

MERCANTILE BANK CORP
Form 10-Q
August 07, 2015
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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ .

Commission File No. 000-26719

MERCANTILE BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan 38-3360865
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

310 Leonard Street, NW, Grand Rapids, MI 49504

(Address of principal executive offices) (Zip Code)

(616) 406-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At August 7, 2015, there were 16,459,841 shares of common stock outstanding.

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PART I --- FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$44,811,000	\$43,754,000
Interest-bearing deposits	83,774,000	117,777,000
Federal funds sold	9,846,000	11,207,000
Total cash and cash equivalents	138,431,000	172,738,000
Securities available for sale	373,446,000	432,912,000
Federal Home Loan Bank stock	7,567,000	13,699,000
Loans	2,171,832,000	2,089,277,000
Allowance for loan losses	(16,561,000)	(20,041,000)
Loans, net	2,155,271,000	2,069,236,000
Premises and equipment, net	47,902,000	48,812,000
Bank owned life insurance	58,409,000	57,861,000
Goodwill	49,473,000	49,473,000
Core deposit intangible	14,061,000	15,624,000
Other assets	31,384,000	33,024,000
Total assets	\$2,875,944,000	\$2,893,379,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$612,222,000	\$558,738,000
Interest-bearing	1,666,572,000	1,718,177,000
Total deposits	2,278,794,000	2,276,915,000
Securities sold under agreements to repurchase	152,081,000	167,569,000
Federal Home Loan Bank advances	48,000,000	54,022,000
Subordinated debentures	54,813,000	54,472,000

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Accrued interest and other liabilities	13,285,000	12,263,000
Total liabilities	2,546,973,000	2,565,241,000
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized; none issued	0	0
Common stock, no par value; 40,000,000 shares authorized; 16,571,474 shares outstanding at June 30, 2015 and 16,976,839 shares outstanding at December 31, 2014	310,136,000	317,904,000
Retained earnings	18,766,000	10,218,000
Accumulated other comprehensive income	69,000	16,000
Total shareholders' equity	328,971,000	328,138,000
Total liabilities and shareholders' equity	\$2,875,944,000	\$2,893,379,000

See accompanying notes to condensed consolidated financial statements.

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MERCANTILE BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest income				
Loans, including fees	\$25,587,000	\$16,657,000	\$50,898,000	\$28,756,000
Securities, taxable	1,489,000	1,393,000	3,174,000	2,627,000
Securities, tax-exempt	523,000	374,000	1,060,000	557,000
Other interest-earning assets	64,000	58,000	120,000	130,000
Total interest income	27,663,000	18,482,000	55,252,000	32,070,000
Interest expense				
Deposits	1,775,000	2,272,000	3,675,000	4,307,000
Short-term borrowings	39,000	27,000	76,000	49,000
Federal Home Loan Bank advances	151,000	156,000	303,000	306,000
Other borrowings	657,000	474,000	1,308,000	791,000
Total interest expense	2,622,000	2,929,000	5,362,000	5,453,000
Net interest income	25,041,000	15,553,000	49,890,000	26,617,000
Provision for loan losses	(600,000)	(700,000)	(1,000,000)	(2,600,000)
Net interest income after provision for loan losses	25,641,000	16,253,000	50,890,000	29,217,000
Noninterest income				
Services charges on accounts	812,000	522,000	1,582,000	887,000
Credit and debit card income	1,079,000	593,000	2,291,000	894,000
Mortgage banking activities	999,000	349,000	1,687,000	412,000
Earnings on bank owned life insurance	262,000	282,000	548,000	581,000
Other income	869,000	542,000	1,607,000	1,020,000
Total noninterest income	4,021,000	2,288,000	7,715,000	3,794,000
Noninterest expense				
Salaries and benefits	11,074,000	7,037,000	21,158,000	12,267,000
Occupancy	1,479,000	914,000	3,052,000	1,626,000

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Furniture and equipment	596,000	368,000	1,220,000	615,000
Data processing costs	1,872,000	1,440,000	3,642,000	2,376,000
FDIC insurance costs	483,000	224,000	960,000	401,000
Merger-related costs	0	3,453,000	0	3,830,000
Other expense	4,846,000	2,630,000	9,559,000	4,158,000
Total noninterest expenses	20,350,000	16,066,000	39,591,000	25,273,000
Income before federal income tax expense	9,312,000	2,475,000	19,014,000	7,738,000
Federal income tax expense	2,754,000	966,000	5,810,000	2,649,000
Net income	\$6,558,000	\$1,509,000	\$13,204,000	\$5,089,000
Basic earnings per share	\$0.39	\$0.13	\$0.78	\$0.50
Diluted earnings per share	\$0.39	\$0.13	\$0.78	\$0.50
Cash dividends per share	\$0.14	\$2.12	\$0.28	\$2.24
Average basic shares outstanding	\$16,767,393	\$11,406,908	\$16,852,002	\$10,080,242
Average diluted shares outstanding	\$16,803,846	\$11,435,867	\$16,887,702	\$10,094,725

See accompanying notes to condensed consolidated financial statements.

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MERCANTILE BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income	\$6,558,000	\$1,509,000	\$13,204,000	\$5,089,000
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available for sale	(2,722,000)	1,537,000	165,000	4,148,000
Fair value of interest rate swap	71,000 (2,651,000)	(140,000) 1,397,000	(126,000) 39,000	(126,000) 4,022,000
Tax effect of unrealized holding gains (losses) on securities available for sale	981,000	(568,000)	(30,000)	(1,481,000)
Tax effect of fair value of interest rate swap	(25,000) 956,000	49,000 (519,000)	44,000 14,000	45,000 (1,436,000)
Other comprehensive income (loss), net of tax	(1,695,000)	878,000	53,000	2,586,000
Comprehensive income	\$4,863,000	\$2,387,000	\$13,257,000	\$7,675,000

See accompanying notes to condensed consolidated financial statements.

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MERCANTILE BANK CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF
 CHANGES IN SHAREHOLDERS' EQUITY
 (Unaudited)

(\$ in thousands)	Preferred Stock	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2015	\$ 0	\$317,904	\$10,218	\$ 16	\$ 328,138
Employee stock purchase plan (1,110 shares)		23			23
Dividend reinvestment plan (13,788 shares)		283			283
Stock option exercises (26,375 shares)		275			275
Stock grants to directors for retainer fees (20,094 shares)		402			402
Stock-based compensation expense		359			359
Share repurchase program (463,060 shares)		(9,110)			(9,110)
Cash dividends (\$0.28 per common share)			(4,656)		(4,656)
Net income for the six months ended June 30, 2015			13,204		13,204
Change in net unrealized holding gain on securities available for sale, net of tax effect				135	135
Change in fair value of interest rate swap, net of tax effect				(82)	(82)
Balances, June 30, 2015	\$ 0	\$310,136	\$18,766	\$ 69	\$ 328,971

See accompanying notes to condensed consolidated financial statements.

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MERCANTILE BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF

CHANGES IN SHAREHOLDERS' EQUITY (Continued)

(Unaudited)

(\$ in thousands)	Preferred Stock	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2014	\$ 0	\$ 162,999	\$(4,101)	\$ (5,573)	\$ 153,325
Stock option exercises (5,920 shares)		75			75
Stock grants to directors for retainer fees (7,375 shares)		155			155
Stock-based compensation expense		351			351
Cash dividends (\$2.24 per common share)		(20,102)	(315)		(20,417)
Common stock issued in connection with Firstbank merger (8,087,272 shares)		173,310			173,310
Stock options issued to replace existing Firstbank options at merger date		1,664			1,664
Net income for the six months ended June 30, 2014			5,089		5,089
Change in net unrealized holding gain on securities available for sale, net of tax effect				2,667	2,667
Change in fair value of interest rate swap, net of tax effect				(81)	(81)
Balances, June 30, 2014	\$ 0	\$ 318,452	\$ 673	\$ (2,987)	\$ 316,138

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities		
Net income	\$ 13,204,000	\$ 5,089,000
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	5,588,000	1,967,000
Accretion of acquired loans	(2,910,000)	(512,000)
Provision for loan losses	(1,000,000)	(2,600,000)
Stock-based compensation expense	359,000	