Board of Trustees of Hospice of Michigan. Mr. Hecht has been a member of our Board of Directors since 1997.

**Merle J. Prins**, age 68

*Director*

Mr. Prins retired from his positions as Executive Vice President and a member of the Board of Directors of First Michigan Bank Corporation in 1998, after 30 years of service as an officer of First Michigan Bank Corporation and nine years of service on its Board of Directors. Mr. Prins is a member of the Riverview Group, a community advisory group in Holland, Michigan, and a member of the Brownfield Redevelopment Authority for the City of Holland. Mr. Prins has been a member of our Board of Directors since 2004.

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**Information About Continuing Directors**

**Class I Continuing Directors  
Terms Expiring in 2010**

**Edward J. Clark, age 63**

*Director*

Mr. Clark is the Chairman and Chief Executive Officer of The American Seating Company, and has held this position since 1986. American Seating is headquartered in Grand Rapids, Michigan, and produces seating and furniture for offices, as well as seating for buses, rail cars, auditoriums, stadiums and performing arts centers. He is a graduate of Ohio State University (BSc) and the University of Pennsylvania (MBA). Mr. Clark is a member of the Boards of Directors of the Metropolitan YMCA and the Ohio State University Alumni Association, and a member of the Board of Trustees of the Grand Valley State University Foundation. He is Chairman of the Membership Committee of Grand Valley State University, and on the Advisory Board of the Seidman School of Business. From 1988 through 1997, he was a member of the Board of Directors and Executive Committee of First Michigan Bank-Grand Rapids. Mr. Clark has also previously served on the Boards of Directors of the Grand Rapids Symphony Orchestra, Red Cross of Kent County, The Blodgett/Butterworth Foundation, St. Mary's Hospital, The Business and Institutional Furniture Manufacturer's Association, and the Grand Rapids Employees' Association. Mr. Clark has been a member of our Board of Directors since 1998.

**C. John Gill, age 74**

*Director*

Mr. Gill is the retired Chairman of the Board and one of the owners of Gill Industries of Grand Rapids, Michigan. Mr. Gill served as Chairman of Gill Industries from 1994 through 1997, and served as President of Gill Industries from 1983 through 1993. Gill Industries is a manufacturing company involved with sheet metal stampings and assemblies for the automotive and appliance industries. Mr. Gill has been a member of our Board of Directors since 1997.

**Calvin D. Murdock, age 68**

*Director*

Mr. Murdock is President of SF Supply (SF) of Grand Rapids, Michigan. He has held this position since 1994. From 1992 to 1994, he served as the General Manager of SF, and in 1991, served as SF's Controller. SF is a wholesale distributor of commercial and industrial electronic, electrical and automation parts, supplies and services. Mr. Murdock is a Michigan native and a graduate of Ferris State University with a degree in accounting. Prior to joining SF, Mr. Murdock owned and operated businesses in the manufacturing and supply of automobile wash equipment. Mr. Murdock has been a member of our Board of Directors since 1997.

**Timothy O. Schad, age 60**

*Director*

Mr. Schad is Chairman and Chief Executive Officer of Nucraft Furniture Company, which produces high-end wood office furniture for executive offices, conference rooms and board rooms. He joined Nucraft in 1980 and served as Vice President and President prior to his appointment as Chairman and Chief Executive Officer in 1997. From 2001 to 2006, Mr. Schad also served as the Vice President for Finance and Administration, and Treasurer, of Grand Valley State University, a master level public university with 24,000 students and campuses in Allendale, Grand Rapids, Holland, Muskegon and Traverse City. Mr. Schad has served on the Board of Trustees of Ferris State University and

Kendall College of Art and Design. He is a graduate of Dartmouth College, Thayer School of Engineering and

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Harvard Business School. Mr. Schad is an active supporter of family businesses in Michigan, serving on several private company boards of directors and as a director of the Family Business Alliance in Grand Rapids. Mr. Schad has been a member of our Board of Directors since 2007.

**Donald Williams, Sr., age 71**

*Director*

Mr. Williams is Dean Emeritus of Grand Valley State University. During 2002, he was the Coordinator of the minority students teacher preparation program for the Grand Rapids Public Schools (secondary schools). Mr. Williams has over 30 years of experience in administration of educational programs with special emphasis on political sensitivity and equality. From 1989 to 2001, he was the Dean of Minority Affairs and Director of the Multicultural Center of Grand Valley State University. Mr. Williams also serves as President of the Concerned Citizens Council. He previously served as President of the Rotary Club of Grand Rapids, President of the Coalition for Representative Government (CRG), as a member of the Board of Directors of First Michigan Bank-Grand Rapids and the Grand Rapids Advisory Board of Michigan National Bank, as Treasurer and President of the Minority Affairs Council of Michigan Universities (MACMU), and as a member of the Board of Directors of the Grand Rapids Area Chamber of Commerce. Mr. Williams has been the recipient of numerous awards in the Grand Rapids and Michigan area for community service and job performance, including most recently the Giant Among Giants award. His work has been cited in the Congressional Record of the United States by the late Representative Paul Henry. Mr. Williams has been a member of our Board of Directors since 1998.

**Class III Continuing Directors  
Terms Expiring in 2009**

**Doyle A. Hayes, age 57**

*Director*

Mr. Hayes has over 30 years of experience in the automotive industry and has held various positions within that industry. Currently, he is President and CEO of Pyper Products Corporation, a plastic injection molding company that supplies the auto and furniture industries. Mr. Hayes has been the President and CEO of Pyper Products Corporation since 1994. Mr. Hayes is also the majority shareholder of TalentTrax LLC, a staffing organization. He has served on several non-profit boards in the Grand Rapids community and is currently Board Chair of Metro Health Hospital and the Small Business Association of Michigan (SBAM). Mr. Hayes is a member of the Boards of Directors of Borgess Hospital of Kalamazoo, Davenport Educational System (DES), Grand Valley State University Foundation, VanAndel Global Trade Center, Battle Creek Chamber of Commerce and Grand Valley Metro Council, and a member of the Governor's Workforce Commission and the Advisory Board of the Seidman School of Business. Mr. Hayes was formerly a Corporate Director of First Michigan Bank Corporation. Mr. Hayes has been a member of our Board of Directors since 2001.

**Susan K. Jones, age 58**

*Director*

Mrs. Jones is a tenured, full-time Professor of Marketing at Ferris State University in Big Rapids, Michigan, and has served as a Professor of Marketing since 1990. Mrs. Jones was also an associate partner of The Callahan Group, LLC, a marketing consulting firm, from 2005 to 2007, and was a partner of Callahan Group from 1998 to 2004. In addition, she has worked at her own marketing consulting firm, Susan K. Jones & Associates, since 1980. She enjoys an active volunteer career, currently serving as President of the Arts Council of Greater Grand Rapids, Member of the Council of 100 at Northwestern University, Treasurer of the Northwestern Club of West Michigan, and on the West Michigan Alumni



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Admissions Council for Northwestern University. She is a past-president of the Junior League of Grand Rapids, a graduate of Leadership Grand Rapids, and currently serves as a trustee of the Chicago Association of Direct Marketing Educational Foundation. Mrs. Jones has been a member of our Board of Directors since 1998.

**Lawrence W. Larsen, age 68**

*Director*

Mr. Larsen is Chief Executive Officer, President, and owner of Central Industrial Corporation of Grand Rapids, Michigan. He began his employment with Central Industrial Corporation in 1967, and purchased it in 1974. Central Industrial Corporation is a tier one supplier of various components and assemblies to several of the material handling industry's largest forklift truck manufacturers and other related industries. Mr. Larsen was also an owner and director of Jet Products, Inc. from 1970, when he founded the company, until June of 2007 when he sold his interest in the company to one of its officers. Jet Products, Inc. designs, sells and manufactures various hydraulic components for the material handling industry. Mr. Larsen is a native of Illinois. He has spent the last 41 years in the Grand Rapids area. Mr. Larsen served as a director of First Michigan Bank-Grand Rapids from 1980 until June of 1997, and was a member of the Executive Loan Committee and the Audit Committee. Mr. Larsen has been a member of our Board of Directors since 1997.

**Michael H. Price, age 51**

*Chairman of the Board, President, Chief Executive Officer and Director of Mercantile, and Chairman of the Board, Chief Executive Officer and Director of the Bank*

Mr. Price has over 25 years of commercial banking experience, and joined the Bank in 1997. Before being promoted to his current position last year, Mr. Price served as President and Chief Operating Officer of Mercantile and the Bank in 1997 and 1998, and as President and Chief Operating Officer of Mercantile and President and Chief Executive Officer of the Bank from 1999 to June of 2007. Mr. Price has been and continues to be very active in the Grand Rapids community. He currently serves on the Board of Directors of Metro Health Hospital. From 2005 to 2007, he served on the Board of Directors of the Federal Home Loan Bank of Indianapolis. Mr. Price also served as the past Chairperson of The MBA Group 4 committee and was a Co-Chair of the Habitat for Humanity of Kent County Capital Campaign, as well as its past Board President. Mr. Price has previously served as Vice Chair of the Board of Kent County Community Mental Health, and as a Board member of Project Rehab. Mr. Price has been a member of our Board of Directors since 1997.

**Dale J. Visser, age 71**

*Director*

Mr. Visser is Chairman and one of the owners of Visser Brothers Inc. of Grand Rapids, Michigan. He has served Visser Brothers in various officer positions since 1960. Visser Brothers is a construction general contractor specializing in commercial buildings. Mr. Visser also has an ownership interest in several real estate projects in the Grand Rapids area. Mr. Visser served as a director of First Michigan Bank-Grand Rapids from 1972 until June of 1997. He is a Grand Rapids native and a graduate of the University of Michigan with a degree in civil engineering. Mr. Visser is active in the community and serves on the Board of Directors of Westminster Theological Seminary Foundation. He has previously served on the Boards of the Grand Rapids YMCA, Christian Rest Home, and West Side Christian School. Mr. Visser has been a member of our Board of Directors since 1997.

**Table of Contents****Executive Officers**

Our executive officers are listed in the table below.

<b>Name of Executive Officer</b>	<b>Title</b>
Michael H. Price	Chairman of the Board, President and Chief Executive Officer of Mercantile, and Chairman of the Board and Chief Executive Officer of the Bank
Robert B. Kaminski, Jr.	Executive Vice President, Chief Operating Officer and Secretary of Mercantile, and President, Chief Operating Officer and Secretary of the Bank
Charles E. Christmas	Senior Vice President, Chief Financial Officer and Treasurer of Mercantile, and Senior Vice President and Chief Financial Officer of the Bank

Mr. Price is also a member of our Board of Directors, and information regarding his business experience is described above under the heading Election of Directors. Mr. Kaminski's and Mr. Christmas' business experience, for at least the past five years, is summarized below. Our executive officers are generally elected each year at the annual meeting of our Board of Directors that follows the annual meeting of the shareholders. Their terms of office are at the discretion of our Board of Directors.

**Robert B. Kaminski, Jr.,** age 46

*Executive Vice President, Chief Operating Officer and Secretary of Mercantile, and President, Chief Operating Officer and Secretary of the Bank*

Mr. Kaminski joined the Bank in 1997 and has over 20 years of commercial banking experience. Before being promoted to his current position last year, Mr. Kaminski served Mercantile and the Bank as Senior Vice President and Secretary from 1997 to 2003, and Executive Vice President and Secretary from 2003 to June of 2007. In addition, he has served as the Bank's Chief Operating Officer since 2000. Mr. Kaminski serves on the Boards of Directors and Executive Committees for Boys and Girls Clubs of Grand Rapids Youth Commonwealth and Camp O'Malley, the Board of Directors of VSA Arts of Michigan-Grand Rapids-Very Special Arts, and is a career mentor for Aquinas College of Grand Rapids.

**Charles E. Christmas,** age 42

*Senior Vice President, Chief Financial Officer and Treasurer of Mercantile, and Senior Vice President and Chief Financial Officer of the Bank*

Mr. Christmas joined the Bank in 1998 and has more than 20 years of banking experience. Before being promoted to his current position in 2000, Mr. Christmas served as Vice President of Finance, Treasurer and Compliance Officer of Mercantile and the Bank in 1998, and Chief Financial Officer, Treasurer and Compliance Officer of Mercantile and the Bank in 1999. Prior to joining Mercantile, he examined various financial institutions for over ten years while serving as a bank examiner with the Federal Deposit Insurance Corporation (FDIC). He began his tenure with the FDIC upon his graduation from Ferris State University. Mr. Christmas holds a Bachelor of Science degree in Accountancy. Mr. Christmas serves on the Michigan Banker Association Funds Management Committee and as a member of the Ferris State University College of Business Advisory Board. He also serves as a fundraising volunteer

for the Make-A-Wish Foundation of Michigan and the American Cancer Society, and is an Instructor at the Robert Perry School of Banking at Central Michigan University.



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**Corporate Governance**

**Director Independence**

Applicable NASDAQ rules require that a majority of our Board of Directors be independent. In February of 2008, our Board of Directors reviewed the independence of our directors and determined that each of the directors, including those nominated for election at the annual meeting, are independent as defined by applicable NASDAQ rules, with the exception of Messrs. Price and Visser. In making this determination, our Board of Directors has concluded that none of the independent directors has a relationship that in the opinion of our Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

**Board Meetings**

During 2007, our Board of Directors held a total of 13 meetings. During 2007, each director attended at least 75% of the total number of meetings of our Board and its committees on which he or she then served.

Our Board of Directors has a policy of encouraging members of the Board of Directors to attend the annual meetings of the shareholders. All of our directors attended last year's annual meeting.

**Board Committees**

Our Board of Directors has, and appoints members to, three standing committees: the Audit Committee, the Compensation Committee, and the Governance and Nominating Committee. The membership of these committees, as of March 1, 2008, was as follows:

**Audit Committee**

Betty S. Burton  
 David M. Cassard\*  
 David M. Hecht  
 Calvin D. Murdock  
 Merle J. Prins  
 Timothy O. Schad

**Compensation Committee**

David M. Cassard  
 Peter A. Cordes  
 Lawrence W. Larsen  
 Calvin D. Murdock\*

**Governance and Nominating Committee**

Betty S. Burton  
 Edward J. Clark  
 Doyle A. Hayes\*  
 David M. Hecht  
 Susan K. Jones  
 Lawrence W. Larsen  
 Donald Williams, Sr.

\* Committee chairperson

Each of the members of these committees is an independent director as defined by applicable NASDAQ rules. Each of these committees has a charter that has been approved by our Board of Directors and is available on our website, [www.mercbank.com](http://www.mercbank.com).

**Audit Committee.** The Audit Committee has six members and met five times in 2007. The Audit Committee assists our Board of Directors in overseeing our financial reporting process, internal controls and audit functions, and is directly responsible for the appointment, evaluation, retention and compensation of our registered public accounting firm. Our Board of Directors has determined that Messrs. Cassard, Murdock and Schad, who are members of the

Audit Committee, are qualified as audit committee financial experts, as that term is defined in the rules of the SEC. Each of them is independent, as independence for audit committee members is defined in the NASDAQ listing standards and the rules of the SEC. More information about the Audit Committee is included below under the heading Audit Committee Report.

**Compensation Committee.** The Compensation Committee has four members and met nine times in 2007. The Compensation Committee assists our Board of Directors in carrying out its responsibilities

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relating to compensation and benefits for our directors, officers and employees. The Compensation Committee's responsibilities and authority include:

reviewing and approving the goals and objectives relating to the compensation of our executive officers, and evaluating their performance;

determining, or recommending to our Board for determination, all elements of compensation for our executive officers;

reviewing compensation and guidelines for director's ownership of our stock;

recommending or making changes in cash compensation for directors; and

administering and making awards under our stock-based incentive plans for directors, officers and employees, to the extent provided for in the plans.

The Compensation Committee charter grants the Compensation Committee the authority, in its discretion, to delegate appropriate matters to subcommittees of the Compensation Committee. The Compensation Committee may confer with our Chairman, President and Chief Executive Officer regarding his compensation, and receives recommendations from him regarding the compensation for our other executive officers.

In 2007, our Compensation Committee retained Clark Consulting to assist it in designing a plan and financial modeling for awarding stock options and restricted stock under our Stock Incentive Plan of 2006. Our executive officers, at the direction of the Compensation Committee, provided Clark Consulting with information for the basic components of awards to be included in the award plan and financial modeling. The components included stock options and restricted stock, the intended vesting periods, and the broad range of employees to which the awards were intended to apply. The Compensation Committee reviewed the proposed award plan and financial models that Clark Consulting provided, and granted awards under the Stock Incentive Plan of 2006 of the types and with the terms that it deemed appropriate.

**Governance and Nominating Committee.** The Governance and Nominating Committee has seven members and met six times in 2007. The Governance and Nominating Committee advises our Board of Directors regarding corporate governance principles and practices, and recommends candidates to the Board for election as directors. It also makes recommendations to our Board of Directors regarding the composition, leadership and duties of the Board's committees.

The Governance and Nominating Committee will consider as potential nominees persons recommended by shareholders. Recommendations should be submitted to the Governance and Nominating Committee in care of the Secretary, Mercantile Bank Corporation, 310 Leonard Street NW, Grand Rapids, Michigan 49504. Each recommendation should include a personal biography of the suggested nominee, an indication of the background or experience that qualifies the person for consideration, and a statement that the person has agreed to serve if nominated and elected.

The Governance and Nominating Committee has used an informal process to identify potential candidates for nomination as directors. Candidates for nomination have been recommended by an executive officer or director, and considered by the Governance and Nominating Committee and the Board of Directors. Generally, candidates have been members of the West Michigan community who have been known to one or more of our Board members. The Governance and Nominating Committee has not adopted specific minimum qualifications that it believes must be met by a person it recommends for nomination as a director. In evaluating candidates for nomination, the Governance and

Nominating Committee will consider the factors it believes to be appropriate. These factors would generally include the candidate's personal and professional integrity, business judgment, relevant experience and skills, and potential to be an effective director in conjunction with the rest of our Board of Directors in collectively serving the long-term interests of our shareholders. Although the Governance and Nominating Committee

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has the authority to retain a search firm to assist it in identifying director candidates, there has to date been no need to employ a search firm. The Governance and Nominating Committee does not evaluate potential nominees for director differently based on whether they are recommended by a shareholder.

Shareholders who themselves wish to effectively nominate a person for election to the Board of Directors, as contrasted with recommending a potential nominee to the Governance and Nominating Committee for its consideration, are required to comply with the advance notice and other requirements set forth in our articles of incorporation.

## **Communications with Directors**

Shareholders and other persons may send communications to members of our Board of Directors who serve on the Audit Committee by utilizing the webpage on our website, [www.mercbank.com](http://www.mercbank.com), designated for that purpose. Communications received through the webpage are reviewed by a member of our internal audit staff and the chairperson of the Audit Committee. Communications that relate to functions of our Board of Directors or its committees, or that either of them believe requires the attention of members of our Board of Directors, are provided to the entire Audit Committee and reported to our Board of Directors by a member of the Audit Committee. Directors may review a log of these communications, and request copies of any of the communications.

## **Code of Ethics**

We have adopted a written code of ethics that applies to all our directors, officers and employees, including our chief executive officer and our chief financial and accounting officer. We have posted a copy of the code on our website, [www.mercbank.com](http://www.mercbank.com). In addition, we intend to post on our website all disclosures that are required by law or NASDAQ listing standards concerning any amendments to, or waivers from, any provision of the code.

## **Compensation Committee Interlocks and Insider Participation**

The members of our Compensation Committee during 2007 were David M. Cassard, Peter A. Cordes, Lawrence W. Larsen and Calvin D. Murdock. All members of the Compensation Committee are independent directors, and none of them are present or past employees or officers of ours or any of our subsidiaries. No member of the Compensation Committee has had any relationship with us requiring disclosure under Item 404 of SEC Regulation S-K. None of our executive officers has served on the board or compensation committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers served on our Board or Compensation Committee.

## **Audit Committee Report**

Each member of the Audit Committee is independent, as independence for audit committee members is defined in the NASDAQ listing standards and the rules of the SEC. The Audit Committee's primary purpose is to assist the Board of Directors in overseeing:

- the accounting and financial reporting process;
- audits of financial statements and internal control over financial reporting;
- internal accounting and disclosure controls; and
- the internal audit functions.

In carrying out its responsibilities, the Audit Committee supervises the relationship between Mercantile and its independent auditor, including having direct responsibility for the auditor's appointment, compensation and retention, and reviewing the scope of its audit services, and approving

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audit and permissible non-audit services. The Audit Committee reviews and discusses the annual and quarterly financial statements, as well as the internal audit plan.

Management is responsible for the preparation, presentation and integrity of Mercantile's financial statements and for the appropriateness of the accounting principles and reporting policies that are used. Management is also responsible for testing the system of internal controls, and reporting to the Audit Committee on any significant deficiencies or material weaknesses that are found. Our independent registered public accounting firm for 2007, BDO Seidman, LLP, is responsible for auditing Mercantile's financial statements and internal control over financial reporting and for reviewing its unaudited quarterly financial statements.

The Audit Committee reviewed with BDO Seidman the overall scope and plan of the audit. In addition, the Audit Committee met with BDO Seidman, with and without management present, to discuss the results of BDO Seidman's audit, its evaluation of Mercantile's internal control over financial reporting, the overall quality of Mercantile's financial reporting and such other matters as are required to be discussed under the standards of the Public Company Accounting Oversight Board. The Audit Committee has also received from, and discussed with, BDO Seidman the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees) as amended.

The Audit Committee has discussed with BDO Seidman that firm's independence from management and Mercantile, and has received from BDO Seidman the written disclosures and the letter required by the Independence Standards Board Standard No. 1. The Audit Committee has also considered the compatibility of audit related and tax services with BDO Seidman's independence.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the audited financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007 with both management and our independent registered public accounting firm. The Audit Committee's review included a discussion of the quality and integrity of the accounting principles, the reasonableness of significant estimates and judgments, and the clarity of disclosures in the financial statements.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the SEC. The Audit Committee evaluated and appointed BDO Seidman, LLP as Mercantile's independent registered public accounting firm for 2008.

Audit Committee

Betty S. Burton  
David M. Cassard  
David M. Hecht  
Calvin D. Murdock  
Merle J. Prins  
Timothy O. Schad

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**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis included in this proxy statement with management. Based on the review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement for filing with the SEC.

Compensation Committee

David M. Cassard  
Peter A. Cordes  
Lawrence W. Larsen  
Calvin D. Murdock

**Executive Compensation**

**Compensation Discussion and Analysis**

*Philosophy*

Our philosophy in setting compensation policies for executive officers is to align pay with performance, while at the same time providing competitive compensation that will attract and retain executive talent. Our Compensation Committee believes that executive compensation should be directly linked to continuous improvements in corporate performance and increasing shareholder value over the long term. The design of executive compensation programs affects all employees by setting general levels of compensation and helping to create an environment of goals, rewards and expectations. Because we believe the performance of every employee is important to our success, we are mindful of the effect of executive compensation and incentive programs on all our employees.

We believe that the compensation of our executive officers should reflect their performance as a management team and as individuals. By setting key operating objectives, such as growth in revenues, growth of operating earnings and earning per share, and growth or maintenance of market share, we expect to be successful in providing increasing value to our shareholders. We believe that the performance of our executive officers in managing our business, when considered in light of general economic and specific company, industry and competitive conditions, should be the basis for determining their overall compensation. We also believe that their compensation should not be based on short-term results, whether favorable or unfavorable, but rather on long-term operating results which truly reflect the ability of our executives to manage our business. Long-term gains in shareholder value will be reflected in executive compensation through our stock-based compensation and other equity incentive programs.

Our policy for allocating between currently paid and long-term compensation is to provide adequate base compensation to attract and retain personnel, while offering incentives to maximize long-term value for our shareholders. We provide cash compensation in the form of a base salary to meet competitive salary norms and reward good performance on an annual basis, and in the form of bonus compensation to reward superior performance against short-term goals. We provide stock-based compensation to reward superior performance against specific objectives and long-term strategic goals.



Our Compensation Committee reviews and takes into consideration elements such as the following in setting compensation policies:

peer group comparisons with our financial performance, including net interest margin, efficiency ratio, return on average assets, return on average equity, one and five year total shareholder returns, stock price, stock price to earnings ratios and stock yield;

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regulatory requirements and results of audits and examinations;

amount of time and effort expended by employees for our communities;

rate of employee turnover;

content and effectiveness of our employee training;

results of any employee surveys;

general attitude of employees;

ability to retain and attract new employees;

number of new accounts being opened and the rate of turnover;

results of any customer surveys;

any customer complaints that come to our attention;

level and commitment of our executive officers to our communities;

financial commitment to our communities; and

community support in comparison to that of our competitors.

Our Compensation Committee's goal is to establish salary compensation for the executive officers based upon our operating performance relative to comparable peer companies over a three year period. In setting base salaries, consideration is given to salary compensation of executive officers with comparable qualification, experience and responsibilities at financial institutions within our peer group. Our peer group consists of 26 financial institutions of similar size conducting business in the Midwest. Operating performance and salary compensation information is obtained from the annual SNL Executive Compensation Review for Banks and Thrifts. We also utilize industry compensation studies completed by the Michigan Bankers Association and our independent public accounting firm, but to a lesser degree. The peer group comparisons are used for guidance purposes only, with the Compensation Committee taking the peer group information into consideration in determining base salaries for the executive officers; however, the Compensation Committee does not utilize benchmarks in establishing our executive officer salary compensation. The Compensation Committee intends to pay base salaries to our executive officers that are commensurate with their qualifications and demonstrated performance that bring continuing and increasing value to our shareholders and the communities that we serve.

*Executive Officer Bonus Plan for 2007*

It has been our policy to provide cash bonus awards for eligible executive officers and employees based on predetermined performance goals for each year. We believe that paying such cash awards will:

promote the growth, profitability and expense control necessary to accomplish corporate strategic long-term plans;

encourage superior results by providing a meaningful incentive; and

support teamwork among employees.

The bonus financial performance goals that we established for 2007 for our executive officers and other non-lender employees were aggressive. The aggressiveness of our goals, coupled with an increased level of non-performing assets, a flat yield curve, extremely competitive loan and deposit pricing by our competitors, and a stagnant local economy, resulted in us not achieving any of our 2007 bonus financial performance goals. Because we did not achieve our goal for any of the tiers of our bonus plan for our executive officers, or of the similar plan for our other non-lender employees, we did not pay a cash bonus under the plans to any of our executive officers or other non-lender employees for 2007.

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The 2007 bonus plan for executive officers included three tiers of potential bonus awards, each with its own financial performance goal. The executive officers could have received up to 25% of the maximum amount that could have been awarded to them under the plan from each of the tier 1 and tier 2 bonus pools, and up to the remaining 50% from the tier 3 bonus pool. The maximum amount that could have been awarded to our executive officers under the plan was 45% to 50% of their annual base salary.

Due to economic and market conditions, a bonus plan has not been established for 2008. The Compensation Committee intends to evaluate the performance of the Bank during 2008, and determine whether to pay a discretionary bonus for 2008 after completing the evaluation.

### *Anniversary Bonus 2007*

In December of 2007, we celebrated our 10th year anniversary. The Compensation Committee approved a one-time cash payment to each of our employees in recognition of the anniversary. We made the anniversary payments in December, and they ranged from \$300 to \$5,500 depending on the employee's position. Each of our executive officers received a \$5,500 anniversary payment.

### *Robert B. Kaminski, Jr. Bonus*

On July 1, 2007, Mr. Kaminski was promoted to President, Chief Operating Officer and Secretary of the Bank. In connection with his promotion, the Compensation Committee approved a one-time cash bonus for Mr. Kaminski of \$12,500 that was paid to him in recognition of the responsibilities of his new position.

### *Stock Incentive Plan*

The overall objective for our stock-based compensation is to provide an equitable and competitive means to reward our executive and other officers for their contribution to our long-range success. Our goal is to meet the following objectives:

link each participant's remuneration to our long-term success through the appreciation of stock price;

align the interests of our officers with the interests of our shareholders, by linking the long-term value of the compensation to shareholder returns;

provide annual long-term incentive awards that are market competitive; and

improve our ability to attract and retain officers.

There is a direct relationship between the value of a stock option and the market price of our common stock. We believe that granting stock options is an effective method of motivating our executive and other officers to manage our business in a manner consistent with the interests of our shareholders. Due to the evolution of regulatory, tax and accounting treatment of stock-based compensation, and the importance of stock-based compensation in retaining and motivating our key employees, we have decided to utilize other forms of stock-based compensation in addition to stock options. During 2007 and 2006, we granted restricted stock to our executive officers and other key employees. We believe this is an excellent way to reward them for, and to motivate them toward, superior performance. Restricted stock is an important retention instrument in that it has immediate value to the recipient. Unlike stock option grants that create economic value only if the stock price appreciates above the price at the date of grant, restricted stock provides value and motivation to the recipient even if the stock price declines.

We awarded stock options to our officers based primarily on their performance and title. However, we use no set formula for determining the specific awards that are made. During 2007, we granted stock options to 25 employees. These options covered an aggregate of 54,099 shares of our common stock, including 18,705 shares that were granted to our executive officers. The shares covered by the options

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granted to our executive officers constituted 35% of the shares covered by the options. During 2007, we also awarded 44,450 shares of restricted stock to 132 key employees, including 5,345 shares, or 12% of the total, that were granted to our executive officers. The stock-based awards that we made to our executive officers in 2007 had an aggregate grant date fair value of about 19% of their annual base salaries.

Stock-based awards are generally granted annually in the Fall in conjunction with the review of the performance of our executive and other officers. It is our practice to award grants of stock options and restricted stock to all recipients on the same date. The exercise price for all of the stock options that we granted in 2007 was the closing price of our common stock on NASDAQ on the day before the options were granted.

We limit the perquisites that we make available to our executive officers. We believe that providing excessive perquisites to executive officers sends mixed messages to the rest of our employees and can destroy the team effort. Our executive officers are entitled to a few benefits that are not generally available to all of our employees. We do not provide a defined benefit pension plan, post-retirement health coverage, or similar benefits for our executive officers or other employees.

During 2007, we provided the following perquisites for our executive officers:

in addition to the general health and insurance plan that we maintain for all of our employees, we provided our executive officers with additional life and disability insurance, and long term care insurance; and

one local country club membership was provided for Mr. Price, and prior to his retirement in 2007, also for Mr. Johnson, which they made significant use of in connection with our business.

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to their chief executive officer or certain other highly compensated officers. Qualifying performance-based compensation is not subject to the deduction limitation if certain requirements are met. We periodically review the potential consequences of Section 162(m) and may structure some or all of the performance-based portion of our executive compensation so that it will not be subject to the deduction limitations of Section 162(m).

We do not have stock ownership requirements or guidelines for our executive officers.

### *Post-Employment Compensation*

We do not provide a defined benefit pension plan or post-retirement health insurance coverage for our executive officers or other employees. Our executive officers and most of our other employees are eligible to participate in our 401(k) plan. Each plan year, we provide for each eligible participant a matching contribution to the 401(k) plan. The matching contribution equals dollar for dollar the participant's contribution to the 401(k) plan, up to a maximum matching contribution of \$11,250. All our executive officers participated in our 401(k) plan during the 2007 plan year.

All employees, except our executive officers, are employees-at-will and do not have an employment agreement. The employment agreements that we have with our executive officers are described below under the heading Employment Agreements. We also do not provide post-employment health insurance coverage or other benefits to any employee, except those provided for executive officers in their employment agreements.

### *Overview of the Compensation Process*

The composition of compensation for our executive officers includes: salary, cash bonus, stock-based awards, health, disability and life insurance and perquisites. The elements of executive compensation are discussed at the meetings of our Compensation Committee. During the Fall of each

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year, the Compensation Committee discusses the base salaries and cash bonus plan, if any, for the next year for our executive officers, and makes recommendations to the Board of Directors for its approval. The Board of Directors usually approves the Compensation Committee's recommendations; though if it does not, it could ask the Compensation Committee to prepare revised recommendations. At or about the same time, the Compensation Committee grants stock-based awards to our executive and other officers.

As part of the Compensation Committee's process, it meets with our Director of Human Resources and reviews the elements of each executive officer's compensation during the preceding three years. Typically, the Director of Human Resources makes compensation recommendations to the Compensation Committee for each of our executive officers. The Compensation Committee may accept or reject all or any part of such recommendations. As part of our Director of Human Resources' process of formulating her recommendations, she may confer with our Chairman of the Board, President and Chief Executive Officer. Our executive officers are not present when our Director of Human Resources makes her recommendations, or during the Compensation Committee's deliberations on the compensation of our executive officers.

Mr. Johnson, who was Mercantile's Chairman of the Board and Chief Executive Officer, retired effective June 30, 2007. Mr. Price was promoted to Chairman of the Board, President and Chief Executive Officer of Mercantile and Chairman of the Board and Chief Executive Officer of the Bank. Mr. Kaminski was promoted to Executive Vice President, Chief Operating Officer and Secretary of Mercantile, and President, Chief Operating Officer and Secretary of the Bank. The job responsibilities and duties previously performed by Mr. Johnson have been absorbed by our remaining executive officers, Messrs. Price, Kaminski and Christmas. Our Board of Directors, with the recommendation of the Compensation Committee, does not intend to hire a replacement for Mr. Johnson. The 2008 base salaries set for Messrs. Price, Kaminski and Christmas included a promotion component for the additional job responsibilities that each of the executive officers assumed when Mr. Johnson retired.



**Table of Contents****Summary Compensation Table**

The following table provides information regarding the compensation earned by the named executive officers for the two years ended December 31, 2007.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(2)	Option Awards (\$)(2)	Non-Equity Incentive Compensation (\$)(3)	Change in Pension Value and Non-Equity Deferred Compensation Earnings (\$)(4)	All Other Compensation (\$)(5)	Total (\$)
Michael H. Price Chairman of the Board, President and Chief Executive Officer of Mercantile, and Chairman of the Board and Chief Executive Officer of the Bank	2007	427,000	5,500	14,300	23,300		45,398	28,922	544,420
	2006	402,000		1,700	47,900		12,241	22,727	486,568
Robert B. Kaminski, Jr. Executive Vice President, Chief Operating Officer and Secretary of Mercantile, and President, Chief Operating Officer and Secretary of the Bank	2007	275,000	18,000	8,100	13,700		197	21,317	336,314
	2006	250,000		900	40,300		65	13,763	305,028
Charles E. Christmas Senior Vice President, Chief Financial Officer and Treasurer of Mercantile, and Senior Vice President and Chief Financial Officer of the Bank	2007	231,000	5,500	7,000	11,500		3,819	20,271	279,090
	2006	210,000		900	40,100		1,040	12,866	264,906
Gerald R. Johnson, Jr.(1) Former Chairman of the Board and Chief Executive Officer of Mercantile, and former Chairman of the Board of the Bank	2007	232,500		6,700	10,900		5,381	1,225,340	1,480,821
	2006	465,000		1,700	47,900		1,523	27,776	543,899

(1) Mr. Johnson served Mercantile and the Bank in the positions shown until his retirement from Mercantile and the Bank effective June 30, 2007.

(2) Refer to Note 9, Stock-Based Compensation, in the Notes to our Consolidated Financial Statements included in our Annual Report to the SEC on Form 10-K for the year ended December 31, 2007, for the relevant

assumptions used to determine the valuation of the stock awards and option awards. During 2007, option awards for 11,608 shares, and a stock award for 1,417 shares of restricted stock, were forfeited by Mr. Johnson in connection with the termination of his employment because the option awards for the shares were not exercised within the applicable time period, and the shares of restricted stock had not vested.

- (3) Non-equity incentive plan compensation was not paid to the executive officers for 2007 or 2006 because the goals established for payments to be made under our plans were not met.
- (4) The amounts shown are the above-market interest credited to the accounts of the executive officers for the applicable year on compensation they have deferred under our non-qualified deferred compensation plan. Interest is considered to be above-market interest to the extent that it exceeds 120% of the applicable federal long-term rate, with compounding (as prescribed under section 1274(d) of the Internal Revenue Code), at the rate that corresponds most closely to the rate under the plan at the beginning of each quarter.

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- (5) Includes for 2007 (a) matching contributions to the 401(k) plan accounts of Messrs. Price, Kaminski, Christmas and Johnson in the amounts of \$11,250, \$11,250, \$11,250 and \$5,625, respectively; (b) life, disability, and long term care insurance premiums paid on policies insuring them; (c) country club memberships for Messrs. Price and Johnson; (d) cash dividends paid on restricted stock; and (e) for Mr. Johnson, in connection with his retirement on June 30, 2007, \$1,162,500 payable to him in installments during 2008, payments estimated at \$10,150 for continuation of his life, disability and medical insurance for 18 months, \$23,500 for unused vacation days, and \$10,000 for interim office and other expenses.

*Employment Agreements*

The Bank and Mercantile have entered into employment agreements with our executive officers, Messrs. Price, Kaminski and Christmas, that provide for their employment, annual base compensation, and severance, confidentiality and non-compete arrangements. Each agreement establishes an employment period that extends an additional year, each December 31, so that as of each December 31, there are three years remaining in the employment period. The annual extension of the employment period can be avoided by the Bank, Mercantile, or the officer giving notice to the others that the employment period is not to be extended.

The employment agreements provide the officers with annual base salaries for each year in the amounts established from year to year by the Board of Directors of the Bank. The annual base salary for each year may not be less than the amount established for the immediately preceding year. The Board of Directors established the annual base salaries of each of the executive officers as follows: for Mr. Price \$427,000 for 2007 and \$474,000 for 2008, for Mr. Kaminski, \$275,000 for 2007 and \$305,000 for 2008, and for Mr. Christmas, \$231,000 for 2007 and \$255,000 for 2008. In addition to the annual base salary, the employment agreements provide that the officers are entitled to participate in our employee benefit and incentive compensation plans, including health insurance, life and disability insurance, stock option, profit sharing and retirement plans.

The Bank and Mercantile also entered into an employment agreement with our former Chairman and Chief Executive Officer, Mr. Johnson, that provided for his employment, annual base compensation, and severance, confidentiality and non-compete arrangements. The employment agreement with Mr. Johnson was substantially the same as our employment agreement with Mr. Price, except that Mr. Johnson's annual base salary for 2007 had been set at \$465,000. In connection with Mr. Johnson's June 30, 2007 retirement, we entered into a retirement agreement with him. The retirement agreement provides for Mr. Johnson the payments and benefits that would have been provided to him under his employment agreement if he had terminated his employment under the agreement for good reason. The compensation and benefits that are being paid to Mr. Johnson under his employment agreement are included in the Summary Compensation Table.

Additional information regarding the employment agreements, including compensation and benefits payable to the officers on termination of employment and officer confidentiality and non-compete obligations, and the retirement agreement with Mr. Johnson, are included below under the heading Potential Payments Upon Termination or Change In Control.

*Salary and Bonus Compared to Total Compensation*

We have not established a proportion that salary and bonus should be of an executive officer's total compensation. As indicated in the Summary Compensation Table above, the proportion for 2007 that salary and bonus were of total compensation ranged from 80% to 87% for our executive officers.



**Table of Contents****Grants Of Plan-Based Awards In 2007**

The following table provides information regarding the plan-based awards that we made to the named executive officers during the year ended December 31, 2007.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Stock Awards: Number of Shares	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards (\$ / Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)								
Michael H. Price	11-29-07								2,445			43,400
	11-29-07									2,600	17.74	11,800
	11-29-07									5,400	17.74	24,500
	11-29-07									560	17.74	2,500
		53,375	106,750	213,500								
Robert B. Kaminski, Jr.	11-29-07								1,575			27,900
	11-29-07									5,515	17.74	25,000
		32,656	65,313	130,625								
Charles E. Christmas	11-29-07								1,325			23,500
	11-29-07									4,630	17.74	21,000
		25,988	51,975	103,950								
Gerald R. Johnson, Jr.		58,125	116,250	232,500								

(1) The numbers shown are shares of restricted stock.

*Restricted Stock Awards*

The stock awards shown in the table above are restricted stock that was awarded to the named executive officers by our Compensation Committee on November 29, 2007, under our Stock Incentive Plan of 2006. The restricted stock is subject to forfeiture and restrictions on transfer until the shares become vested on November 29, 2011. The restricted stock is forfeited if the executive officer ceases to be employed with us prior to the restricted stock vesting; subject to

accelerated or prorated vesting as provided for in the applicable restricted stock award agreement in the event of the executive officer's death, disability, retirement, termination other than for cause, a change in control, or exercise of discretion by the Compensation Committee. The executive officers are entitled to receive cash dividends on their restricted stock to the same extent as other holders of our common stock.

*Stock Option Awards*

The stock option awards shown in the table above are stock options that were awarded to the named executive officers by our Compensation Committee on November 29, 2007, also under the Stock Incentive Plan of 2006. The stock options granted to Messrs. Kaminski and Christmas vest in full on November 29, 2009. The stock options granted to Mr. Price vest as follows: 2,600 on November 29, 2009, 5,400 on January 1, 2010, and 560 on January 1, 2011. The Compensation Committee may accelerate the vesting of an option in its discretion. Each of the options has an exercise price of \$17.74 per share, which was the closing price of our common stock on NASDAQ on the day the option was granted. Each of these stock options expires on November 28, 2014, subject to earlier termination pursuant to the terms of the plan.

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*Non-Equity Incentive Plan Awards*

The estimated possible payouts under non-equity incentive plan awards shown in the table above are amounts that could have been paid out under the Bank's Executive Officer Bonus Plan for 2007. As our consolidated net income targets provided for in the bonus plan were not met, no payments were made under the bonus plan.

The bonus plan included three tiers of potential bonus awards, each with its own financial performance goal. The executive officers could have received up to 25% of the maximum amount that could have been awarded to them under the plan from each of the tier 1 and tier 2 bonus pools, and up to the remaining 50% from the tier 3 bonus pool. The maximum amount that could have been awarded to each of our executive officers under the plan was from 45% to 50% of their 2007 annual base salary.

The amount that could have been awarded depended on our 2007 consolidated net operating income, subject to specified adjustments. The amount of consolidated net operating income required for a full payout of the bonus from each tier increased from tier 1, to tier 2, to tier 3. A payout from the tier 1 bonus pool required that after taking the payment into account, adjusted consolidated net operating income exceeded the amount budgeted for 2007. A payout from the tier 2 and tier 3 bonus pools required that after taking the payment into account, adjusted consolidated net operating income exceeded, for a payout from the tier 2 bonus pool, 105% of the prior year's adjusted consolidated net operating income, and for a payout from the tier 3 bonus pool, 110% of the prior year's adjusted consolidated net operating income.

**Table of Contents****Outstanding Equity Awards At 2007 Fiscal Year-End**

The following table provides information as of December 31, 2007 regarding equity awards, including unexercised stock options and restricted stock that had not vested, for each of the named executive officers.

Name	Option Awards				Option Expiration Date	Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Unexercised Options (#)	Exercise Price (\$)		Number of Shares or Units of Stock That Have Not Vested (#)	Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Awards: Plan Market or Awards: Payout Number of Unearned & Earned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Awards: Plan Market or Awards: Payout Number of Unearned & Earned Shares, Units or Other Rights That Have Not Vested (\$)
Michael H. Price	3,645			26.612	10/22/2013	1,417	22,000		
	2,893			33.674	10/27/2014	2,445	37,900		
	867			33.674	10/27/2014				
	1,852			35.883	11/16/2015				
	2,006			35.883	11/16/2015				
		2,625		37.943	11/15/2013				
		1,365		37.943	11/15/2013				
		2,600		17.740	11/28/2014				
		5,400		17.740	11/28/2014				
			560	17.740	11/28/2014				
Robert B. Kaminski, Jr.	4,218			8.219	11/08/2010	787	12,200		
	4,018			12.444	10/17/2011	1,575	24,400		
	3,827			16.135	10/16/2012				
	2,721			26.612	10/22/2013				
	2,893			33.674	10/27/2014				
	288			33.674	10/27/2014				
	2,364			35.883	11/16/2015				
941			35.883	11/16/2015					



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		2,310	37.943	11/15/2013		
		5,515	17.740	11/28/2014		
Charles E. Christmas	4,660		8.219	11/08/2010	682	10,600
	4,018		12.444	10/17/2011	1,325	20,500
	3,827		16.135	10/16/2012		
	2,721		26.612	10/22/2013		
	2,893		33.674	10/27/2014		
	2,623		35.883	11/16/2015		
	683		35.883	11/16/2015		
		1,942	37.943	11/15/2013		
		4,630	17.740	11/28/2014		
Gerald R. Johnson, Jr.						

- (1) The vesting dates for the options shown, in the order listed in the column for each officer, are for (a) Mr. Price: October 23, 2004, October 28, 2005, January 1, 2006, November 17, 2006, and January 1, 2007; (b) Mr. Kaminski: November 9, 2001, October 18, 2002, October 17, 2003, October 23, 2004, October 28, 2005, January 1, 2006, November 17, 2006, and January 1, 2007; and (c) Mr. Christmas: November 9, 2001, October 18, 2002, October 17, 2003, October 23, 2004, October 28, 2005, November 17, 2006, and January 1, 2007.
- (2) The vesting dates for the options shown, in the order listed in the column for each officer, are for (a) Mr. Price: November 16, 2008, January 1, 2009, November 29, 2009, January 1, 2010 and January 1, 2011; (b) Mr. Kaminski: November 16, 2008 and November 29, 2009; and (c) Mr. Christmas: November 16, 2008 and November 29, 2009.

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- (3) The vesting dates for the shares of restricted stock shown, in the order listed in the column for each officer, are November 16, 2010 and November 29, 2011. The shares of restricted stock are subject to forfeiture and restrictions on transfer until they vest.

**Option Exercises And Stock Vested In 2007**

The following table provides information regarding stock options that were exercised during 2007 for each of the named executive officers. No shares of restricted stock vested during 2007.

Name	Option Awards		Stock Awards Number of	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Michael H. Price				
Robert B. Kaminski, Jr.				
Charles E. Christmas				
Gerald R. Johnson, Jr.	9,400	239,900		
	9,846	225,900		
	2,811	66,800		
	2,811	68,500		
	4,018	81,000		
	1,337	26,900		
	3,827	63,000		
	1,274	21,000		
	2,916	17,400		
	728	4,400		

**Nonqualified Deferred Compensation For 2007**

The following table provides information regarding our plan that provides for the deferral of compensation for the named executive officers on a basis that is not tax-qualified.

Name	Executive	Registrant	Aggregate	Aggregate	Aggregate
	Contributions in Last FY \$(1)	Contributions in Last FY (\$)	Earnings in Last FY \$(2)	Withdrawals/ Distributions (\$)	Balance at Last FYE \$(3)
Michael H. Price	135,000		63,845		889,165

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Robert B. Kaminski, Jr.		278	3,578
Charles E. Christmas	11,550	5,371	74,897
Gerald R. Johnson, Jr.	7,200	7,575	99,225

- (1) The full amount of the contribution for each named executive officer is included in the officer's salary for 2007 in the Summary Compensation Table.
- (2) These earnings consist of interest credited monthly at a rate equal to the prime rate as published in the Wall Street Journal, determined quarterly, as of the first day of each quarter. The above-market portion of this interest is reported for each executive officer in the Summary Compensation Table. The amounts so reported are for Mr. Price, \$18,447, Mr. Kaminski, \$81, Mr. Christmas, \$1,552, and Mr. Johnson, \$2,194. The above-market portion is the amount of the interest that exceeds 120% of the applicable federal long-term rate, with compounding (as prescribed under section 1274(d) of the

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Internal Revenue Code), at the rate that corresponds most closely to the rate established under the deferred compensation plan.

- (3) The amount for each of the named executive officers that was reported as compensation in the Summary Compensation Tables for previous years is for Mr. Price, \$462,301, Mr. Kaminski, \$2,960, Mr. Christmas, \$50,114, and Mr. Johnson, \$73,884.

*Executive Deferred Compensation Plan*

The information in the table above pertains to our executive officers' participation in the Bank's non-qualified deferred compensation plan. Participants in the plan may elect to defer up to 100% of their salary and other cash compensation each year. Under the plan, the amount of any compensation deferred is credited with interest monthly at a rate equal to the prime rate as published in the Wall Street Journal, determined quarterly, on the first day of each quarter.

The plan provides that the Bank will pay to each executive officer, from his deferred compensation account, a lump sum payment or installment payments, whichever he elected, after he leaves employment with us due to normal retirement, early termination, disability, or change of control. If the executive officer dies before leaving employment, the Bank will distribute the payments to the executive officer's designated beneficiary in a lump sum, or installments, if installments were elected. If death occurs during the time that payments are being made, the Bank will distribute the remaining payments to the executive officer's designated beneficiary at the same time and in the same amounts that would have been distributed if the executive officer had not died.

**Potential Payments Upon Termination Or Change In Control**

We have entered into employment agreements with our executive officers, Messrs. Price, Kaminski and Christmas. Each agreement establishes an employment period that extends an additional year, each December 31, so that as of each December 31, there are three years remaining in the employment period. The annual extension of the employment period can be avoided by giving notice that the employment period is not to be extended. These agreements include provisions that provide compensation and benefits to the executive officers in the event that their employment with us is terminated:

during the employment period, voluntarily by the executive officer for Good Reason, or by us without Cause;

during the employment period, due to disability or death; or

after the employment period and before they reach the age of 65, voluntarily by them if their annual base salary is reduced without Cause, or by us without Cause.

The terms "Cause" and "Good Reason" are defined in the employment agreements. Cause includes certain acts of dishonesty and intentional gross neglect, conviction of a felony, and certain intentional breaches of the officer's obligations in the employment agreement relating to confidentiality of our information and not competing with us. Good Reason includes an assignment to the officer of a title or duties that are materially inconsistent with the officer's position, titles, duties or responsibilities, and certain failure by us to comply in a material respect, even after notice to us, with our obligations to the officer under the employment agreement.

*Termination During the Employment Period*

Each employment agreement provides the executive officer with compensation and benefits in the event that his employment is terminated by us without Cause or the officer elects to terminate his employment for Good Reason

during the employment period. In such event, the officer is entitled to receive the greater of (i) his annual base salary through the end of the employment period or (ii) for Mr. Price, \$500,000, and for Mr. Kaminski or Mr. Christmas, \$250,000; in either case payable over

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18 months. In addition, in the case of such a termination of employment, the officer is entitled to continue his participation in our life, disability and health insurance plans for 18 months, to the extent permitted under the plans, to an assignment of any assignable term life insurance policies owned by us insuring his life, and to \$10,000 for out-placement, interim office and related expenses.

For a termination by us during the employment period to be with Cause, it must be done within 90 days of our learning of the Cause. For a termination by the officer during the employment period to be with Good Reason, it must be done by the officer within 90 days of the officer learning of the Good Reason.

If an executive officer becomes disabled or dies during the employment period, he is entitled to compensation and benefits under his employment agreement. In the event of disability, the officer continues to receive his then current annual base salary through the end of the employment period, and any disability benefits payable under disability plans that we provide. The officer also continues to participate in our life, disability, and health insurance plans, through age 65, to the extent permitted under the plans. If the officer dies during the employment period, we are obligated to pay the officer's legal representative a death benefit. The death benefit for Mr. Price is \$250,000. The death benefit for Mr. Kaminski and Mr. Christmas is \$100,000. In addition, if we own any life insurance insuring the life of the officer, the proceeds of the policies are payable to the named beneficiaries.

In general, stock options granted under the 2000 Employee Stock Option Plan, 2004 Employee Stock Option Plan and Stock Incentive Plan of 2006 that are vested at the time employment terminates may be exercised by the executive officer within three months after his termination of employment. However, if his employment terminates due to death or disability, his vested stock options may be exercised within 12 months after the date of termination, but not later than the expiration date of the option.

Under the employment agreements, in the event that an officer's employment is terminated for Cause, the officer is not entitled to any accrued rights that he may then have under any of our stock option plans. In addition, the Stock Incentive Plan of 2006 provides that all outstanding options granted under the plan are forfeited if an officer's employment is terminated for cause, whether or not the options are vested.

If an executive officer terminates employment due to death, disability or retirement, or we terminate his employment other than for cause, then restricted stock granted under the Stock Incentive Plan of 2006 will be partially vested. The number of shares that will be vested is equal to the number of shares granted to the executive officer multiplied by the number of months that have elapsed since the grant date divided by the number of months in the vesting period. Our Compensation Committee also has discretion to accelerate the vesting of restricted stock.

Each executive officer will also receive a distribution of his account under the Executive Deferred Compensation Plan upon his termination of employment. Distributions will generally be delayed for six months after the termination of employment, to the extent required by Section 409A of the Internal Revenue Code. However, if employment is terminated due to cause, or if an executive officer is subject to a final removal or prohibition order issued by a federal banking agency, then the executive officer will only receive a distribution of his own deferrals, without any interest credits.

*Termination After the Employment Period*

The employment agreements also provide compensation and benefits in the event that after the employment period and prior to the officer reaching the age of 65, the officer's employment is terminated by us without Cause or the officer's annual base salary is reduced without Cause, and the officer terminates his employment within 90 days of the reduction. In such event, the officer is entitled to receive an amount, for Mr. Price of \$500,000, and for Mr. Kaminski or Mr. Christmas of \$125,000; payable over 18 months. In addition, in the case of such a termination of employment,

the officer is

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entitled to continue his participation in our life, disability and health insurance plans for 18 months, to the extent permitted under the plans, to an assignment of any assignable term life insurance policies owned by us insuring his life, and to \$10,000 for out-placement, interim office and related expenses.

*Obligations of Executive Officers*

Under the employment agreements, the officers agree not to disclose, except as required by law, any confidential information relating to our business or customers, or use any confidential information in any manner adverse to us. In addition, each has agreed that for 18 months following his employment with us, he will not be employed by, or act as a director or officer of, any business engaged in banking within a 50 mile radius of Grand Rapids, Michigan that solicits customers of the Bank.

*Table of Potential Payments Upon Termination of Employment*

The following table provides information regarding compensation and benefits payable to Messrs. Price, Kaminski and Christmas under the employment agreements or the Stock Incentive Plan of 2006 upon termination of their employment. The amounts shown assume that termination of employment was effective as of December 31, 2007, the last business day of our 2007 fiscal year, and include estimates of the amounts that would be paid. The actual amounts would only be determined upon an officer's termination of employment. The value of restricted stock that would have become vested due to termination of employment without cause, death, disability or retirement is based on the closing stock price of \$15.50 on December 31, 2007.

Name	During Employment Period			After Employment Period and Before Age 65, Termination Without	Retirement at or After Age 65 (\$)(6)
	Termination Without	Termination Due to Death	Termination Due to	Cause or Due to Base Salary Reduction (\$)(5)	
	Cause or for Good Reason (\$)(1)	Termination Due to Death (\$)	Disability (\$)(4)		
Michael H. Price	1,312,772	606,963(2)	1,436,043	531,772	6,963
Robert B. Kaminski, Jr.	853,446	453,940(3)	1,012,613	153,446	3,940
Charles E. Christmas	719,477	453,401(3)	896,984	151,477	3,401

- (1) Includes (a) annual base salary through the end of 2010 for Mr. Price, \$1,281,000, Mr. Kaminski, \$825,000, and Mr. Christmas, \$693,000; (b) life, disability and medical insurance premiums for 18 months for Mr. Price, \$14,809, Mr. Kaminski, \$14,506, and Mr. Christmas \$13,076; (c) out-placement, office and related expenses of \$10,000 for each officer; and (d) the value of restricted shares that would have become vested due to termination without cause, for Mr. Price, \$6,963, for Mr. Kaminski, \$3,940 and for Mr. Christmas, \$3,401, which value would not apply and should be subtracted in the case of a termination by the officer for Good Reason.



- (2) Includes payment of death benefit from us of \$250,000, and from the applicable insurance companies, supplemental life insurance proceeds of \$300,000 and group term life insurance proceeds of \$50,000, and the value of restricted shares that would have become vested due to death of \$6,963.
- (3) Includes payment of death benefit from us of \$100,000, and from the applicable insurance companies, supplemental life insurance proceeds of \$300,000 and group term life insurance proceeds of \$50,000, and the value of restricted shares that would have become vested due to death of \$3,940 for Mr. Kaminski and \$3,401 for Mr. Christmas.
- (4) Includes (a) annual base salary through the end of 2010 for Mr. Price, \$1,281,000, Mr. Kaminski, \$825,000, and Mr. Christmas, \$693,000; (b) life, disability and medical insurance premiums until age 65 for Mr. Price, \$148,080 (calculated at \$9,872 annually), Mr. Kaminski, \$183,673 (calculated at \$9,667 annually) and Mr. Christmas, \$200,583 (calculated at \$8,721 annually); and (c) the value of restricted shares that would have become vested due to disability, for Mr. Price, \$6,963, for

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Mr. Kaminski, \$3,940, and for Mr. Christmas, \$3,401. In addition, the executive officers would receive long term disability benefits from the applicable insurance companies for as long as the officer is disabled up to age 65, in the following annual amounts, for Mr. Price, \$116,100, Mr. Kaminski, \$96,000, and Mr. Christmas, \$89,700. If the disability were catastrophic as defined in the disability insurance policies, the annual disability benefits in the prior sentence would be about 32% to 53% more, depending on the executive officer.

- (5) Includes (a) for Mr. Price, \$500,000, and Mr. Kaminski and Mr. Christmas, \$125,000; (b) life, disability and medical insurance premiums for 18 months for Mr. Price, \$14,809, Mr. Kaminski, \$14,506, and Mr. Christmas \$13,076; (c) out-placement, office and related expenses of \$10,000 for each officer; and (d) the value of restricted shares that would have become vested due to termination without cause, for Mr. Price, \$6,963, for Mr. Kaminski, \$3,940 and for Mr. Christmas, \$3,401, which value would not apply and should be subtracted in the case of a termination by the officer because of a reduction in his base salary. The amounts are calculated as though the employment period had ended before December 31, 2007.
- (6) Includes the value of restricted shares that would have become vested at retirement. The amounts are calculated as though the officer had reached 65 years of age as of December 31, 2007.

*Change in Control*

The employment agreements do not contain provisions that provide payments based on the occurrence of a change in control of Mercantile. Options granted under the Stock Incentive Plan of 2006 become fully vested upon a change in control and are exercisable during their remaining term, even if an executive officer's employment terminates during the option term. Shares of restricted stock granted under the Stock Incentive Plan of 2006 become fully vested upon a change in control. A change in control is defined in the Stock Incentive Plan of 2006 as (a) the failure of the continuing directors to constitute a majority of the Board of Directors; (b) the acquisition by any person of ownership of 40% or more of the outstanding common stock of Mercantile; (c) a reorganization, merger or consolidation after which the Mercantile shareholders do not own at least 50% of the value and voting power of the outstanding capital stock of the entity surviving the transaction; (d) a liquidation or dissolution of Mercantile, or a sale of all or substantially all of its assets; or (e) any other change in control transaction that is reportable to the SEC under Item 6(e) of Schedule 14A of Regulation 14A issued under the Securities Exchange Act of 1934.

Each executive officer will also receive a distribution of his account under the Executive Deferred Compensation Plan, if his employment terminates within 12 months after a change in control. The value of each officer's account as of December 31, 2007 is shown above in the table under the heading Nonqualified Deferred Compensation For 2007.

**Table of Contents***Potential Payments Upon a Change in Control*

The following table provides information regarding the value of benefits that would be provided to Messrs. Price, Kaminski and Christmas in the event of a change in control of Mercantile. While we do not have specific change in control agreements, under our Stock Incentive Plan of 2006 there are provisions regarding a change in control. The amounts shown assume that the change in control occurred as of December 31, 2007, the last business day of our 2007 fiscal year, and include estimates of the value of stock options and restricted stock that would be vested upon a change in control. The actual amounts would only be determined upon a change in control.

Name	Accelerated Vesting Upon Change in Control	
	Stock Options (\$)(4)	Restricted Stock (\$)(4)
Michael H. Price (1)	0	59,861
Robert B. Kaminski, Jr. (2)	0	36,611
Charles E. Christmas (3)	0	31,109

- (1) Includes options for 12,550 shares, and 3,862 shares of restricted stock that would have vested for Mr. Price.
- (2) Includes options for 7,825 shares, and 2,362 shares of restricted stock that would have vested for Mr. Kaminski.
- (3) Includes options for 6,572 shares, and 2,007 shares of restricted stock that would have vested for Mr. Christmas.
- (4) Based on the closing stock price for our common stock of \$15.50 per share as of December 31, 2007.

*Retirement Agreement with Mr. Johnson*

We also entered into an employment agreement with our former Chairman and Chief Executive Officer, Mr. Johnson. The employment agreement with Mr. Johnson was substantially the same as our employment agreement with Mr. Price, which is described above, other than Mr. Johnson's annual base salary was a different amount. In connection with Mr. Johnson's June 30, 2007 retirement, we entered into a retirement agreement with him. The retirement agreement provides for Mr. Johnson the payments and benefits that would have been provided to him under his employment agreement if he had terminated his employment under the agreement for Good Reason. These payments and benefits are principally as follows:

an amount equal to Mr. Johnson's 2007 annual base salary of \$465,000 for the remaining term of his employment agreement, which ends December 31, 2009, totaling approximately \$1,162,500, payable in installments during 2008;

continuation of Mr. Johnson's life, disability and medical insurance for 18 months, for him and his dependents, beginning June 30, 2007, which is estimated to cost \$10,150;

payment of the cash equivalent of Mr. Johnson's accrued and unused vacation days as of June 30, 2007, totaling \$23,500; and

\$10,000 for interim office and other expenses.

In the retirement agreement, Mr. Johnson has agreed that through December 31, 2009, he will not be employed by, or act as a director or officer of any business engaged in banking within a 50 mile radius of any of the Cities of Ann Arbor, Grand Rapids, Holland or Lansing, Michigan that solicits customers of the Bank. This noncompete provision is of a longer duration and includes a broader geographic area

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than the noncompete provisions that were in our employment agreement with Mr. Johnson. He is also subject to the requirements of the employment agreement that he not disclose, except as required by law, any confidential information relating to our business or customers, or use any confidential information in any way adverse to us.

**Director Compensation For 2007**

The following table provides information about the compensation of our directors for the year ended December 31, 2007.

Name(1)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred	All Other Compensation (\$)	Total (\$)
					Earnings \$(3)		
Betty S. Burton	36,600		2,166		1,733		40,499
David M. Cassard	43,600		2,166		10,345		56,111
Edward J. Clark	36,600		2,166		10,121		48,887
Peter A. Cordes	40,550		2,166		10,850		53,566
C. John Gill	31,600		2,166		9,560		43,326
Doyle A. Hayes	39,400		2,166				41,566
David M. Hecht	38,100		2,166		10,793		51,059
Susan K. Jones	31,800		2,166		111		34,077
Lawrence W. Larsen	38,600		2,166		10,258		51,024
Calvin D. Murdock	43,200		2,166		1,221		46,587
Merle J. Prins	33,350		561				33,911
Timothy O. Schad	8,250						8,250
Dale J. Visser	27,750		2,166		8,667		38,583
Donald Williams, Sr.	35,050		2,166		2,736		39,952

- (1) Our Chairman of the Board, President and Chief Executive Officer, Mr. Price, who is also a director, and Mr. Johnson, who retired effective June 30, 2007, and was a director, have been omitted from this table because they receive no special compensation for serving on our Board of Directors. Their compensation is included in the Summary Compensation Table.
- (2) No option awards were made to our non-employee directors during 2007. The amounts shown represent the dollar amount recognized for financial statement reporting purposes for 2007 relating to the fair value of option awards made to directors in prior years. These amounts, depending on the director, relate to option awards made in some or all of the years 2001 through 2004. For the relevant assumptions used to determine the valuation of the option awards made in 2004, refer to Note 9, Stock-Based Compensation, in the Notes to our Consolidated Financial Statements included in our Annual Report to the SEC on Form 10-K for the year ended December 31, 2006. For the relevant assumptions used to determine the valuation of option awards made in 2001, 2002 and

2003, refer to Note 1, Summary of Significant Accounting Policies, in the Notes to our Consolidated Financial Statements included in our Annual Report to the SEC on Form 10-K for the year ended December 31, 2003. As of December 31, 2007, our non-employee directors held the following option awards to acquire our common stock: Mr. Clark, Mr. Cordes, Mr. Hecht, Mr. Larsen, Mr. Visser and Mr. Williams, four option awards each, covering for each an aggregate of 2,487 shares; Mrs. Burton, Mr. Cassard, Mr. Gill, Mr. Hayes, Mrs. Jones and Mr. Murdock, three

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option awards each, covering for each an aggregate of 1,820 shares; and Mr. Prins, one option award, covering 578 shares.

- (3) The amounts shown are the above-market interest credited to the accounts of the directors for 2007 on compensation they have deferred under our non-qualified deferred compensation plan for directors. Interest is considered to be above-market interest to the extent that it exceeds 120% of the applicable federal long-term rate, with compounding (as prescribed under section 1274(d) of the Internal Revenue Code), at the rate that corresponds most closely to the rate under the plan at the beginning of each quarter.

*Compensation Arrangements for Non-employee Directors*

Each of our directors is also a director of the Bank, which is a wholly owned subsidiary of Mercantile. The table above includes compensation earned for service on the Boards of Directors of Mercantile and the Bank. Our non-employee directors of the Bank are paid an annual retainer of \$12,000, and a fee of \$700 for each meeting of the Board of Directors of the Bank that they attend. In addition, non-employee directors are paid a meeting fee of \$700 for each meeting of the Audit Committee, \$600 for each meeting of the Compensation Committee and the Governance and Nominating Committee, and \$400 for each meeting of other committees of the Board of Directors of the Bank that they attend. Non-employee directors are also paid fees of the same amount for meetings of Mercantile's Board of Directors and its committees, when for Board meetings there is not also a meeting of the Board of Directors of the Bank on the same day, and for committee meetings when there is not also a meeting of a committee of the Board of Directors of the Bank having the same name or function on the same day. For meetings that are held by telephone or other remote communications equipment, the meeting fees are half the amount described above. Annual retainer fees are also paid to the Chairmen of three of the committees of Mercantile's Board of Directors. The annual retainer is, for the Chairman of the Audit Committee \$6,000, for the Chairman of the Compensation Committee \$4,000, and for the Chairman of the Governance and Nominating Committee \$4,000.

Directors are eligible to receive stock-based awards under our Stock Incentive Plan of 2006 that was approved by our shareholders at their 2006 annual meeting, but no awards were made to directors under the plan for 2007. These director compensation arrangements have been in effect since 2006. The Compensation Committee of our Board of Directors reviews director compensation on an annual basis, and recommends to our Board of Directors for approval any changes that the Compensation Committee deems appropriate.

*Director Deferred Compensation Plan*

Directors are eligible to participate in the Bank's non-qualified deferred compensation plan for directors. Directors who participate in the plan may elect to defer up to 100% of their annual retainer and meeting fees. Under the plan, the amount of any director's fees that are deferred are credited with interest quarterly at a rate equal to the prime rate as published in the Wall Street Journal, determined quarterly, on the first day of each quarter.

The plan provides that the Bank will pay to each director, from his or her deferred compensation account, a lump sum payment, or installment payments, whichever is elected, after the director's term of office as a director ends. If installment payments are elected, the maximum payment period is ten years. In the event that a director dies before his or her term of office ends, the Bank will distribute the payments to the director's designated beneficiary in a lump sum, or installments, if installments were elected. If death occurs during the time that payments are being made, the Bank will distribute the remaining payments to the director's designated beneficiary at the same time and in the same amounts that would have been distributed if the director had not died.

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### *Stock Ownership Guidelines for Non-employee Directors*

Pursuant to stock ownership and retention guidelines adopted by our Board of Directors, each non-employee director is required to own an amount of our common stock having a market value of at least six times the regular annual retainer that is paid to our directors for service on our Board or the Board of Directors of the Bank. New directors have three years from when they become a director to comply with this requirement. Currently the annual retainer is \$12,000.

### **Transactions with Related Persons**

We have a written policy requiring that our Audit Committee review and approve related person transactions that involve us and are of the type that are required to be disclosed in our proxy statement by SEC rules. A transaction may be a related person transaction if any of our directors, executive officers, owners of more than 5% of our common stock, or their immediate family have a material interest in the transaction and the amount involved exceeds \$120,000. The policy authorizes the Audit Committee to approve a related person transaction if it determines that the transaction is at least as favorable to us as would have been expected if the transaction had been with a person who is not related to us, or is in our best interest. The policy does not cover loan transactions described in the next paragraph, which are generally subject to approval by the Bank's Board of Directors to the extent required by applicable banking laws and regulations.

The Bank has had, and expects in the future to have, loan transactions in the ordinary course of business with our directors, executive officers, or their immediate family, or companies they have a material interest in, on substantially the same terms as those prevailing for comparable transactions with others. All such transactions (i) were made in the ordinary course of business, (ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Bank, and (iii) did not involve more than the normal risk of collectibility or present other unfavorable features.

We have a number of relationships with affiliates of JPMorgan Chase & Co. ( JPMorgan ). For several years, JPMorgan reported that it and some of its wholly owned subsidiaries beneficially owned in aggregate more than 5% of our outstanding common stock. In January of 2008, JPMorgan reported that as of December 31, 2007, it and its subsidiaries beneficially owned less than 5% of our common stock. JPMorgan Chase Bank, N.A., a wholly owned subsidiary of JPMorgan, including banks acquired by it, have since 1997 been the Bank's primary correspondent bank. The Bank obtains check clearing, wire transfer, securities safekeeping, and many other services from JPMorgan Chase Bank. During 2007, the Bank's correspondent bank checking account with JPMorgan Chase Bank had balances ranging from approximately \$8.4 million to \$45.7 million. During 2007, the Bank had an unsecured federal funds purchase line of credit with JPMorgan Chase Bank of \$60.0 million. In 2007, the Bank paid JPMorgan Chase Bank approximately \$156,000 for correspondent banking services, and approximately \$239,000 in interest under the federal funds purchase line of credit. For 2007, the Bank received from JPMorgan Chase Bank approximately \$420,000 in interest for federal funds purchased from the Bank. The Bank expects to continue its relationships with JPMorgan and its subsidiaries in 2008, and to have transactions with them in 2008 that are similar in nature and size to those that occurred in 2007, though varying with the needs and best interests of the Bank.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than 10% of our common stock, to file reports of ownership and changes in ownership with the SEC. Based on a review of filings, we believe that all reports required to be filed under Section 16(a) for 2007 were timely filed, except that our director, Betty S. Burton, filed one report





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late relating to one purchase of Mercantile stock, and our director, David M. Cassard, filed one report late relating to a gift of Mercantile stock to his spouse.

**Proposal to Approve Amendment to  
Articles of Incorporation to Provide for the Annual Election of all Directors**

Our Board of Directors has approved, and recommends that you approve, an amendment to our articles of incorporation that would provide for the phased-in elimination of the classification of our Board and the annual election of all directors. Our Board of Directors is currently divided into three classes, and members of each class are elected to serve for staggered three-year terms.

The amendment, if approved, would result in the directors elected at the 2009 annual meeting and at later annual meetings being elected to one-year terms. The amendment would not shorten the existing term of any director elected prior to the 2009 annual meeting. Class II directors elected at the 2008 annual meeting will be elected to three-year terms, expiring at the 2011 annual meeting. The terms of Class III directors will continue to expire at the 2009 annual meeting, and the terms of the Class I directors will continue to expire at the 2010 annual meeting.

The amendment is the result of a suggestion of one of our shareholders, and our Board of Directors and its Governance and Nominating Committee's review of our arrangements for electing directors. Our Board and its Governance and Nominating Committee considered carefully the advantages of both classified and declassified board structures. A classified board of directors can promote continuity and stability in the management of a company and encourage a long-term perspective on the part of directors. It can also encourage persons considering an unsolicited tender offer or other unilateral takeover action for a company to negotiate with the company's board of directors rather than pursue non-negotiated takeover attempts. Our Board and its Governance and Nominating Committee recognized these advantages but concluded that they were outweighed by the advantages of providing our shareholders an annual opportunity to express, in a meaningful way, their satisfaction or dissatisfaction with the actions of the Board, and our adoption of a structure that is considered by many investors to be a best practice in corporate governance.

Consequently, the Board of Directors, with the recommendation of its Governance and Nominating Committee, has concluded that an amendment to our articles of incorporation to declassify the Board of Directors is in our best interest and in the best interest of our shareholders. The provisions of our articles of incorporation that are proposed to be amended are in Article IV of our articles of incorporation. A copy of Article IV as it is proposed to be amended, is attached to this proxy statement as Appendix A. For your convenience, the attached copy of Article IV is marked to indicate the proposed amendments, with deletions indicated by strikethroughs and additions indicated by underlining. If the proposed amendment is not approved, the Board of Directors will remain classified.

Our Board of Directors recommends that you vote FOR this proposal.

**Independent Public Accountants**

**Selection of Independent Auditor**

Our Audit Committee has selected BDO Seidman, LLP as our principal independent auditor for the year ending December 31, 2008. Representatives of BDO Seidman plan to attend the annual meeting of shareholders, will have the opportunity to make a statement if they desire to do so, and will respond to appropriate questions by shareholders.

**Table of Contents****Principal Accountant Fees and Services**

The following table shows the fees for audit and other professional services provided to us by BDO Seidman for 2007, and by Crowe Chizek for 2006.

	2007	2006
Audit Fees (1)	\$ 227,615	\$ 177,500
Audit-Related Fees (2)	14,000	19,500
Tax Fees (3)	7,500	29,600
All other fees	0	0

- (1) Includes the fees billed for professional services rendered by BDO Seidman for 2007, and by Crowe Chizek for 2006, for the audit of our annual financial statements and internal control over financial reporting, and review of financial statements included in our quarterly reports on Form 10-Q.
- (2) Principally audit of employee benefit plan by BDO Seidman for 2007, and by Crowe Chizek for 2006.
- (3) For 2007, principally a cost segregation study performed by BDO Seidman, and for 2006, principally tax compliance services (including U.S. federal and state tax returns), cost segregation studies, review of quarterly tax computations and consultations regarding various tax strategies, performed by Crowe Chizek.

The Audit Committee's policy is to pre-approve all audit services and non-audit services that are to be performed for us by our independent auditor. Under the Audit Committee's policy, authority to pre-approve permitted services has been delegated to two members of the Audit Committee, either of whom can act alone, for circumstances when pre-approval is not obtained from the full Audit Committee. Any pre-approval by the delegated authority is required to be reported to the Audit Committee at its next meeting. All of the services described in the table above were pre-approved by the Audit Committee.

**Change of Accountants**

On September 14, 2006, our Audit Committee concluded its proposal process for selection of an independent registered public accounting firm for 2007, and appointed BDO Seidman as our independent registered public accounting firm for the calendar year ending December 31, 2007. On the same date, our Audit Committee determined to dismiss Crowe Chizek as our independent registered public accounting firm after it completed its work for the calendar year ending December 31, 2006, and advised Crowe Chizek that it would not be engaged as our independent registered public accounting firm for the calendar year ending December 31, 2007.

The audit reports of Crowe Chizek on our consolidated financial statements as of and for the years ended December 31, 2006 and 2005, and on management's assessment of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2006 and 2005, did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two most recent calendar years and any subsequent interim period prior to the date that Crowe Chizek was advised that it would be dismissed and would not be engaged as the Company's independent registered public accounting firm for the calendar year ending December 31, 2007, there have been no disagreements between us and

Crowe Chizek on any matters of accounting principle or practice, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to its satisfaction, would have caused Crowe Chizek to make reference to the subject matter of such disagreements in connection with its reports. During the period described in the preceding sentence, there were no reportable events as defined in Item 304(a)(1)(iv) or (v) of Regulation S-K of the SEC.

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During the two calendar years ended December 31, 2005 and 2004, and from December 31, 2005 through the date we appointed BDO Seidman as our independent registered public accounting firm for the calendar year ending December 31, 2007, neither we nor anyone on our behalf consulted BDO Seidman with respect to any accounting or auditing issues involving us. In particular, there was no discussion with BDO Seidman regarding the application of accounting principles to a specified transaction, the type of audit opinion that might be rendered on the financial statements, or any matter that was either the subject of a disagreement with Crowe Chizek on accounting principles or practices, financial statement disclosure or auditing scope or procedures, which, if not resolved to the satisfaction of Crowe Chizek, would have caused Crowe Chizek to make reference to the matter in its reports, or a reportable event as defined in Item 304(a)(1)(iv) or (v) of SEC Regulation S-K.

**Shareholder Proposals for 2009 Annual Meeting**

A proposal submitted by a shareholder for the 2009 annual meeting of shareholders must be sent to the Secretary, Mercantile Bank Corporation, 310 Leonard Street NW, Grand Rapids, Michigan 49504 and received by November 19, 2008 in order to be eligible to be included in our proxy statement for that meeting.

A shareholder who intends to present a proposal for the 2009 annual meeting of shareholders, other than pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, must provide us with notice of such intention by at least February 2, 2009, or the persons named in the proxy to vote the proxies will have discretionary voting authority at the 2009 annual meeting with respect to any such proposal without discussion of the matter in our proxy statement.

**Other Matters**

Our Board of Directors does not know of any other matters to be brought before the annual meeting. If other matters are presented upon which a vote may properly be taken, it is the intention of the persons named in the proxy to vote the proxies in accordance with their best judgment.

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## Appendix A

*New language is indicated by underlining and deletions are indicated by strike-throughs.*

**Proposed Amendments to Article IV of the  
Mercantile Bank Corporation Articles of Incorporation**

ARTICLE IV

Board of Directors

*A. Number, Election and Term of Directors.* The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors. The number of directors of the corporation shall be fixed from time to time by resolution adopted by the affirmative vote of a majority of the entire Board of Directors of the corporation, except that the minimum number of directors shall be fixed at no less than 6 and the maximum number of directors shall be fixed at no more than 15. ~~The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly equal in number as possible, of one-third of the total number of directors constituting the entire Board of Directors. Initially, Class I directors shall be elected for a one-year term, Class II directors for a two-years term and Class III directors for a three-year term. At each~~ Commencing with the 2009 annual meeting of shareholders, directors shall be elected annually to hold office until the succeeding annual meeting of shareholders, ~~beginning in 1998, successors of the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible. Directors elected at the 2006 annual meeting of shareholders shall hold office until the 2009 annual meeting of shareholders; directors elected at the 2007 annual meeting of shareholders shall hold office until the 2010 annual meeting of shareholders; and directors elected at the 2008 annual meeting of shareholders shall hold office until the 2011 annual meeting of shareholders. A director shall hold office for the term for which the director is elected and until the director's successor is elected and qualified, or until the director's resignation or removal.~~

*B. Shareholder Nomination of Director Candidates.* Nominations for election to the Board of Directors of the corporation at a meeting of shareholders may be made by the Board of Directors, on behalf of the Board of Directors by any nominating committee appointed by the Board of Directors, or by any shareholder of the corporation entitled to vote for the election of directors at the meeting. Nominations, other than those made by or on behalf of the Board of Directors, shall be made by notice in writing delivered to or mailed, postage prepaid, and received by the Secretary of the corporation at least 60 days but no more than 90 days prior to the anniversary date of the immediately preceding Annual Meeting of Shareholders. The notice shall set forth (i) the name and address of the shareholder who intends to make the nomination; (ii) the name, age, business address and, if known, residence address of each nominee; (iii) the principal occupation or employment of each nominee; (iv) the number of shares of stock of the corporation which are beneficially owned by each nominee and by the nominating shareholder; (v) any other information concerning the nominee that must be disclosed by nominees in a proxy solicitation pursuant to Regulation 14A of the Securities Exchange Act of 1934 (or any subsequent provisions replacing such Regulation); and (vi) the executed consent of each nominee to serve as a director of the corporation, if elected. The chairman of the meeting of shareholders may, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedures, and if the chairman should so determine, the chairman shall so declare to the meeting and the defective nomination shall be disregarded.



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*C. Newly Created Directorships and Vacancies.* Newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum, or by a sole remaining director. Any director ~~of any class~~ chosen to fill a vacancy ~~in such class~~ shall hold office for a term that ~~shall coincide with the remaining term of that class, but in~~ **expires at the next election of directors and until the director's successor is elected and qualified.** In no case will a decrease in the number of directors shorten the term of any incumbent director. ~~A director shall hold office until the next annual meeting for the year in which his or her term expires and until such director's successor shall have been elected and qualified.~~

*D. Removal.* Any director may be removed from office only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all the shares of the corporation entitled to vote generally in the election of directors, voting together as a single class.

*E. Preferred Stock.* Notwithstanding the foregoing paragraphs, whenever the holders of any one or more classes or series of Preferred Stock issued by the corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the Articles of Incorporation applicable thereto. The then authorized number of directors of the corporation shall be increased by the number of additional directors to be elected, ~~and such directors so elected shall not be divided into classes pursuant to this Article unless expressly provided by such terms.~~

*F. Amendment or Repeal.* Notwithstanding anything contained in these Articles of Incorporation or the By-laws of the corporation to the contrary, the affirmative vote of the holders of at least 662/3% of the voting power of all the shares of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, repeal or adopt any provision inconsistent with the purpose and intent of this Article.



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Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

**Annual Meeting Proxy Card**

**6 PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. 6**

**Proposals** The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposal 2.

1. Election of Class II Directors:	For	Withhold		For	Withhold		For	Withhold	+
01 - Betty S. Burton	<input type="radio"/>	<input type="radio"/>	02 - David M. Cassard	<input type="radio"/>	<input type="radio"/>	03 - Peter A. Cordes	<input type="radio"/>	<input type="radio"/>	
04 - David M. Hecht	<input type="radio"/>	<input type="radio"/>	05 - Merle J. Prins	<input type="radio"/>	<input type="radio"/>				

**For Against Abstain**

2. Amendment to articles of incorporation to provide for annual election of directors.

3. In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting, or at any adjournment of the meeting.

**Non-Voting Items**

**Change of Address** Please print your new address below.

**Comments** Please print your comments below.

**Meeting Attendance**  
Mark the box to the right if you plan to attend

the annual  
meeting.

**Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below**

Please date and sign exactly as your name(s) appear(s) on this proxy and mail it promptly. When signing as an attorney, executor, administrator, trustee or guardian, please give your full title as such. If shares are held jointly, each joint owner should sign. If a corporation or other entity, the signature should be that of an authorized person who should state his or her title.

Date (mm/dd/yyyy) Please print  
date below.

Signature 1 Please keep signature  
within the box.

Signature 2 Please keep signature  
within the box.

    /    /  
<STOCK#>    00UH1A

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Dear Shareholder,

Enclosed with this proxy is your notice of annual meeting and proxy statement, and 2007 annual report. We encourage you to carefully read these materials and exercise your right to vote your shares.

Please mark the boxes on this proxy card to indicate how your shares will be voted, then sign and date the proxy, detach it, and promptly return your proxy vote in the enclosed postage paid envelope, or return it to Mercantile Bank Corporation, c/o Computershare Trust Company, N.A., PO Box 43101, Providence, RI 02940. If you plan to attend the meeting, please mark the appropriate box on the proxy.

Your proxy card must be received prior to the annual meeting of shareholders on April 24, 2008.

Sincerely,

Mercantile Bank Corporation

**6 PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. 6**

**Proxy Mercantile Bank Corporation**

**310 Leonard Street NW**

**Grand Rapids, Michigan 49504**

**Proxy Solicited on Behalf of the Board of Directors**

**Annual Meeting of Shareholders to be held April 24, 2008**

The undersigned hereby appoints Doyle A. Hayes and Susan K. Jones, or either of them, with power of substitution in each, proxies of the undersigned to vote all common stock of the undersigned in Mercantile Bank Corporation, at the annual meeting of shareholders to be held on April 24, 2008, and at all adjournments thereof.

**This proxy will be voted as specified by the undersigned. If no choice is specified, this proxy will be voted as to all shares of the undersigned, FOR the election of all nominees for directors, FOR the amendment to the articles of incorporation, and according to the discretion of the Proxies on any other matters that may properly come before the meeting or any adjournment of the meeting.**

**PLEASE VOTE, DATE AND SIGN ON REVERSE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.**

(Continued and to be voted on reverse side.)