

MERCANTILE BANK CORP  
Form DEF 14A  
April 05, 2019

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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**

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(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:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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SEC 1913 (02-02)

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To our Shareholders:

The 2019 annual meeting of shareholders of Mercantile Bank Corporation will be held at Kent Country Club, 1600 College Avenue NE, Grand Rapids, Michigan 49505 on Thursday, May 23, 2019, 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 seven directors, each for a one-year term.
2. Ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2019.
3. An advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement.
4. An advisory vote on the frequency of advisory approval of the compensation of our named executive officers.
5. Any other business that may properly be brought before the meeting or any adjournment of the meeting.

All shareholders of record at the close of business on Monday, March 25, 2019 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 submit your proxy (1) over the internet, (2) by telephone or (3) by mail, whether or not you plan to attend the meeting in person. For specific instructions, please refer to the questions and answers beginning on the first page of the proxy statement and the instructions on the proxy card relating to the annual meeting. We would appreciate receiving your proxy by Friday, May 10, 2019.

By Order of the Board of Directors,

Michael H. Price

Chairman of the Board

Dated: April 5, 2019

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PROXY SUMMARY

This summary highlights information contained elsewhere in the proxy statement of Mercantile Bank Corporation (“we,” “our,” “Company” or “Mercantile”). This summary provides an overview and is not intended to contain all the information that you should consider before voting.

We encourage you to read the entire proxy statement for more detailed information on each topic prior to casting your vote.

MEETING INFORMATION

*Meeting:* Annual Meeting of Shareholders  
*Date:* Thursday, May 23, 2019  
*Time:* 9:00 a.m., Eastern Time  
*Location:* Kent Country Club, 1600 College Avenue NE, Grand Rapids, Michigan 49505  
*Record Date:* March 25, 2019

GENERAL INFORMATION

*Stock Symbol:* MBWM  
*Exchange:* NASDAQ Global Select  
*Common Stock* 16,420,836 (as of record date)



*Outstanding*

*Registrar*

Computershare Trust Company, N.A.

*& Transfer Agent:*

*Website:* [www.mercbank.com](http://www.mercbank.com)

## OVERVIEW OF VOTING MATTERS

### PROPOSALS

### BOARD

### RECOMMENDATION

- |  |                         |
|--|-------------------------|
| 1. Election of seven directors, each for a one-year term.  | <b>FOR each Nominee</b> |
| 2. Ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2019.  | <b>FOR</b>              |
| 3. An advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement. | <b>FOR</b>              |
| 4. An advisory vote on the frequency of advisory approval of the compensation of our named executive officers.     | <b>FOR ONE YEAR</b>     |
| 5. Any other business that may properly be brought before the meeting or any adjournment of the meeting.           |                         |



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## DIRECTOR NOMINEES

Additional details about each of the director nominees can be found beginning on page 15.

<i>Director</i>	<b>Director</b>	<b>Director</b>	<b>Audit</b>	<b>Compensation</b>	<b>Governance &amp; Nominating Committee</b>
	<b>Age</b>	<b>Since</b>	<b>Committee</b>	<b>Committee</b>	
<i>David M. Cassard</i>	65	2001			
<i>Edward J. Clark</i>	74	1998			
<i>Michelle L. Eldridge</i>	54	2016			
<i>Jeff A. Gardner</i>	67	2014			
<i>Edward B. Grant</i>	69	2014			
<i>Robert B. Kaminski, Jr. *</i>	57	2016			
<i>Michael H. Price *</i>	62	1997			
<b>TOTAL MEETINGS IN 2018</b>			<b>4</b>	<b>5</b>	<b>3</b>

*\* Non-independent Directors*

## MEMBER

## CHAIR

## HOW TO VOTE

Your vote is important. We urge you to submit your proxy (1) over the internet, (2) by telephone or (3) by mail, whether or not you plan to attend the meeting in person. For specific instructions, please refer to the questions and answers beginning on the first page of the proxy statement and the instructions on the proxy card relating to the annual

meeting. We would appreciate receiving your proxy by Friday, May 10, 2019.

**INTERNET TELEPHONE OR CELLPHONE MAIL**

1. Go to: **www.envisionreports.com/MBWM**.

Call toll free

If you wish to vote by mail, send your completed and signed proxy card using the enclosed

2. Click on Cast Your Vote.

**1-800-652-VOTE  
(8683)**

3. Follow the instructions to log in.

within the USA,

4. Make your selections as instructed on each screen for your delivery preferences.

US territories and  
Canada

envelope.

5. Vote your shares.

*Votes submitted electronically must be received by 1:00 am, Central Time, on May 23, 2019.*

On April 5, 2019, we began sending our shareholders a Notice Regarding the Internet Availability of Proxy Materials.

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OUR COMPENSATION 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. Our executive compensation program includes the following primary elements:

Base salary

Short-term incentive compensation

Long-term incentive compensation

Other benefits

The equity-based plans encourage our executive officers and other employees to focus on increasing shareholder value over a period of years.

The deferred compensation and 401(k) plans provide helpful ways for our employees to save for retirement.

Bonus plans are typically based on a variety of metrics tied to improving our performance, and contain "claw-back" provisions if the executive officer or employee engages in certain activities or a payout is based on materially inaccurate financial statements or other materially inaccurate performance metric criteria.

The Compensation Discussion and Analysis (CD&A) section beginning on page 25 gives a more detailed description of the Company's compensation policies and practices.

2018 EXECUTIVE COMPENSATION SUMMARY

Salary	Bonus	Stock Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation	All Other Compensation
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<b>Executive Officer</b>					Earnings		
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	Total Compensation (\$)
Michael H. Price	84,663	--	143,947	21,202	1,418	35,189	286,419
Robert B. Kaminski, Jr.	478,500	--	249,501	167,475	74	55,716	951,266
Charles E. Christmas	364,000	--	168,710	111,475	--	48,258	692,443
Raymond E. Reitsma	346,526	--	166,864	106,124	--	57,344	676,858
Lonna L. Wiersma	262,895	--	94,760	63,259	--	41,662	462,576
Robert T. Worthington	245,000	--	103,933	69,672	577	30,129	449,311

## CORPORATE GOVERNANCE HIGHLIGHTS

All directors attended at least 82% of the Board meetings and committee meetings during 2018;

Code of Ethics policy is in place for all directors, officers and employees;

Majority of directors are independent;

Chairman of the Board and Chief Executive Officer are separate positions; and

Ongoing and active risk oversight is performed by the Board and committees.

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<b>BOARD OF DIRECTORS</b>	<ul style="list-style-type: none"><li>•Majority of directors are independent Board consists of directors with a mix of tenures, including founding members who have</li><li>•actively overseen the Company’s strategic journey through various business cycles and have a deep knowledge of the Company</li><li>•Directors reflect a variety of experiences and skills that match the Company’s complexity and strategic direction and give the Board the collective capability necessary to oversee the Company’s activities</li><li>•All directors attended at least 82% of meetings of the Board and committees on which they served during 2018</li></ul>
<b>BOARD LEADERSHIP STRUCTURE</b>	<ul style="list-style-type: none"><li>•Chairman of the Board and Chief Executive Officer are separate positions</li><li>•Chief Executive Officer and President is the only member of management who serves as a Company Director</li><li>•Executive session facilitator annually recommended by Governance and Nominating Committee and elected by our Board of Directors</li><li>•Active and empowered Committee chairs, all of whom are independent</li></ul>
<b>BOARD GOVERNANCE BEST PRACTICES</b>	<ul style="list-style-type: none"><li>•Executive sessions are held by independent directors</li><li>•Annual self-evaluations of the Board and each of its committees</li><li>•Annual assessment of director independence</li><li>•Regular discussions regarding Board recruiting and succession including desirable director skills and qualifications for the Company’s long-term strategic objectives</li><li>•Active engagement in oversight of Company strategy</li><li>•Active risk oversight by the Board and committees</li><li>•Direct access by the Board to key members of management at the discretion of independent directors; executive sessions regularly include separate meetings with our Chief Financial Officer, General Counsel, Senior Risk Officer, Internal Audit Director, Credit Administration Risk Manager and Chief Compliance Officer</li><li>•Annual evaluation process of Chief Executive Officer led by the Compensation Committee Chair</li><li>•Regular talent and succession planning discussions regarding the Chief Executive Officer and other key executives</li><li>•The Board and Management maintain strong working relationship with Federal Regulators</li></ul>
<b>SHAREHOLDER ENGAGEMENT</b>	<ul style="list-style-type: none"><li>•Regular outreach and engagement throughout the year with stockholders about Company strategy and performance by our Chief Executive Officer and Chief Financial Officer</li><li>•Outreach and engagement with governance representatives of largest stockholders at least two times per year</li><li>•Feedback from investors regularly shared with our Board and its committees to ensure that our Board has insight on investor views</li><li>•Directors are elected annually</li></ul>

**AND  
SHAREHOLDER**

**ROLE IN  
GOVERNANCE**

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PROXY STATEMENT

310 Leonard Street N.W.

Grand Rapids, MI 49504

DATE OF DISTRIBUTION: April 5, 2019

INFORMATION REGARDING THE ANNUAL MEETING OF SHAREHOLDERS

Matters to be considered at the Annual Meeting of Shareholders

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This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Mercantile Bank Corporation (“we,” “our,” “Company” or “Mercantile”). The proxies are being solicited for use at the annual meeting of shareholders to be held on Thursday, May 23, 2019 at 9:00 a.m., local time, at Kent Country Club, 1600 College Avenue NE, Grand Rapids, Michigan 49505, 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, 2018 and other information is first being mailed or made available to shareholders, along with these proxy materials, on or about April 5, 2019.

**Important Notice Regarding the Availability of Proxy Materials for the**

**Shareholder Meeting**

**to be Held on May 23, 2019:**

**Our proxy statement and 2018 Annual Report are available at**

**[www.envisionreports.com/MBWM](http://www.envisionreports.com/MBWM)**

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Notice and Access

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We use the “Notice and Access” method of providing proxy materials to you via the internet instead of mailing printed copies. We believe that this process provides you with a convenient and quick way to access the proxy materials, including our proxy statement and 2018 Annual Report to shareholders on Form 10-K, and to authorize a proxy to vote your shares, while allowing us to conserve natural resources and reduce the costs of printing and distributing the proxy materials.

Most shareholders will not receive paper copies of the proxy materials unless they request them. Instead, the Important Notice Regarding Availability of Proxy Materials, which we refer to as the Notice and Access card, that was mailed to our shareholders on April 5, 2019, provides instructions regarding how you may access and review all of the proxy materials on the internet. The Notice and Access card also includes instructions on how to submit your proxy via the internet or telephone. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials printed on the Notice and Access card.

If your shares are held by a brokerage house or other custodian, nominee or fiduciary in “street name,” you will receive a Notice and Access card intended for their beneficial holders with instructions for providing to such intermediary voting instructions for your shares. You may also request paper copies of the proxy materials and provide voting instructions by completing and returning the enclosed voting instruction form in the addressed, postage paid envelope provided. Alternatively, if you receive paper copies, many intermediaries provide instructions for their beneficial holders to provide voting instructions via the internet or by telephone. If your shares are held in “street name” and you would like to vote your shares in person at the Annual Meeting, you must contact your broker, custodian, nominee or fiduciary to obtain a legal proxy form from the record holder of your shares and present it to the inspector of election with your ballot.

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Purpose of the Annual Meeting

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At our annual meeting, shareholders will act upon the matters outlined in the accompanying notice of the meeting and described in this proxy statement. These matters include the election of directors, the ratification of the selection of our independent registered public accounting firm, an advisory (non-binding) vote on the compensation of our named executive officers disclosed in this proxy statement, and an advisory (non-binding) vote on the frequency of advisory approval of the compensation of our named executive officers.

Please read this proxy statement carefully. You should consider the information contained in this proxy statement when deciding how to vote your shares at the annual meeting.

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Record Date, Voting and Voting Procedures

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The Board of Directors has set March 25, 2019 as the record date for the annual meeting. If you were a shareholder of record at the close of business on the record date, March 25, 2019, you are entitled to receive notice of the meeting and to vote your shares at the meeting. Holders of Mercantile common stock are entitled to one vote per share.

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

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 a stock brokerage account or by a bank, trust or other nominee, then the broker, bank, trust or other nominee is considered to be the shareholder of record with respect to those shares. However, you still are considered the beneficial owner of those shares, and your shares are said to be held in “street name.” Street name holders generally cannot vote their shares directly and must instead instruct the broker, bank, trust or other nominee how to vote their shares using the voting instructions provided by it.

If you are a shareholder of record as of the record date, you can give a proxy to be voted at the meeting in any of the following ways:

- over the telephone by calling a toll-free number;
- electronically, using the internet; or

by completing, signing and mailing the printed proxy card.

The telephone and internet voting procedures have been set up for your convenience. We encourage you to reduce corporate expense by submitting your vote by telephone or internet. The procedures have been designed to authenticate your identity, to allow you to give voting instructions, and to confirm that those instructions have been recorded properly. If you are a shareholder of record and you would like to submit your proxy by telephone or internet, please refer to the specific instructions provided on the enclosed proxy card. If you wish to submit your proxy by mail, please return your signed proxy card to us before the annual meeting.

If the shares you own are held in street name, your broker, bank, trust or other nominee, as the record holder of your shares, is required to vote your shares according to your instructions. Your broker, bank, trust 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, trust 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. Even if you currently plan to attend the meeting, we recommend that you also submit your proxy as described above so that your vote will be counted if you later decide not to attend the meeting. If you are a street name holder, you may vote your shares in person at the meeting only if you obtain a signed letter or other document from your broker, bank, trust or other nominee giving you the right to vote the shares at the meeting. If you have questions about attending or would like directions to the annual meeting, please write to the Secretary, Mercantile Bank Corporation, 310 Leonard Street NW, Grand Rapids, Michigan 49504 or call 616-726-1601.

If you receive more than one proxy card or voting instruction form, it means that you hold shares registered in more than one account. To ensure that all of your shares are voted, sign and return each proxy card, or if you submit your proxy vote by telephone or internet, vote once for each proxy card or voting instruction form you receive.

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At least a majority of the shares of our common stock outstanding on the record date must be present at the meeting in order to hold the meeting and conduct business. This is called a quorum. Your shares are counted as present at the meeting if:

- you are present and vote in person at the meeting; or
- you have properly submitted a proxy by mail, telephone or internet.

As of the record date, 16,420,836 shares of our common stock were outstanding and entitled to vote. Proxies that are received and voted as withholding authority, abstentions, and broker non-votes (where a bank, trust, broker or other 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 present at the meeting.

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## Voting Matters

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*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. The seven nominees receiving the highest number of votes will be elected to the Board. Votes withheld and broker non-votes are not counted toward a nominee's total.

*Independent Registered Public Accounting Firm.* The affirmative vote of a majority of the common stock present in person or by proxy at the meeting and voting on the matter is necessary to approve the ratification of our independent registered public accounting firm. For purposes of counting votes on this matter, abstentions and broker non-votes will not be counted as shares voted on the matter.

*Advisory approval of compensation of our Named Executive Officers.* Because this is an advisory vote, it will not be binding upon the Board of Directors. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements. For purposes of counting votes on this matter, abstentions and broker non-votes will not be counted as shares voted on the matter.

*Advisory vote on the frequency of advisory approval of the compensation of our Named Executive Officers.* Because this is an advisory vote, it will not be binding upon the Board of Directors. However, the Compensation Committee will take into account the outcome of the vote when considering how frequently the Company will hold advisory votes on compensation. For purposes of counting votes on this matter, abstentions and broker non-votes will not be counted as shares voted on the matter.

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 matters 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 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.

The Board of Directors recommends that you vote:

FOR the election of all of the seven nominees for director;  
FOR the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2019;  
FOR the advisory approval of the compensation of our named executive officers disclosed in this proxy statement;  
and  
FOR “One Year” with regard to the advisory vote on the frequency of advisory approval of the compensation of our named executive officers.

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#### Proxy and Proxy Statement

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A proxy is your designation of another person to vote on your behalf. The other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. When you designate a proxy, you also may direct the proxy how to vote your shares. We sometimes refer to this as your “proxy vote.” By completing and returning the enclosed proxy card, or voting by internet or telephone, you are giving the persons appointed as proxies by our Board of Directors the authority to vote your shares.



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You may revoke your proxy and change your vote at any time before your proxy is voted at the annual meeting. If you are a shareholder of record, you may revoke your proxy and change your vote by submitting a later-dated proxy by telephone, internet or mail, by voting in person at the meeting, or by delivering to our Secretary a written notice of revocation. Attending the meeting will not revoke your proxy unless you specifically request to revoke it.

If you submit a signed proxy card or submit your proxy by telephone or internet and do not specify how you want to vote your shares, the proxies will vote your shares:

FOR the election of all of the seven nominees for director;

FOR the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for 2019;

FOR the advisory approval of the compensation of our named executive officers disclosed in this proxy statement;

FOR “One Year” with regard to the advisory vote on the frequency of advisory approval of the compensation of our named executive officers; and

In the discretion of the persons named as proxies as to all other matters that may be properly presented at the annual meeting.

If you hold your shares in street name, contact your broker, bank, trust or other nominee regarding how to revoke your proxy and change your vote.

A proxy statement is a document that we are required to give you, or provide you access to, in accordance with regulations of the Securities and Exchange Commission (the “SEC”), when we ask you to designate proxies to vote your shares of our common stock at a meeting of our shareholders. The proxy statement includes information regarding the matters to be acted upon at the meeting and certain other information required by regulations of the SEC and rules of The NASDAQ Stock Market (“NASDAQ”).

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Other Matters

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All costs of soliciting proxies will be borne by us. 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.



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## STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information regarding the beneficial ownership of our common stock, as of March 25, 2019, by each of our current directors, each nominee for election as a director, our executive officers and all of our directors and executive officers as a group.

Name of Beneficial Owner	Amount Beneficially Owned (1)	Percent of Class Beneficially Owned (13)
David M. Cassard ••	26,987 (2)	*
Edward J. Clark ••	54,190 (3)	*
Michelle L. Eldridge ••	10,533 (4)	*
Jeff A. Gardner ••	103,597 (5)	*
Edward B. Grant ••	19,043	*
Michael H. Price ••	71,201 (6)	*
Robert B. Kaminski, Jr. ••	76,221 (7)	*
Charles E. Christmas	78,016 (8)	*
Raymond E. Reitsma	27,646 (9)	*
Lonna L. Wiersma	36,610 (10)	*
Robert T. Worthington	28,865 (11)	*
All Directors and Executive Officers as a group (11 persons)	532,909 (12)	3.2%

•• *Member of our Board of Directors and Nominee for Re-election*

\* *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 60 days of March 25, 2019 through the exercise of any stock options 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. For each person, the number of shares that is included in the table because the person has options to acquire the shares is set forth below.

**Name**                      **Shares**

Mr. Christmas	3,000
Mr. Kaminski	2,700
Ms. Wiersma	500
Mr. Price	6,000
Mr. Reitsma	500
Mr. Worthington	500

(2) Includes 8,115 shares that Mr. Cassard holds jointly with his spouse.

Includes 1,279 shares that Mr. Clark has the power to vote and dispose of as custodian of four accounts of  
(3) grandchildren, 76 shares as custodian of an account for a friend's child, 385 shares held by his spouse in an IRA, and 2,150 shares that Mr. Clark holds in an IRA.

(4) Includes 5,850 shares that Ms. Eldridge holds in an IRA and a Roth IRA.

(5) Includes 22,000 shares as to which Mr. Gardner shares voting or investment power by reason of joint ownership, trust, or other contract or property right, and 11,500 shares Mr. Gardner holds in an IRA.

(6) Includes 16,269 shares that Mr. Price holds jointly with his spouse, 13,100 shares of restricted stock, 14,266 shares that Mr. Price owns under the Bank's 401(k) plan, and 12,149 shares Mr. Price holds in an IRA.

(7) Includes 29,426 shares that Mr. Kaminski holds jointly with his spouse, 17,841 shares of restricted stock, and 26,254 shares that Mr. Kaminski owns under the Bank's 401(k) plan.

Includes 5,349 shares that Mr. Christmas holds jointly with his spouse, 12,552 shares of restricted stock, and  
(8) 36,186 shares that Mr. Christmas owns under the Bank's 401(k) plan. Also includes 1,625 shares that Mr. Christmas' spouse, who was previously employed by the Bank, owns under the Bank's 401(k) plan as well as 393 shares that she owns in her IRA.

(9) Includes 15,119 shares of restricted stock and 11,235 shares that Mr. Reitsma owns under the Bank's 401(k) plan.

(10) Includes 7,978 shares of restricted stock and 28,132 shares that Ms. Wiersma owns under the Bank's 401(k) plan.

(11) Includes 9,268 shares of restricted stock and 16,097 shares that Mr. Worthington owns under the Bank's 401(k) plan.

Includes 13,200 shares that such persons have the right to acquire within 60 days of March 25, 2019 pursuant to  
(12) stock options, 76,650 shares of restricted stock awarded under our stock-based compensation plans, and 133,795 shares that such persons own under the Bank's 401(k) plan.

(13) The percentages shown are based on the 16,420,836 shares of our common stock outstanding as of March 25, 2019, plus the number of shares that the named person or group has the right to acquire within 60 days of March 25, 2019. 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 March 25, 2019 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.

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**Stock Owned by 5% Beneficial Owners**

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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 15, 2019.

<b>Name and Address of Beneficial Owner</b>	<b>Amount Beneficially Owned</b>	<b>Percent of Class Beneficially Owned</b>
Banc Funds Co LLC		
20 North Wacker Drive, Suite 3300	1,192,875	7.3%
Chicago, IL 60606 (1) BlackRock, Inc.		
55 East 52 nd Street	1,242,624	7.5%
New York, NY 10055 (2) Dimensional Fund Advisors LP		
6300 Bee Cave Road	1,131,042	6.8%
Austin, TX 78746 (3)		

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The information is based on a Schedule 13G filed with the SEC on February 11, 2019, jointly on behalf of Banc Fund VII L.P. ("BF VII"), Banc Fund VIII L.P. ("BF VIII"), Banc Fund IX L.P. ("BF IX"), and Banc Fund X L.P. ("BF X") (collectively the "Banc Fund Group"). The Banc Fund Group may be deemed to have beneficial ownership (1) of the shares reflected in the table as of December 31, 2018. The Banc Fund Group reported aggregate beneficial ownership of 1,192,875 shares, including 0 shares beneficially owned by BF VII, 858,923 shares beneficially owned by BF VIII, 328,952 shares beneficially owned by BF IX, and 5,000 shares beneficially owned by BF X.

The information is based on a Schedule 13G, Amendment No. 2, filed with the SEC on February 6, 2019. BlackRock, Inc. may be deemed to have beneficial ownership of the shares reflected in the table as of December (2) 31, 2018. BlackRock reported aggregate beneficial ownership of 1,242,624 shares, with sole voting power over 1,172,831 shares and sole dispositive power over 1,242,624 shares.

The information is based on a Schedule 13G, Amendment No. 2, filed with the SEC on February 8, 2019. Dimensional Fund Advisors LP (“Dimensional”) is an investment adviser registered under Section 203 of the Investment Advisors Act of 1940. It furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager or sub-adviser to certain other (3) commingled funds, group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the “Funds”). Dimensional reported aggregate beneficial ownership of 1,131,042 shares, with sole voting power over 1,079,584 shares and sole dispositive power over 1,131,042 shares. Though Dimensional may possess voting and/or investment power over the shares, it disclaims beneficial ownership of such securities, which are owned by the Funds.

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PROPOSAL #1 – ELECTION OF DIRECTORS

Information About Our Directors

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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 currently has seven members. Our directors are elected annually to one-year terms.

Our Board of Directors has nominated David M. Cassard, Edward J. Clark, Michelle L. Eldridge, Jeff A. Gardner, Edward B. Grant, Robert B. Kaminski, Jr. and Michael H. Price as directors for election at this year's annual meeting for one-year terms expiring at the 2020 annual meeting. Each of the nominees is presently a director whose term expires at this year's annual meeting.

**Our Board of Directors recommends that you vote FOR each of the seven nominees named above. Unless otherwise instructed, the persons named as proxies intend to vote all proxies received for the election of the seven 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, as well as the other nominees. 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.

Set forth below is information about the nominees for election as directors. The factual information about each nominee and director has been provided by that person. The particular experience, qualifications, attributes or skills that led our Board of Directors to conclude that each should serve on our Board, in light of our business and structure, were determined by our Board or its Governance and Nominating Committee. There are no family relationships among any of our directors, nominees for director and executive officers.

NOMINEES FOR DIRECTOR



**DAVID M. CASSARD** Mr. Cassard is retired. He is the former Chairman of Waters Corporation, a commercial real estate investment and management company. He 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 previously served as a member of the Board of Directors of First Michigan Bank-Grand Rapids and was a member of the Boards of Directors of First Michigan Bank Corporation and Butterworth Hospital. He holds membership in the American Institute of CPAs, the Michigan Association of CPAs and the Institute of Real Estate Management. Mr. Cassard's financial expertise and commercial real estate management experience were key factors in our determination that he should be a member of our Board.

**DIRECTOR SINCE 2001**

**AGE: 65**

**EDWARD J. CLARK** Mr. Clark has served as a member of the Mercantile Board of Directors since 1998. Mr. Clark is the Chairman and Chief Executive Officer of The American Seating Company ("American Seating"), and has held this position since 1986. American Seating is headquartered in Grand Rapids, Michigan, and produces seating for buses and rail cars. He is a graduate of Ohio State University (BSc) and the University of Pennsylvania (MBA). Mr. Clark is a member of the Board of Trustees of the Grand Valley State University Foundation. He is Chairman of the Membership Committee of the Grand Valley State University Foundation, 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 Metropolitan YMCA, 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, the Ohio State University Alumni Association, and the Grand Rapids Employers' Association. Mr. Clark's experience leading and managing a substantial seating business, and involvement and relationships in the community, led us to conclude that he should serve on our Board.

**DIRECTOR SINCE 1998**

**AGE: 74**

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**MICHELLE L. ELDRIDGE** Ms. Eldridge is a Principal of Clear Ridge Wealth Management (“Clear Ridge”) in Kalamazoo, Michigan, which she co-founded in 2014. Clear Ridge provides integrated wealth management to high net worth families and customized investment management to institutional organizations. Prior to founding Clear Ridge, Ms. Eldridge was a Principal of LVM Capital for 16 years. Ms. Eldridge serves as a trustee of the Kalamazoo Valley Community College Foundation, is part of the Leadership Council of the Small Business Association of Michigan, is Treasurer of Prince of Peace Lutheran Church, and is a member of the Kalamazoo Civic Theatre Endowment Fund Committee. She is a Chartered Financial Analyst, Certified Private Wealth Advisor®, and a graduate of Western Michigan University. Ms. Eldridge served as a director of Keystone Community Bank from 2007 through 2014. Ms. Eldridge’s experience as a CFA® charter holder and Registered Investment Advisor, as well as her leadership roles in the communities we serve, were key factors in our determination that she should be a member of our Board.

**DIRECTOR SINCE 2016**

**AGE: 54**

**JEFF A. GARDNER** Mr. Gardner joined Mercantile’s Board of Directors in June of 2014, following our merger with Firstbank. Mr. Gardner served as a director and vice-chairman of Keystone Community Bank from 1997 through the date of the merger and a director of Firstbank Corporation from October 2005 through the date of the merger. Mr. Gardner is President of Gardner Group, which he formed in 1980. Gardner Group provides real estate services throughout southwestern Michigan, including development, construction, management, brokerage and maintenance. Mr. Gardner is a principal in numerous real estate developments, construction projects, and a consulting company. Mr. Gardner holds the designation of Certified Property Manager. Mr. Gardner’s extensive real estate expertise in the markets we serve led us to conclude that he should serve on our Board.

**DIRECTOR SINCE 2014**

**AGE: 67**

**EDWARD B. GRANT** Mr. Grant joined Mercantile’s Board of Directors in June of 2014, following our merger with Firstbank. Mr. Grant served as a director of Firstbank (Mt. Pleasant) from 1988 through the date of the merger and of Firstbank Corporation from 1990 through the date of the merger. He served as Chairman of the Board of Firstbank (Mt. Pleasant) from 1989 through the date of the merger. Mr. Grant retired in August 2015 after having served in various faculty and administrative positions at Central Michigan University (“CMU”), most recently completing 16 years as General Manager of CMU Public Broadcasting. Mr. Grant is a Certified Public Accountant, and holds a Ph.D. in accounting from Michigan State University. We concluded that Mr. Grant should serve on our Board due to his specialized expertise in accounting and connection to the markets we serve.

**DIRECTOR SINCE 2014**

**AGE: 69**

**ROBERT B. KAMINSKI, JR.** Mr. Kaminski joined the Bank in 1997 and has over 30 years of commercial banking experience. Mr. Kaminski was appointed President and Chief Executive Officer of Mercantile on January 1, 2017 and continues to serve as Chief Executive Officer of the Bank, a position he has held since 2015. Mr. Kaminski has held various positions of increasing influence and responsibility with Mercantile and the Bank, serving Mercantile and the Bank as Senior Vice President and Secretary from 1997 to 2003, Executive Vice President and Secretary from 2003 to June of 2007, Executive Vice President and Secretary from 2007 to 2015 and President and Chief Executive Officer from 2015 through 2016. In addition, he served as the Bank's Chief Operating Officer from 2000 to 2016. Mr. Kaminski serves on the Boards of Directors for Boys and Girls Clubs of Grand Rapids Youth Commonwealth, the Heart of West Michigan United Way, the City of Wyoming Retirement Board, and the West Michigan Policy Forum. Mr. Kaminski also serves as a director of Mercantile, a position to which he was appointed by the Board on December 15, 2016. Mr.

**DIRECTOR SINCE 2016 AND PREVIOUSLY FROM 2011 TO 2014**

*President and Chief Executive Officer of*

*Mercantile; Chief Executive Officer of the Bank* Kaminski served as a director of Mercantile previously from 2011 to 2014. Mr. Kaminski's responsibilities as the President and Chief Executive Officer of Mercantile, his leadership of the organization since its inception as one of our founding executives and an in-depth knowledge of commercial banking were key factors in our determination that he should be a member of our Board.

**AGE:** 57

**MICHAEL**

**H. PRICE** Mr. Price has over 35 years of commercial banking experience and joined the Bank in 1997. Mr. Price retired as the President and Chief Executive Officer of Mercantile and Chief Executive Officer of the Bank on January 1, 2017, positions he had held since 2007. 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 also served as Chairman of the Board of Mercantile from 2007 through the date of the Firstbank merger and resumed his position as Chairman of Mercantile following Mr. Sullivan's retirement in May of 2015. Mr. Price has been and continues to be very active in the Grand Rapids community. From 2005 to 2007, he served on the Board of Directors of the Federal Home Loan Bank of Indianapolis. Mr. Price also held leadership positions on the Boards of Metro Health Corporation, Aquinas College, Habitat for Humanity of Kent County, Project Rehab and Network180. Mr. Price was the founding President of our organization and has demonstrated excellent leadership qualities and a strong understanding of the fundamentals of our industry. These attributes led us to conclude that he should be a member of our Board.

**DIRECTOR SINCE 1997**

*Chairman of Mercantile and of the Bank*

**AGE:** 62

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## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Our executive officers are listed in the table below:

<b>Name of Executive Officer</b>	<b>Title</b>
Robert B. Kaminski, Jr.	President and Chief Executive Officer of Mercantile, and Chief Executive Officer of the Bank
Charles E. Christmas	Executive Vice President, Chief Financial Officer and Treasurer of Mercantile, and Executive Vice President and Chief Financial Officer of the Bank
Raymond E. Reitsma	Executive Vice President of Mercantile, and President of the Bank
Lonna L. Wiersma	Senior Vice President and Human Resource Director of Mercantile and the Bank
Robert T. Worthington	Chief Operating Officer, Secretary, Senior Vice President, and General Counsel of Mercantile and the Bank

Mr. Kaminski is also a member of our Board of Directors, and information regarding his business experience is described above under the heading "Election of Directors." The business experience for Mr. Christmas, Mr. Reitsma, Ms. Wiersma and Mr. Worthington 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.

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 Executive Officers
 

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**Charles E. Christmas**, age 53

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

Mr. Christmas joined the Bank in 1998 and has approximately 30 years of banking experience. Before being promoted to his current position as Executive Vice President and Chief Financial Officer of Mercantile and the Bank, Mr.

Christmas served as Senior Vice President and Chief Financial Officer of Mercantile and the Bank from 2000 to 2015. Mr. Christmas also serves as Treasurer of Mercantile, a position he has held since 2000. 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 Bankers Association Funds Management Committee, is an instructor at the Michigan Bankers Association Perry School of Banking, serves as a Board member and President of the Susan G. Komen Michigan affiliate, is a member of the Ferris State University College of Business Advisory Board, serves as a Finance Committee member of the Frederik Meijer Gardens & Sculpture Park, and assists the Make-A-Wish Foundation of Michigan in its fundraising activities.

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**Raymond E. Reitsma**, age 56

*Executive Vice President of Mercantile and President of the Bank; Director of the Bank since 2017*

Mr. Reitsma was appointed President of the Bank effective January 1, 2017, and has been with the Bank for 15 years, beginning with his initial role as a Commercial Loan Manager in 2003, including holding the title of Senior Lender for eight years. In June 2015, Mr. Reitsma was appointed to be the Bank's West Region President. Mr. Reitsma's areas of responsibility have included commercial lending, treasury/cash management, mortgage lending, and credit administration. Mr. Reitsma was also very instrumental in the preparation, transition and integration periods surrounding the merger with Firstbank Corporation. Mr. Reitsma currently serves on the local board of the American Heart Association, and served as the Chair for the 2015 Heart Walk. Additionally, he serves on the Advisory Council of DA Blodgett/St. John's Home and has done so since 2011. Previously, Mr. Reitsma served on the Board of Directors of the Pine Rest Foundation for six years, including two years as Treasurer. He has also been involved with the local United Way agency, most recently as the annual Campaign Chair for the Bank. Mr. Reitsma graduated from Calvin College with a B.A. in Business Administration and also holds an MBA in Finance from Michigan State University.

**Lonna L. Wiersma**, age 59

*Senior Vice President and Human Resource Director of Mercantile and the Bank*

Ms. Wiersma joined the Bank in 1999 and has approximately 37 years of banking experience primarily in the human resource function. Ms. Wiersma joined the Bank as Vice President, Human Resource Manager and currently holds the position of Senior Vice President, Human Resource Director. Ms. Wiersma currently serves as President of the YWCA and also is a member of its Executive and Human Resource Committees, and currently co-chairs the YWCA Open Circle Event, and previously served as a Board Member and Secretary of Health Intervention Services (Exhalta). Ms. Wiersma holds a B.A. in Business Administration with an emphasis in Human Resource Management from Grand Valley State University.

**Robert T. Worthington**, age 44

*Chief Operating Officer, Secretary, Senior Vice President, and General Counsel of Mercantile and the Bank*

Mr. Worthington was appointed Chief Operating Officer and Secretary of Mercantile on January 1, 2017, and continues to serve as Chief Operating Officer, Senior Vice President, General Counsel and Secretary of Mercantile and the Bank. Mr. Worthington joined the Bank in 2009 as Senior Vice President and Risk Management Director and was appointed General Counsel of the Bank in 2011. In 2016, Mr. Worthington was appointed Chief Operating Officer of the Bank and became Senior Vice President and General Counsel of Mercantile. Prior to joining the Bank,

he was a corporate attorney, internal auditor, certified public accountant, and bank teller. Mr. Worthington serves as Immediate Past Chair of Junior Achievement of the Michigan Great Lakes, Director of Greenville Tool & Die Company, Trustee of Mel Trotter Ministries, Director of the Michigan Bankers Association, Vice Chair of the Michigan Bankers Workers Compensation Fund, and Trustee of Michigan State University College of Law. Mr. Worthington received his Bachelor of Science in Accounting from Hillsdale College and his Juris Doctor from Michigan State University College of Law.

## CORPORATE GOVERNANCE

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### Director Independence

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Applicable NASDAQ rules require that a majority of our Board of Directors be independent. In March of 2019, 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 Kaminski. 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.

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## Board Meetings

During 2018, our Board of Directors held a total of 10 meetings. During 2018, each director attended at least 82% of the 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 then serving on our Board 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 25, 2019, was as follows:

<b>Director</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Governance &amp; Nominating Committee</b>
<i>David M. Cassard</i>			
<i>Edward J. Clark</i>			
<i>Michelle L. Eldridge</i>			
<i>Jeff A. Gardner</i>			
<i>Edward B. Grant</i>			
<i>Robert B. Kaminski, Jr. *</i>			
<i>Michael H. Price *</i>			
<b>TOTAL MEETINGS IN 2018</b>	<b>4</b>	<b>5</b>	<b>3</b>
<i>* Non-independent Directors</i>			

**MEMBER**

**CHAIR**

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.

## AUDIT COMMITTEE

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### **Committee Members:**

### **Primary Responsibilities:**

David M. Cassard  
Edward J. Clark  
Michelle L. Eldridge  
Jeff A. Gardner  
Edward B. Grant  
(Chair)

The Audit Committee has five members and met four times in 2018.

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 independent registered public accounting firm.

Our Board of Directors has determined that Messrs. Cassard and Grant, 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.

### **Meetings Held in 2018: 4**

Each Audit Committee member 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."

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**COMPENSATION COMMITTEE**

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**Committee**

**Members:**

David M.  
Cassard (Chair)

Edward J. Clark

Michelle L.  
Eldridge

Jeff A. Gardner

Edward B. Grant

**Primary Responsibilities:**

The Compensation Committee has five members and met five times in 2018.

The Compensation Committee assists our Board of Directors in carrying out its responsibilities relating to compensation and benefits for our directors, officers and employees.

The Compensation Committee reviews and approves the goals and objectives relating to the compensation of our executive officers, and evaluates the performance of the Chief Executive Officer.

**Meetings Held in  
2018: 5**

The Compensation Committee determines or recommends to our Board for determination, all elements of compensation for our executive officers and considers the results of the most recent advisory vote of the shareholders on executive compensation in making compensation determinations and recommendations.

The Compensation Committee reviews compensation and guidelines for directors' ownership of our stock and recommends or makes changes in compensation for directors.

The Compensation Committee reviews our incentive compensation arrangements to determine whether they encourage excessive risk-taking; administers and makes awards under our stock-based incentive plans for directors, officers and employees, to the extent provided for in the plans; and has sole discretion in retaining or obtaining the advice of a compensation consultant, legal counsel or other adviser (each, a "Compensation Adviser"), and the direct responsibility for the appointment, compensation and oversight of the work of any Compensation Adviser it retains.

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 President and Chief Executive Officer regarding his compensation, and receives recommendations from him regarding the compensation for our other executive officers.

**Compensation Consultant**

In 2017, the Compensation Committee retained Pearl Meyer & Partners, LLC ("Pearl Meyer") as its independent compensation consultant. Pearl Meyer provided a market analysis of our executive compensation program, including base salary, target annual incentive, target total cash compensation, long-term incentives and total direct compensation. Pearl Meyer also reviewed and analyzed our current executive incentive plans, including overall structure, award levels, performance measures, and target-setting processes. As part of its review of executive officer compensation terms, the Compensation Committee considered information provided by Pearl Meyer that compared

our executive officer compensation levels against the compensation levels of similarly situated executives in comparable positions at peer group companies, as identified by Pearl Meyer.

Pearl Meyer also conducted a review of our compensation program for our Board of Directors, including a comparative market analysis of the following factors: chairman compensation; annual retainer/annual meeting fees; total cash for Board services; committee composition and prevalence; annual committee retainer; fees per committee meeting; fees for facilitation of executive sessions; total cash for committee service; long-term/equity grants; and total compensation.

The Compensation Committee determined that Pearl Meyer is independent under applicable SEC and NASDAQ rules, based on the Committee's review of the services provided to the Company as described above and information provided by Pearl Meyer, and concluded that no conflict of interest existed that would prevent Pearl Meyer from independently advising the Compensation Committee.

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**GOVERNANCE & NOMINATING COMMITTEE**

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**Committee**

**Members:**

David M.  
Cassard

**Primary Responsibilities:**

The Governance and Nominating Committee has five members and met three times in 2018.

Edward J.  
Clark (Chair)

Michelle L.  
Eldridge

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.

Jeff A. Gardner

Edward B.  
Grant

**Meetings Held**

**in 2018: 3**

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 or Central Michigan communities 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.

We do not have a specific policy relating to the consideration of diversity in identifying director candidates. However, the Governance and Nominating Committee does consider the diversity of our Board when identifying director candidates. The amount of consideration given to diversity varies with the Governance and Nominating Committee's determination of whether we would benefit from expanding the Board's diversity in a particular area. We believe that the composition of our Board has consistently demonstrated diversity as defined by viewpoint, background and professional experience. This diversity is further enriched at the Bank Board through racial and gender diversity.

Although the Governance and Nominating Committee 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.

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**Board Leadership Structure**

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Our Board is led by Michael H. Price, our Chairman of the Board. The decision as to who should serve as Chairman of the Board, and who should serve as Chief Executive Officer, and whether those offices should be combined or separate, is properly the responsibility of our Board. The members of our Board possess considerable experience and unique knowledge of the challenges and opportunities we face, and are in the best position to evaluate our needs and how best to organize the capabilities of the directors and senior officers to meet those needs. In light of our recent management transition plan, the Board believes that the most effective leadership structure for us at this time is for the roles of Chairman of the Board and Chief Executive Officer to be separated and served by Mr. Price and Mr. Kaminski, respectively.

Mr. Price was our founding President and Chief Operating Officer, and served as our Chairman of the Board from July 1, 2007 through the June 1, 2014 merger with Firstbank Corporation, at which point he was succeeded as Chairman by Mr. Sullivan. Following Mr. Sullivan's retirement on May 28, 2015, Mr. Price resumed his prior role as Chairman of the Board of Mercantile. Given his long history of leadership with our organization, the Board of Directors believes that Mr. Price is uniquely qualified to be the person who generally sets the agenda for, and leads discussions of, strategic issues for our Board.

Mr. Kaminski joined the Bank in 1997 as one of our founding officers and has over 30 years of commercial banking experience. Before being promoted to his current position as President and Chief Executive Officer, Mr. Kaminski served in various positions of increasing influence and responsibility with Mercantile and the Bank. In light of his extensive experience with our organization in various management roles, we believe Mr. Kaminski is exceptionally well qualified to serve as our Chief Executive Officer at this time. We fully anticipate that Mr. Price and Mr. Kaminski will continue to work together and serve as effective counterparts as they carry out the management transition plan and lead our organization.

Unlike many companies, our Board of Directors does not have an executive committee through which a chief executive officer and chairman of the board are able to undertake decisions without the participation of the full Board of Directors. Instead, our Board of Directors accomplishes most of its corporate governance role, including new director and succession planning, through its committees, which are chartered to undertake significant activities and are made up entirely of independent directors.

In addition, our independent directors participate in at least two executive sessions during the year, in which our non-independent directors do not participate. Any independent director may request additional executive sessions at any meeting. Our executive sessions are led by our executive session facilitator, who is an independent director recommended by our Governance and Nominating Committee and appointed by our Board. Our executive session facilitator is responsible for setting the agenda for executive sessions and leading them. Our current executive session facilitator is Jeff A. Gardner.

## **Board Role in Risk Oversight**

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Our Board and Audit Committee oversee our risk management practices. In carrying out these responsibilities, our Board appointed Jeff Kaiser as Risk Management Department Head (our “Senior Risk Officer”). Our Senior Risk Officer, with supervision from our Board, is responsible for the definition, structure, implementation, and coordination of our risk management plan. Our Senior Risk Officer reports at least quarterly to our Board and Audit Committee.

Our Senior Risk Officer is the Chairman of our Enterprise Risk Management Committee. This committee is comprised of senior management. Its purpose is to provide high-level attention and coordination to the risk management process and to discuss and address significant risks that we face.

Our Senior Risk Officer meets at least every six months with the Compensation Committee to discuss, evaluate and review our compensation plans. Our Senior Risk Officer, with the Compensation Committee, assesses whether our compensation plans encourage taking unnecessary and excessive risks that threaten our value, or encourage the manipulation of reported earnings to enhance the compensation of any employee.

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**Communications with Directors**

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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**

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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**

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None of Mercantile's executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity, an executive officer of which served as a director of Mercantile or member of the Compensation Committee during fiscal year 2018.

No member of the Compensation Committee has any relationship with us requiring disclosure under Item 404 of SEC Regulation S-K.



## 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 registered public accounting firm, including having direct responsibility for the independent registered public accounting firm's appointment, compensation and retention, reviewing the scope of its audit services, and approving 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 2018, BDO USA, LLP ("BDO"), 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 the overall scope and plan of the audit. In addition, the Audit Committee met with BDO, with and without management present, to discuss the results of BDO'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 ("PCAOB"). The Audit Committee has also received from, and discussed with, BDO the matters required to be discussed by PCAOB Auditing Standard No. 16 (Communications with Audit Committees) as amended.

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The Audit Committee has discussed with BDO that firm's independence from management and Mercantile, and has received from BDO the written disclosures and the letter required by applicable requirements of the PCAOB regarding BDO's communications with the Audit Committee concerning independence. The Audit Committee has also considered the compatibility of audit related and tax services with BDO'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, 2018 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, 2018 for filing with the SEC.

Additionally, the Audit Committee evaluates the performance of Mercantile's independent registered public accounting firm, including the senior audit engagement team, each year and determines whether to reengage the current independent registered public accounting firm or consider other audit firms. As a threshold matter, the Committee satisfies itself that the most recent PCAOB inspection report pertaining to the current firm does not contain any information that would render inappropriate its continued service as Mercantile's independent public accountants, including consideration of the public portion of the report and discussion in general terms of the types of matters covered in the non-public portion of the report. The Audit Committee also considers: (i) the quality, efficiency and cost-effectiveness of the previous services rendered by the current auditors; (ii) the auditor's technical expertise and knowledge of Mercantile's operations and industry; and (iii) the effectiveness of the auditor's audit plan and communication with management. Based on these considerations, the Audit Committee evaluated and appointed BDO as Mercantile's independent registered public accounting firm for 2019.

**Audit Committee**

David M. Cassard

Edward J. Clark

Michelle L. Eldridge

Jeff A. Gardner

Edward B. Grant

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

Edward J. Clark

Michelle L. Eldridge

Jeff A. Gardner

Edward B. Grant

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

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*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 earnings 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 years when the Compensation Committee determines it appropriate, 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 granted performance-based restricted stock in 2018, restricted stock in 2017 and restricted stock and stock options in 2016.

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;
- strategic planning effectiveness and attainment of strategic goals, ability to react to changing markets and conditions, leadership and vision provided to employees and other stakeholders, and succession planning and effectiveness;
- 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 qualifications, experience and responsibilities at financial institutions within our peer group. 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 prepared by the Michigan Bankers Association and an independent public accounting firm, but to a lesser degree.

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Our Compensation Committee may engage an independent compensation consultant periodically to conduct a competitive analysis of our executive compensation program relative to the market. In 2017, the Compensation Committee engaged Pearl Meyer to provide a market analysis of our executive compensation program, including base salary, target annual incentive, target total cash compensation, long-term incentives and total direct compensation. The Compensation Committee concluded that Pearl Meyer is independent under applicable SEC and NASDAQ rules, based on the Committee’s review of the services provided to the Committee and information provided by Pearl Meyer, and concluded that no conflict of interest existed that would prevent Pearl Meyer from independently advising the Compensation Committee.

In its analysis, Pearl Meyer utilized four compensation surveys and a peer group comprised of 15 financial institutions of similar size in the Midwest. The peer group of companies used by Pearl Meyer, which was utilized by the Compensation Committee as a reference for 2018 and 2019 compensation decisions, is listed below.

**2018 and 2019 Peer Group**

First Busey Corporation	First Financial Corporation
1 st Source Corporation	German American Bancorp, Inc.
Lakeland Financial Corporation	First Mid-Illinois Bancshares, Inc.
Midland States Bancorp, Inc.	Independent Bank Corporation
Community Trust Bancorp, Inc.	Nicolet Bancshares, Inc.
Horizon Bancorp	Farmers National Banc Corp.
Peoples Bancorp, Inc.	Macatawa Bank Corporation
Stock Yards Bancorp, Inc.	

Consistent with the Compensation Committee’s philosophy and guiding principles for determining overall executive compensation, the Compensation Committee does not target any particular percentile at which to align compensation. However, the Compensation Committee will use the peer group median as a reference point when making pay decisions. Although the median is used as a reference point, actual levels of pay depend on a variety of factors such as experience and individual and Company performance.

*Base Salary*

In view of our operating performance and financial condition, the increase in the size of the organization, and changes in responsibilities under our management succession plan, our Compensation Committee increased the base salaries of each of our executive officers (other than Mr. Price) in 2017, 2018 and 2019. The market analysis provided by Pearl

Meyer indicated that the base salaries for Mr. Kaminski and Mr. Worthington were significantly below the median for comparable positions. Based on the recommendation of our Compensation Committee, the Board increased the 2019 base salary for Mr. Kaminski by approximately 4% and for Mr. Worthington by approximately 6%. The 2019 base salary for Mr. Reitsma was increased by 3% to reflect his promotion as an executive officer of Mercantile, together with a 4% merit increase. The 2019 base salaries for each of Mr. Christmas and Ms. Wiersma were increased by 3%.

*Executive Officer Bonus Compensation*

For most years, it has been our policy to provide cash bonus awards for eligible executive officers and employees based on predetermined performance goals. We believe that paying such cash awards:

- promotes the growth, profitability and expense control necessary to accomplish corporate strategic long-term plans;
- encourages superior results by providing a meaningful incentive; and
- supports teamwork among employees.

We adopted bonus plans for our executive officers in each of 2016, 2017 and 2018 as described below.

Table of Contents*Bonus Plans for 2018*

On May 24, 2018, we adopted an executive officer bonus plan for 2018 (the “2018 Executive Officer Plan”). The 2018 Executive Officer Plan provided for cash bonuses for our executive officers.

The maximum amount that could be allocated to the bonus pool was \$606,651 under the 2018 Executive Officer Plan provided, however, that the maximum amount will be appropriately adjusted if (a) a newly hired employee becomes eligible to participate in the plan, (b) a participant's base salary is adjusted during the year, or (c) a participant becomes ineligible before December 31, 2018.

Payment from the bonus pool under the 2018 Executive Officer Plan, if any, was based on the achievement of targets under the following metrics for 2018, which were established by our Compensation Committee:

**Metrics for the 2018 Executive Officer Plan**

<b>Percentage of Total</b>	<b>Metric</b>	<b>Target</b>	<b>Results</b>	<b>Met?</b>
12.5%	Level of non-performing assets	Not to exceed 0.50% of total assets on December 31, 2018	0.15%	Yes
12.5%	Commercial loan portfolio composition	Commercial and industrial loans plus owner-occupied commercial real estate loans not less than 55% of total commercial loans at December 31, 2018	58%	Yes
12.5%	Net interest margin	3.78% for 2018	3.96%	Yes
12.5%	Noninterest income*	\$19.3 million for 2018	\$18.1 million	No
12.5%	Efficiency ratio*	62.8% for 2018	59.9%	Yes
12.5%	Return on assets*	1.13% for 2018	1.34%	Yes
12.5%	Return on equity*	9.8% for 2018	11.9%	Yes



12.5%	Wholesale funds	Not to exceed 15.0% of total funds during 2018	Maximum level during 2018 was 11.7%	Yes
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(\*) Measured pre bonus-accrual and excluding unbudgeted one-time/non-core income and expenses

The target levels are based on GAAP financial measures, other than the wholesale funds target, which is calculated as brokered deposits plus Federal Home Loan Bank (“FHLB”) advances, divided by total deposits plus repurchase agreements plus FHLB advances.

The Award Amount was paid to each executive officer pro rata based on a uniform percentage of the executive officer's 2018 salary, not to exceed 40% of the 2018 salary of each of the Executive Chairman and the Chief Executive Officer; 35% of the 2018 salary of each of the Chief Financial Officer and the President of the Bank; 32.5% of the 2018 salary of the Chief Operating Officer; and 27.5% of the 2018 salary of the Human Resources Director. Any bonus awards that were earned under the 2018 Executive Officer Plan were paid to the executive officers on or before March 15, 2019.

Payments under the 2018 Executive Officer Plan are subject to specified conditions, qualifications, and clawback provisions. The plan, to the extent provided for in the plan, may be amended by the Compensation Committee of our Board of Directors.

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We attained 87.5% of the targets established in the 2018 Executive Officer Plan. The bonus pool of \$539,207 under the 2018 Executive Officer Plan was paid to our executive officers as follows:

<b>Executive Officer</b>	<b>Payment</b>	<b>Percent of 2018 Salary</b>
Michael H. Price	\$21,202	35.0%
Robert B. Kaminski, Jr.	\$167,475	35.0%
Raymond E. Reitsma	\$106,124	30.6%
Charles E. Christmas	\$111,475	30.6%
Robert T. Worthington	\$69,672	28.4%
Lonna L. Wiersma	\$63,259	24.1%

Payments under the 2018 Executive Officer Bonus are reported in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table.

*Bonus Plans for 2017*

On May 25, 2017, we adopted an executive officer bonus plan for 2017 (the "2017 Executive Officer Plan"). The 2017 Executive Officer Plan provided for cash bonuses for our executive officers.

The maximum amount that could be allocated to the bonus pool was \$466,218 under the 2017 Executive Officer Plan provided, however, that the maximum amount will be appropriately adjusted if (a) a newly hired employee becomes eligible to participate in the plan, (b) a participant's base salary is adjusted during the year, or (c) a participant becomes ineligible before December 31, 2017.

Payment from the bonus pool under the 2017 Executive Officer Plan, if any, was based on the achievement of targets under the following metrics for 2017, which were established by our Compensation Committee:

**Metrics for the 2017 Executive Officer Plan**

<b>Percentage</b>	<b>Metric</b>	<b>Target</b>	<b>Results</b>	<b>Met?</b>
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**of Total**

10%	Net loan growth	Total loans of \$2.553 billion at December 31, 2017	\$2.559 billion	Yes
10%	Level of non-performing assets	Not to exceed 0.50% of total assets on December 31, 2017	0.29%	Yes
10%	Commercial loan portfolio composition	Commercial and industrial loans plus owner-occupied commercial real estate loans not less than 55% of total commercial loans at December 31, 2017	58%	Yes
10%	Net interest margin	3.68% for 2017	3.79%	Yes
10%	Noninterest income	\$19.888 million for 2017	\$18.989 million	No
10%	Efficiency ratio	62.00% for 2017*	59.75%	Yes
10%				

Fiscal 2009 third quarter net sales were \$5,099,000, a 3% increase from the \$4,953,000 in the third quarter of fiscal 2008. Sales at Giga-tronics decreased 6% or \$228,000 primarily due to a decrease in commercial shipments for its products. Sales at Microsource increased 39% or \$374,000 during the third quarter of fiscal 2009 versus the third quarter of fiscal 2008 primarily due to an increase in military shipments.

Net sales for the nine month period ended December 27, 2008 were \$12,276,000, a 14% decrease from the \$14,232,000 in the nine month period ended December 29, 2007. Sales at Giga-tronics decreased 19% or \$2,140,000 primarily due to a decrease in military demand for its products. Sales at Microsource increased 6% or \$184,000 during the nine month period ended December 27, 2008 versus the same period in the prior fiscal year primarily due to an increase in military shipments.

Cost of sales was as follows for the fiscal periods shown:

(Dollars in thousands)	Cost of Sales		
	December 27, 2008	Three Months Ended % change	December 29, 2007
Cost of sales	\$ 2,679	(8%)	\$ 2,904

  

(Dollars in thousands)	Nine Months Ended		
	December 27, 2008	% change	December 29, 2007
Cost of sales	\$ 7,121	(13%)	\$ 8,158

In the third quarter of fiscal 2009, cost of sales decreased 8% to \$2,679,000 from \$2,904,000 for the same period last year. For the nine months ended December 27, 2008, cost of sales decreased 13% to \$7,121,000 from \$8,158,000 for the similar period ended December 29, 2007. For the three month period the decrease is primarily due to a better product mix sold with higher profit margins, whereas the decrease for the nine month period is primarily due to lower sales.

Operating expenses were as follows for the fiscal periods shown:

(Dollars in thousands)	Operating Expenses		
	December 27, 2008	Three Months Ended % change	December 29, 2007
Engineering	\$ 479	(8%)	\$ 520
Selling, general and administrative	1,590	9%	1,454
Total	\$ 2,069	5%	\$ 1,974

  

(Dollars in thousands)	Nine Months Ended		
	December 27, 2008	% change	December 29, 2007
Engineering	\$ 1,557	(4%)	\$ 1,620
Selling, general and administrative	4,391	7%	4,094
Restructuring	-	(100%)	80
Total	\$ 5,948	3%	\$ 5,794

Operating expenses increased 5% or \$95,000 in the third quarter of fiscal 2009 over fiscal 2008. Product development costs decreased 8% or \$41,000 for the quarter ended December 27, 2008 as compared to the same period in the prior year. This is primarily due to engineering expense associated with an NRE (non-recurring engineering) contract inventoried on the balance sheet until the revenue from the milestone is recognized. Selling, general and administrative expenses increased 9% or \$136,000 for the third quarter of fiscal year 2009 compared to the same period in the prior year. The increase is a result of higher marketing expenses of \$131,000 and higher commission expenses of \$17,000 offset by lower administrative expenses of \$12,000.

Operating expenses increased 3% or \$154,000 for the nine months ended December 27, 2008 over the same period for the prior year. Engineering costs from continuing operations decreased 4% or \$63,000 for the nine month period ended December 27, 2008. This is primarily due to engineering expense associated with an NRE contract inventoried on the balance sheet until the revenue from the milestone is recognized. Selling, general and administrative expenses from continuing operations increased 7% or \$297,000 for the nine month period ended

December 27, 2008. The increase is a result of higher marketing expenses of \$336,000 and higher administrative expenses of \$188,000 offset by lower commission expenses of \$227,000 on lower commissionable sales for the nine month period. A one-time restructuring charge of \$80,000 in severance costs was made in the nine month period ended December 29, 2007.

The Company recorded a net profit of \$349,000 or \$0.07 per fully diluted share for the third quarter of fiscal 2009 versus a net profit of \$31,000 or \$0.01 per fully diluted share in the same period last year. The Company recorded a net loss of \$713,000 or \$0.15 per fully diluted share for the nine months ended December 27, 2008 versus a net profit of \$311,000 or \$0.06 per fully diluted share in the same period last year.

#### Financial Condition and Liquidity

As of December 27, 2008, the Company had \$2,113,000 in cash and cash equivalents, compared to \$1,845,000 as of March 29, 2008.

Working capital at December 27, 2008 was \$6,628,000 compared to \$7,131,000 at March 29, 2008. The decrease in working capital was primarily due to lower accounts receivable and accrued expenses in fiscal 2009.

The Company's current ratio (current assets divided by current liabilities) at December 27, 2008 was 3.30 compared to 3.55 on March 29, 2008.

Cash provided by operations amounted to \$290,000 for the nine month period ended December 27, 2008. Cash provided by operations amounted to \$147,000 in the same period of fiscal 2008. Cash used in operations in the nine months ended December 27, 2008 is primarily attributed to the operating loss offset by the net change in operating assets and liabilities in the year. Cash used by operations in the nine month period ended December 29, 2007 was primarily attributed to the net change in operating assets and liabilities offset by the operating income in the year.

Additions to property and equipment were \$66,000 for the nine months ended December 27, 2008 compared to \$121,000 for the same period last year. The capital equipment spending in fiscal 2009 was due to an upgrade of capital equipment enabling the manufacture of new products being released.

On June 17, 2008, the Company renewed its secured revolving line of credit for \$2,500,000, with interest payable at prime rate plus 1%. The borrowing under this line of credit is based on the Company's accounts receivable and inventory and is secured by all of the assets of the Company. The Company borrowed \$500,000 in the third quarter of fiscal 2009, but repaid it prior to December 27, 2008.

From time to time, the Company considers a variety of acquisition opportunities to also broaden its product lines and expand its market. Such acquisition activity could also increase the Company's operating expenses and require the additional use of capital resources. The Company also intends to maintain research and development expenditures for the purpose of broadening its product line.

Future tax benefits are subject to a valuation allowance when management is unable to conclude that its deferred tax assets will more likely than not be realized from the results of operations. The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based on historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, management has taken a conservative approach that the Company will not realize benefits of these deductible differences as of December 27, 2008. Management has, therefore, established a valuation allowance against its net deferred tax assets as of December 27, 2008.



#### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are likely to have a current or future material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

#### Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 11 to the Condensed Consolidated Financial Statements (unaudited) included in this report.

#### Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

#### Item 4T - Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurances that (i) the information the Company is required to disclose in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period required by the Commission's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. There were no significant changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.



Part II - OTHER INFORMATION

Item 1 - Legal Proceedings

As of December 27, 2008, the Company has no material pending legal proceedings. From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of business.

Item 1a - Risk Factors

The economy's difficulties and Nasdaq's minimum price rule could adversely affect our stock price. The Company sells a majority of its products to the military; however, during these unstable economic times, it is difficult to predict the effect on the Company and whether the credit crunch will have a negative effect. In addition, as a result in part of the difficulties throughout the nation's economy, the stock market has been in somewhat of a freefall and we believe this has had a negative effect on the market value of the Company's stock. NASDAQ has temporarily suspended its minimum price rule, which calls for de-listing an issuer's stock from the Nasdaq Stock Market if the closing price is less than \$1.00 for 30 consecutive trading days, until April 19, 2009. If the market value of the stock does not rise to at least \$1.00 and the suspension of the minimum price rules is not continued, this could have a further negative effect on the Company's stock price.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

None.

Item 6 - Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GIGA-TRONICS INCORPORATED  
(Registrant)

By:

Date: February 2, 2009

/s/ John R. Regazzi  
John R. Regazzi  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: February 2, 2009

/s/ Patrick J. Lawlor  
Patrick J. Lawlor  
Vice President Finance/  
Chief Financial Officer & Secretary  
(Principal Accounting Officer)