INDEPENDENT BANK CORP /MI/
Form 424B3
November 01, 2010

Table of Contents

Filed Pursuant to Rule 424(b)(3)
File No. 333-169200

PROSPECTUS

1,502,468 Shares
Common Stock

This prospectus relates to the disposition from time to time of up to 1,502,468 shares of our common stock, or approximately 19.999% of our outstanding shares, that we may issue to Dutchess Opportunity Fund, II, LP (Dutchess), pursuant to an Investment Agreement between us and Dutchess, dated July 7, 2010. We are not selling any common stock under this prospectus and will not receive any of the proceeds from the sale of shares by the selling stockholder.

The selling stockholder may offer the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices, or at privately negotiated prices. We provide more information about how the selling stockholder may sell its shares of common stock in the section entitled Plan of Distribution beginning on page 30 of this prospectus. We will not be paying any underwriting discounts or commissions in connection with any offering of common stock under this prospectus.

Our common stock is listed on the Nasdaq Global Select Market under the symbol IBCP . As of October 29, 2010, the closing sale price for our common stock on the Nasdaq Global Select Market was $1.74 per share.

Investing in our common stock involves risks. We encourage you to read and carefully consider this prospectus in its entirety, in particular the risk factors beginning on page 21, for a discussion of factors that you should consider with respect to this offering.

The shares of common stock offered are not savings accounts, deposits, or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission, any state securities commission, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is November 1, 2010.

TABLE OF CONTENTS

This prospectus is part of a registration statement on Form S-1 that we filed with the Securities and Exchange Commission (SEC), using the shelf registration process. Under this process, the selling stockholder may from time to time, in one or more offerings, sell the common stock described in this prospectus.

You should rely only on the information contained in or incorporated by reference into this prospectus (as supplemented and amended). We have not authorized anyone to provide you with different information. This document may only be used where it is legal to sell these securities. You should not assume that the information contained in this prospectus is accurate as of any date other than its date regardless of the time of delivery of the prospectus or any sale of our common stock.

We urge you to read carefully this prospectus (as supplemented and amended), together with the information incorporated herein by reference as described under the heading Where You Can Find More Information, before deciding whether to invest in any of the common stock being offered.

As used in this prospectus, the terms we, our, us, and IBC refer to Independent Bank Corporation and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to our bank or Independent Bank in this prospectus, we are referring to Independent Bank, a Michigan banking corporation and wholly-owned subsidiary of Independent Bank Corporation.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act that registers the shares of our common stock that may be sold by the selling stockholder from time to time in one or more offerings. The registration statement, including the exhibits and schedules thereto, contains additional relevant information about us and our capital stock. The rules and regulations of the SEC allow us to omit from this prospectus certain information included in the registration statement. For further information about us and our common stock, you should refer to the registration statement and the exhibits and schedules to the registration statement. With respect to the statements contained in this prospectus regarding the contents of any agreement or any other document, in each instance, the statement is qualified in all respects by the complete text of the agreement or document, a copy of which has been filed or incorporated by reference as an exhibit to the registration statement.

We file annual, quarterly, and current reports, proxy statements, and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You can also request copies of the documents, upon payment of a duplicating fee, by writing the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC s web site at http://www.sec.gov.

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to another document that we have filed separately with the SEC. You should read the information incorporated by reference because it is an important part of this prospectus. We incorporate by reference the following information or documents that we have filed with the SEC (Commission File No. 0-7818):

- our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 26, 2010;
- our Current Report on Form 8-K filed with the SEC on January 27, 2010;
- our Current Report on Form 8-K filed with the SEC on January 29, 2010;
- our Current Report on Form 8-K filed with the SEC on February 3, 2010;
- our Schedule TO filed with the SEC on March 1, 2010;
- our Amendment No. 1 to Schedule TO filed with the SEC on March 18, 2010;
- our Proxy Statement on Schedule 14A filed with the SEC on March 24, 2010;
- our Amendment No. 2 to Schedule TO filed with the SEC on April 1, 2010;
- our Current Report on Form 8-K filed with the SEC on April 2, 2010;
- our Current Report on Form 8-K filed with the SEC on April 6, 2010;
- our Current Report on Form 8-K filed with the SEC on April 9, 2010;
- our Current Report on Form 8-K filed with the SEC on April 12, 2010;
- our Current Report on Form 8-K filed with the SEC on April 21, 2010;
- our Current Reports on Form 8-K filed with the SEC on April 23, 2010;

our Current Report on Form 8-K filed with the SEC on April 30, 2010;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed with the SEC on May 11, 2010;

our Current Reports on Form 8-K filed with the SEC on May 14, 2010;

our Current Report on Form 8-K filed with the SEC on May 28, 2010;

our Current Reports on Form 8-K filed with the SEC on June 4, 2010;

our Current Report on Form 8-K filed with the SEC on June 21, 2010;

our Current Report on Form 8-K filed with the SEC on June 23, 2010;

our Current Report on Form 8-K filed with the SEC on June 25, 2010;

our Current Report on Form 8-K filed with the SEC on July 27, 2010;

Table of Contents

- our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 filed with the SEC on August 6, 2010;
- our Current Report on Form 8-K filed with the SEC on August 31, 2010;
- our Current Report on Form 8-K filed with the SEC on September 21, 2010;
- our Current Report on Form 8-K filed with the SEC on September 30, 2010; and
- our Current Report on Form 8-K filed with the SEC on October 28, 2010.

Any information in any of the foregoing documents will automatically be deemed to be modified or superseded to the extent that information in this prospectus or in an amendment or supplement to this prospectus modifies or replaces such information.

We will furnish without charge to you, upon written or oral request, a copy of any or all of the documents incorporated by reference, including exhibits to these documents. You should direct any requests for documents to: Independent Bank Corporation, Attn: Investor Relations, 230 West Main Street, Ionia, Michigan 48846. Our telephone number is (616) 527-5820. In addition, all of the documents incorporated by reference into this prospectus may be accessed from our web site at http://www.IndependentBank.com.

FORWARD-LOOKING STATEMENTS

Discussions and statements in this prospectus and the documents incorporated by reference into this prospectus that are not statements of historical fact, including, without limitation, statements that include terms such as will, may, should, believe, expect, forecast, anticipate, estimate, project, intend, likely, optimistic and plan future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services, and projections of our future revenue, earnings or other measures of economic performance, forecasts of credit losses and other asset quality trends, predictions as to our bank s ability to maintain certain regulatory capital standards, our expectation that we will have sufficient cash on hand to meet expected obligations during 2010, and our expectations regarding a decrease in payment plan receivables held by Mepco and the resulting effect on our net interest margin. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including the risks and uncertainties detailed under Risk Factors set forth in this prospectus and the following:

- our ability to successfully raise new equity capital in a public offering, effect a conversion of our outstanding preferred stock held by the Treasury into our common stock, and otherwise implement our Capital Plan;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;
- the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;
- the ability of our bank to remain well-capitalized;
- increased competition for deposits and loans which could affect portfolio compositions, rates, and terms;
- changes in the levels of prepayments received on loans and investment securities that adversely affect the yield and value of our earning assets;

the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;

further adverse developments in the vehicle service contract industry, whose current turmoil has increased the credit risk and reputation risk for our subsidiary, Mepco;

potential limitations on our ability to access and rely on wholesale funding sources;

the continued services of our management team, particularly as we work through our asset quality issues and the implementation of our Capital Plan;

Table of Contents

- implementation of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be determined at this time;

- the impact of compensation and other restrictions imposed under the Troubled Asset Relief Program (TARP) until the Treasury ceases to own any of our debt or equity securities acquired pursuant to the Exchange Agreement, dated as of April 2, 2010, between IBC and the Treasury (the Exchange Agreement) or the amended and restated Warrant, dated April 16, 2010, we issued to the Treasury in connection therewith (the amended and restated Warrant);

- changes in the scope and cost of FDIC insurance, increases in regulatory capital requirements, and changes in the TARP s Capital Purchase Program;

- the impact of legislative and regulatory changes, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application of such laws, regulations, and policies by regulators;

- the potential loss of core deposits if the challenging banking environment persists or the economy significantly deteriorates;

- changes in accounting principles, policies, and guidelines applicable to bank holding companies and the financial services industry;

- the risk that sales of our capital stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;

- the risk that our common stock may be delisted from the Nasdaq Global Select Market;

- the ability to manage the risks involved in the foregoing; and

- other factors and risks described under Risk Factors in this prospectus and the documents incorporated by reference into this prospectus, which we urge you to read carefully.

In addition, other factors not currently anticipated may also materially and adversely affect our results of operations, cash flows, financial position, and prospects. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this prospectus and the information incorporated herein by reference are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

Table of Contents

SUMMARY

This summary does not contain all of the information that may be important to you or that you should consider before investing in our common stock. You should read the entire prospectus (as supplemented and amended), including the Risk Factors section as well as the financial data and related notes, risk factors and other information incorporated by reference in this prospectus, before making an investment decision.

Reverse Stock Split

On August 31, 2010, we effected a reverse stock split of our issued and outstanding common stock. Pursuant to this reverse stock split, each ten shares of our common stock issued and outstanding immediately prior to the reverse stock split was converted into one share of our common stock. All share or per share information included in this prospectus, excluding our consolidated financial statements and related notes incorporated by reference in this prospectus, has been retroactively restated to reflect the effects of the reverse stock split.

About Independent Bank Corporation

Independent Bank Corporation, headquartered in Ionia, Michigan, is a regional bank holding company providing commercial banking services to individuals, small to medium-sized businesses, community organizations, and public entities. Our wholly-owned banking subsidiary, Independent Bank, was founded in 1864 and operates 105 banking offices that are primarily located in mid-sized Michigan communities such as Grand Rapids, Battle Creek, Lansing, Troy, Bay City, and Saginaw, as well as more rural and suburban communities throughout the lower peninsula of Michigan.

Our bank provides a comprehensive array of products and services to individuals and businesses in the markets we serve. These products and services include checking and savings accounts, commercial loans, direct and indirect consumer financing, mortgage lending, and commercial and municipal treasury management services. Our bank s mortgage lending activities are primarily conducted through a separate mortgage bank subsidiary. In addition, Mepco Finance Corporation (Mepco), a wholly-owned subsidiary of our bank, acquires and services payment plans used by consumers to purchase vehicle service contracts and similar products provided and administered by third parties. We also offer title insurance services through a separate subsidiary of our bank and investment and insurance services through a third party agreement with PrimeVest Financial Services.

Background

Our bank began to experience rising levels of non-performing loans and higher provisions for loan losses in 2006 as the Michigan economy experienced economic stress ahead of national trends. Although our bank remained profitable through the second quarter of 2008, it incurred seven consecutive quarterly losses since the third quarter of 2008, which have pressured its capital ratios. While our bank still remains well-capitalized under federal regulatory guidelines, we project that due to our elevated levels of non-performing assets, as well as anticipated losses in the future, an increase in equity capital is necessary in order for our bank to remain well-capitalized and take advantage of opportunities outlined in our business strategy below.

In 2009, we retained financial and legal advisors to assist us in reviewing our capital alternatives. We have since discontinued cash dividends on our common stock and exercised our right to defer all quarterly distributions on our outstanding trust preferred securities, as well as on all shares of preferred stock issued to the U.S. Department of the Treasury (the Treasury) pursuant to the Troubled Asset Relief Program (TARP). In December 2009 (as subsequently amended), the board of directors of our bank adopted resolutions designed to enhance and strengthen our operations, performance, and financial condition. Importantly, alongside other resolutions aimed at improving asset quality, earnings, liquidity, and risk management, the resolutions require our bank to achieve and maintain a minimum Tier 1 leverage ratio of 8% and a minimum total risk-based capital ratio of 11% by approximately November 30, 2010. As of June 30, 2010, these ratios were 6.37% and 10.55%, respectively.

In January 2010, our board of directors adopted a capital restoration plan (the Capital Plan) that documents our objectives and plans for meeting these target ratios. The three primary initiatives of our Capital Plan are

- the conversion of our shares of Series A Preferred Stock which we issued to the Treasury under the Capital Purchase Program (CPP) of TARP into shares of our common stock;

- an offer to exchange shares of our common stock for our outstanding trust preferred securities; and a public offering of our common stock in which we seek to raise approximately $110 million of new equity capital.

The exchange of our trust preferred securities has not resulted, and the conversion of the preferred stock held by the Treasury into shares of common stock will not result, in any cash proceeds to us. However, both initiatives will give us additional tangible common equity and allow us to reduce our future interest expense and eliminate preferred dividend payments to the Treasury. A public offering of our common stock described above will result in cash proceeds and a corresponding increase in our tangible common equity.

To date, we have made progress on a number of initiatives to advance the Capital Plan:

On January 29, 2010, we held a special shareholder meeting at which our shareholders approved an increase in the number of shares of common stock we are authorized to issue from 60 million to 500 million. Our shareholders also gave the required shareholder approval for the conversion of preferred stock held by the Treasury into shares of our common stock and the issuance of shares of our common stock in exchange for our outstanding trust preferred securities.

On April 16, 2010, we closed an Exchange Agreement with the Treasury pursuant to which the Treasury exchanged $72 million in aggregate liquidation value of our Series A Preferred Stock issued to the Treasury under TARP, plus approximately $2.4 million in accrued but unpaid dividends on such shares, into mandatory convertible preferred stock (new Series B Convertible Preferred Stock). As part of this exchange, we also amended and restated the terms of the Warrant issued to the Treasury in December 2008 to purchase 346,154 shares of our common stock in order to adjust the initial exercise price of the Warrant to be equal to the conversion price applicable to the Series B Convertible Preferred Stock.

The shares of Series B Convertible Preferred Stock are convertible into shares of our common stock. Subject to the receipt of applicable approvals, the Treasury has the right to convert the Series B Convertible Preferred Stock into our common stock at any time. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock at any time provided the following conditions are met:

(1) we receive appropriate approvals from the Federal Reserve;

(2) at least $40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock;

(3) we complete a new cash equity raise of not less than $100 million on terms acceptable to the Treasury in its sole discretion (other than with respect to the price offered per share); and

(4) we make any required anti-dilution adjustments to the rate at which the Series B Convertible Preferred Stock is converted into our common stock, to the extent required. (See Description of Our Capital Stock below.)

Once we meet the conditions described above, we intend to immediately convert the Series B Convertible Preferred Stock into shares of our common stock. For each share of Series B Convertible Preferred Stock with a $1,000 liquidation value, we will issue a number of shares of common stock equal to $750 divided by a conversion price of $7.234, subject to any necessary anti-dilution adjustments. At the time any shares of Series B Convertible Preferred Stock are converted into our common stock, we will be required to pay all accrued and unpaid dividends on the Series B Convertible Preferred Stock being converted in cash or, at our option, in shares of our common stock, in which case the number of shares to be issued will be equal to the amount of accrued and unpaid dividends to be paid in common stock divided by the market price of our common stock at the time of conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock). Accrued and unpaid dividends on the Series B Convertible Preferred Stock totaled approximately $0.8 million at June 30, 2010. Unless earlier converted, the Series B Convertible Preferred Stock will convert into shares of our common stock on a mandatory basis on April 16, 2017, subject to the prior receipt of any required regulatory and shareholder approvals. In that case, the shares of preferred stock will convert based on the full $1,000 liquidation value per share (i.e., there will be no 25% discount to the liquidation value, as there will be for an early conversion by us or the Treasury).

On June 23, 2010, we completed the exchange of an aggregate of 5,109,125 newly issued shares of our common stock for $41.4 million in aggregate liquidation amount of our outstanding trust preferred securities. As a result, we have satisfied the condition to our ability to compel a conversion of the Series B Convertible Preferred Stock held by the Treasury that at least $40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock.

On July 8, 2010, we filed with the SEC a registration statement, including a prospectus, to register $110 million of our common stock in a public offering as contemplated by our Capital Plan. To date, such registration statement has not become effective and we have not otherwise commenced the public offering.

The offering described in the prospectus included in the registration statement we filed on July 8, 2010 is a critical step to our ability to achieve the target capital ratios set forth in our Capital Plan. While we are not currently subject to a regulatory agreement or enforcement action and while our bank remains well capitalized under federal regulatory standards, we believe our bank is likely to fall below the

Table of Contents

standards necessary to remain well-capitalized during the fourth quarter of 2010 if we are unable to raise additional capital in that offering or sufficient capital through the Equity Line discussed below. We expect this would have a number of material and adverse consequences, as discussed in the Risk Factors in the documents incorporated by reference into this prospectus.

Equity Line With Dutchess

On July 7, 2010, we entered into the Investment Agreement with Dutchess that establishes an equity line facility (the Equity Line) as a contingent source of liquidity for our holding company. Under the Investment Agreement, Dutchess committed to purchase, from time to time over a period of 36 months and subject to certain conditions, up to $15 million of our common stock, subject to the limitation that we may not issue more than approximately 1,502,468 shares to Dutchess without the approval of our shareholders to comply with NASDAQ Marketplace Rule 5635. In connection with the Investment Agreement, we entered into a Registration Rights Agreement with Dutchess.

The shares of common stock that may be issued to Dutchess under the Investment Agreement will be issued pursuant to an exemption from registration under the Securities Act of 1933, as amended (the Securities Act). Pursuant to the Registration Rights Agreement, we have filed a registration statement, of which this prospectus is a part, covering the possible resale by Dutchess of up to 1,502,468 shares that we may issue to Dutchess under the Investment Agreement. Through this prospectus, the selling stockholder may offer to the public for resale shares of our common stock that we may issue to Dutchess pursuant to the Investment Agreement.

The registration statement of which this prospectus is a part registers 1,502,468 shares of our common stock issuable pursuant to the Investment Agreement with Dutchess. Subject to our receipt of shareholder approval to comply with NASDAQ Marketplace Rule 5635, we may file one or more registration statements covering the resale of additional shares of our common stock issuable pursuant to the Investment Agreement, up to an aggregate purchase price of $15 million including the purchase price paid by Dutchess to us for the shares offered hereby, beginning at the later of 60 days after Dutchess and its affiliates have resold substantially all of the common stock registered for resale under the registration statement of which this prospectus is a part, or six months after the effective date of the registration statement of which this prospectus is a part. However, we have no obligation to issue any minimum number of shares of our common stock pursuant to the Equity Line. We will only be obligated to obtain shareholder approval to comply with NASDAQ Marketplace Rule 5635 if we decide to issue more than approximately 1,502,468 shares to Dutchess.

For a period of 36 months from the first trading day following the effectiveness of the registration statement of which this prospectus is a part, we may, from time to time, at our sole discretion, and subject to certain conditions that we must satisfy, draw down the Equity Line by selling shares of our common stock to Dutchess. The amount we are entitled to put in any one draw down may not exceed the greater of (1) two, multiplied by the average daily volume of our common stock for the three trading days immediately prior to the date Dutchess receives a put notice from us, multiplied by the average of the three daily closing prices of the common stock immediately preceding such date, or (2) $250,000. The purchase price of these shares will be at a discount of 5% to the lowest volume weighted average price, or VWAP, of our common stock during the five consecutive trading day period beginning on the date Dutchess receives a put notice from us and ending on and including the date that is four trading days after such date. We have the option of specifying a floor price in any put notice. If the purchase price, determined as described above, is less than the floor price, then the purchase price automatically adjusts up to the floor price and Dutchess is only obligated to purchase, and we are only obligated to sell, the number of shares specified by Dutchess in the put settlement statement with respect to such put notice. During the period between the put notice date and the closing date with respect to that particular put, we are not entitled to deliver another put notice.

Certain conditions must be satisfied before we are entitled to put shares to Dutchess, including the following:

- there must be an effective registration statement under the Securities Act to cover the resale of the shares by Dutchess;

- our common stock must be listed on the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the NYSE Amex, the New York Stock Exchange, the OTC Bulletin Board or the Pink Sheets, and we must not be in receipt of any notice of any pending or threatened proceeding or other action to suspend the trading of our common stock from the market on which it is then listed;

we must have complied with our obligations and not otherwise be in breach of or in default under the Investment Agreement or the Registration Rights Agreement;

no injunction or other governmental action shall remain in force which prohibits the purchase by or the issuance of the shares to Dutchess;

the issuance of such shares must not violate any shareholder approval requirements of the market on which our common stock is then listed; and

our representations and warranties to Dutchess must be true and correct in all material respects.

Table of Contents

The parties negotiated the amount of the Equity Line ($15 million) before entering into the Investment Agreement on July 7, 2010. This was the approximate amount we would have been able to draw down without shareholder approval under NASDAQ Marketplace Rule 5635 based on the market price of our common stock at that time (early- to mid-June 2010). The market price of our common stock has declined significantly since that time. As a result, based on current market prices, we would not be able to drawn down more than approximately $2.2 million without shareholder approval under NASDAQ Marketplace Rule 5635. However, the extent to which we will be able to draw down, or will need to draw down, the Equity Line is dependent upon various factors, including our future financial performance, the market price of our common stock at the time of any put exercise, whether we are successful in raising capital in the offering described in the prospectus included in the registration statement we filed on July 8, 2010, and our ability to obtain any necessary shareholder approval under NASDAQ Marketplace Rule 5635 in order to issue more than approximately 1,502,468 shares pursuant to the Equity Line.

The Investment Agreement further provides that IBC and Dutchess are each entitled to customary indemnification from the other for any losses or liabilities we or it suffers as a result of any breach by the other of any provisions of the Investment Agreement or the Registration Rights Agreement, or as a result of any third party claims arising out of or resulting from the other party s execution, delivery, performance or enforcement of the Investment Agreement or the Registration Rights Agreement.

The Investment Agreement also contains representations and warranties of IBC and Dutchess. Such representations and warranties were made for purposes of the Investment Agreement and are subject to qualifications and limitations agreed to by the parties in connection with negotiating the terms of the Investment Agreement. In addition, certain representations and warranties were made as of a specific date, may be subject to a contractual standard of materiality different from what a shareholder might view as material, or may have been used for purposes of allocating risk between the respective parties rather than establishing matters as facts.

Dutchess has also agreed pursuant to the Investment Agreement not to sell short any of our securities, either directly or indirectly through its affiliates, principals or advisors during the term of the Investment Agreement. However, in connection with the distribution of our common stock or otherwise, Dutchess may enter into certain other hedging transactions. Please see Risk Factors and Plan of Distribution below.

In connection with the preparation of the Investment Agreement and the Registration Rights Agreement, we paid Dutchess a non-refundable document preparation fee of $15,000. However, we did not issue Dutchess any shares of our common stock or other securities. No fees or commissions are payable at the time of any put under the Investment Agreement.

Our Markets

We have a relationship-based, community bank model, with a 105-branch network that provides a full offering of banking products and services to retail and business customers in the Michigan markets we cover.

The table below presents the composition of our branch footprint and core deposit base as of June 30, 2010 by the regions of Michigan in which we operate:

($ in millions)

Region	**Representative Cities**	**Branches**	**Core Deposits(1)**	**% of Core Deposits**
East / Thumb	Bay City / Saginaw	37	$ 621	32.5%
West	Ionia / Grand Rapids	26	492	25.7%
Central	Lansing / Battle Creek	21	363	19.0%
Northeast	Gaylord / Alpena / Tawas	14	279	14.6%
Southeast	Troy	7	156	8.2%
Total		**105**	**$ 1,911**	**100%**

(1)

Includes core deposits only. At June 30, 2010, core deposits accounted for approximately 80% of our total deposits of $2.4 billion.

These regions have distinct demographic and economic characteristics, as summarized below:

Table of Contents

East / Thumb Region: We have a substantial branch footprint in the eastern part of the state, which is primarily comprised of rural communities that provide strong core deposits and pricing leverage. Saginaw, Midland, and Bay counties are included in this region. The counties of Saginaw and Bay are well-known for their agricultural communities and manufacturing and health services sectors and are also home to a growing alternative energy sector, including solar, wind and battery technology. This region is home for Dow Chemical Company and Saginaw Valley State University.

West Region: The west region includes our headquarters in Ionia and the Grand Rapids metropolitan statistical area. Grand Rapids is in Kent County, which has generally experienced lower levels of unemployment as compared to the Michigan state level. As of July 2010, Kent County had an unseasonally adjusted unemployment rate of 11.7%, compared to 14.0% for the state of Michigan as a whole. Kent County is the home to several major employers, including Meijer, Steelcase, Spectrum Heath, Spartan Stores, Wolverine World Wide, and the world headquarters for Alticor Inc., the parent company of Amway.

Central Region: Our operations throughout the central part of Michigan are primarily located in Lansing and Battle Creek. Lansing, in Ingham County, is the state capital and home to Michigan State University, which provides the core of a stable employment base. Calhoun County, home to Battle Creek, includes the corporate headquarters for The Kellogg Company and maintains an unemployment rate below the state average.

Northeast Region: With branch locations throughout the northeast portion of the lower peninsula, we maintain a strong base of core deposits in our northeast region. Longer distances between communities and a loyal customer base create distinct pricing advantages in these markets. Seasonal and tourism-related employment is significant in this region, which contains a large portion of the Great Lakes shoreline. The local economy also includes a small industrial base, including cement manufacturers and limestone and gypsum mining, and a small agricultural base of potato, dry bean, and grape farmers.

Southeast Region: A smaller portion of our franchise is in southeastern Michigan, primarily in Oakland County, which has attractive demographics. With a population of 1.2 million people, Oakland County has a strong median household income of almost $78,000, which is the second highest in the state. While the southeast region currently only accounts for approximately 8% of our deposit base, we believe Oakland County presents a good opportunity for future deposit growth and lending opportunities.

Michigan Economic Update

While the Michigan economy has been under stress for the past several years, we believe our markets are beginning to stabilize. Below is a summary of certain economic trends of our markets:

Unemployment: While Michigan has the second highest unemployment rate in the United States (as of July 2010), both the unemployment rate and nonfarm payrolls have showed positive trends for the past several quarters. On a seasonally-adjusted basis, the July unemployment rate of 13.1% for Michigan was the lowest monthly rate since March 2009. A number of our key counties have unemployment rates below the rate for the entire state, including Kent, Bay, Saginaw, Calhoun, Oakland and Ingham counties. After losing approximately 200,000 jobs in each of 2008 and 2009, the loss rate stabilized in the second half of 2009 and into the first part of 2010. In addition, University of Michigan economists expect positive private sector job growth in 2011, which would be the first year of positive private sector employment growth in a decade.

Housing Market: The Michigan housing market is beginning to see signs of stabilization. Based on U.S. Census data, Michigan housing permits year to date 2010 are up 36% from year to date 2009, pointing to early signs of a recovery in the Michigan housing market.

Reduced Dependence on Automotive Sector: Over the past 10 years, the Michigan economy has significantly reduced its reliance on the automotive and other manufacturing sectors and shifted to service-based industries.

According to the U.S. Bureau of Labor Statistics, the motor vehicle industry comprised 6.8% of nonfarm payrolls as of July 2000 as compared to 3.2% as of July 2010. Over the same time period, total manufacturing jobs decreased substantially, from 19.3% to 12.4%. Meanwhile, jobs in education and health services have increased by 23% over the 10-year period and now represent 16% of Michigan s jobs as compared to approximately 11% in 2000. Trade, transportation, utilities and government now provide the largest contribution to the Michigan economy in terms of number of jobs. In addition, since our franchise is primarily located in the western and northern portions of Michigan, our markets are not as dependent on the U.S. auto industry as other parts of Michigan, such as Detroit and southeast Michigan.

Other Economic Indicators: The Michigan Economic Activity Index equally weighs nine, seasonally adjusted coincident indicators of real economic activity that reflect activity in the construction, manufacturing and service sectors as well as job growth and consumer outlays. The index is measured on a scale of 110. The index rose three points in July from May 2010 to 87 points, representing a 23% increase from July 2009 and marks the largest year-on-year index increase since December 2004. Prior to the recession, the index ranged between approximately 93 and 105 between January 2000 and mid-2007.

Table of Contents

Our asset quality trends are consistent with these recent positive economic trends for the state of Michigan. We believe we have made additional progress in improving asset quality, as reflected in a reduction of our nonperforming loans, classified assets, early stage delinquencies and provisions for loan losses. As of June 30, 2010, our levels of non-performing loans have now declined for six consecutive quarters, and our loans 30-89 days past due have consistently improved over the last four quarters. These indicators support our belief that our emphasis on managing asset quality and the beginning stabilization of the Michigan economy is resulting in improving asset quality metrics.

Our Competitive Strengths

We believe we are well positioned to take advantage of opportunities in Michigan. Our key competitive strengths include:

Strong Core Earnings: We have historically had strong pre-tax, pre-provision earnings, which we believe is largely attributable to our community bank business model. Our loyal customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers even after removing the significant positive impact Mepco has had on our net interest margin. In addition, our non-interest income has historically been a significant element of our financial performance, and we are attempting to grow non-interest income in order to diversify our revenues within the financial services industry. Finally, we are focused on reducing non-interest expenses, such as moving towards a paperless operating environment, which allows for a more efficient business unit workflow, and working with our vendors to improve the pricings for the services and products they provide.

Substantial Core Deposit Base: We have a large, stable base of core deposits that provides cost-effective funding for our lending operations. We believe our full product suite of electronic banking and remote deposit capture is attractive to our customer base and allows us to efficiently attract new deposit relationships. At June 30, 2010, core deposits accounted for approximately 80% of our total deposits.

Experienced Management Team: Our management team includes executives with extensive experience in the banking industry, both at larger financial institutions and in the Michigan market. Michael M. Magee, our President and Chief Executive Officer, has over 32 years of banking experience and has been with us for 23 years. Four of the other five members of our executive management each have over 23 years of banking experience, a majority of which have been in our core Michigan markets. Our recently-hired General Counsel has over 25 years experience specializing in commercial law and creditors rights and was hired as part of our comprehensive efforts to improve and make more cost-efficient our management of problem loans and other assets. Key roles within our management team are held by executives with extensive bank backgrounds:

Name	Title	Years in Banking	Years at the Bank
Michael M. Magee	President & CEO	32	23
Robert N. Shuster	EVP CFO	27	11
W. Brad Kessel	EVP COO	23[(1)]	16
David C. Reglin	EVP Retail Banking	28	28
Stefanie M. Kimball	EVP Chief Lending Officer	28	3
Mark Collins	EVP General Counsel	25[(2)]	1

(1) Experience includes positions within the financial services group at a large

accounting firm.

(2) Experience includes specialization in commercial law and creditors rights at a large, Grand Rapids-based law firm.

Successful Acquisition and Integration History: Over the past 20 years, we have made 12 acquisitions of depository institutions and branches. Our management team has a history of successfully integrating these acquisitions and delivering strong operating results. In 2007, following our most recent acquisition of 10 branches, we consolidated our 4 charters under Independent Bank to improve operational efficiency, credit and risk management processes, and reduce expenses. We believe our management team possesses the capabilities and experience to successfully pursue strategic opportunities in the future.

Well-Positioned for Growth: We have operated in the Michigan market for over 100 years and are one of the largest banks solely focused on the state of Michigan. We are positioned in the marketplace as a local community bank that is large enough to provide a wide range of banking services, yet small enough to deliver personalized service to our customer base. We have strong commercial lending capabilities, including an experienced credit administration team and group of senior lenders.

Proactive Approach to Credit: We believe the improvements we made to our credit administration and risk management programs and processes since the second quarter of 2007 in response to deteriorating economic conditions allow us to better identify problem areas and respond quickly, decisively, and aggressively. We implemented industry best practices throughout the life cycle of a loan to include the loan origination, monitoring, and servicing as well as, if necessary, workout stages. Our philosophy of working with our clients as long as they are working with us has resulted in numerous successful restructured loans. As an example of our approach to the recent credit environment, we began curtailing new originations of commercial loans in the second quarter of 2007 and have reduced the construction, land, and land development segments of our commercial loan portfolio from approximately $228 million at December 31, 2007 to $76 million at June 30, 2010.

Our Credit Strategy

We believe we employ a prudent credit culture that includes sound underwriting, centralized credit and risk management functions, comprehensive loan review processes, and diligent asset workout and collection efforts. Highlights of our credit strategy are set forth below.

Our Relationship Banking Approach

Our credit strategy reflects the main principles of our community banking model which emphasize development of a full customer relationship. We emphasize a know your customer approach and seek to provide credit together with primary depository and cash management services. This strategy enables our bankers to listen closely to our clients in order to improve their understanding of our customers needs and facilitate their ability to offer tailored banking solutions. We believe our recent, excellent J. D. Power ratings reflect our customers appreciation and high satisfaction with the services we provide.

Improvements to Our Credit Policy and Processes

As Michigan began to experience economic stress and our asset quality deteriorated, we completed comprehensive reviews of our credit policy and processes and revised them as we believed appropriate for the current credit cycle, including:

We strengthened our credit team through key appointments and experienced hires from larger commercial banks, including a Chief Lending Officer, to oversee the implementation of best credit practices. We made key additions to our already experienced commercial lending team, including Senior Vice Presidents of Credit Processes, Special Assets, and Credit Administration, and a new Loan Review Manager. In our retail department, we made key appointments and realigned the critical collection function of two Senior Vice Presidents and two Vice Presidents. We also hired an in-house general counsel to specifically focus on workouts, provide legal guidance to our workout team, and improve our management of legal costs in the workout and other disposition processes.

We enhanced our training to provide comprehensive and ongoing in-house credit, underwriting, and risk management training programs that leverage our systems and infrastructure. Further, we implemented a process to provide ongoing coaching of our lenders in negotiations, customer communication, problem credit resolution, and development of specific action plans.

We implemented a range of credit initiatives designed to strengthen our credit oversight and risk management function, minimize losses from our legacy portfolio and reduce the level of our non-performing assets. In addition to the consolidation of our 4 bank charters, we implemented a new process to increase the coordination between our retail and commercial operations as they relate to underwriting, loan review and oversight, and problem credit resolution. We also expanded our quality control function that monitors new retail loan originations.

Realignment of Credit Portfolios

For the past two years, we have pursued a conservative credit strategy of net deleveraging in order to meet the challenges of this credit cycle. In response to the changing economic circumstances and opportunities in Michigan, we shifted our strategic direction in portfolio lending towards high quality loan segments and sustainable organic growth in the markets we serve. Since 2007, we have significantly reduced our exposure to commercial real estate (CRE). Our

CRE portfolio (excluding owner occupied) was $418.4 million at June 30, 2010, down from $607.2 million in the fourth quarter of 2007. We have also de-emphasized other high risk segments, such as land, land development, and construction loans, which currently represent less than 4% of our total loan portfolio. As a result of these efforts and the curtailment of originations in recent years, our income producing portfolio is more seasoned and diversified. We continue to focus our loan origination efforts on high quality, profitable commercial loan segments such as small business and middle market loans generated through our branch and referral networks. We utilize government guarantee programs, such as the SBA program, where appropriate. We also intend to continue our focus on building relationships with C&I clients as an attractive target customer segment. We believe we underwrite consumer loans for boats, autos, and home improvements on a conservative basis. We have focused our retail mortgage loan efforts on originating loans for sale, which are attractive for their associated gains on sales. Our strategy is to sell the majority of our first mortgage loans into the secondary market and selectively retain in our portfolio adjustable rate mortgage (ARM) products with strong underwriting metrics. In addition, as described in more detail below, we have implemented a strategy to significantly reduce the payment plan receivables generated by Mepco in light of losses Mepco has recently incurred, increased risks in the vehicle service contract industry, and our desire to return our focus to our core banking competencies.

Our Proactive Management of Troubled Loans

We proactively manage troubled loans and have focused on early loss recognition throughout the current credit cycle. In response to challenges in this credit cycle, we have implemented a comprehensive foundation of credit best practices. Highlights include:

- Formation of a special assets team of experienced lenders and collection personnel to ensure effective management of the substandard and nonaccrual loans;
- Comprehensive review and enhancement of our portfolio analytics, specifically as they relate to segment reporting, migration analysis, and stress testing;
- Implementation of independent risk ratings designed to ensure consistent risk measurement;
- Adherence to a disciplined quarterly watch process to manage high-risk loans;
- Strengthening of our collateral monitoring process for CRE, construction loans, and C&I lending, with centralized monitoring and reporting functions;
- Regular analysis of portfolio migration to establish the appropriate level of general reserves for each loan grade;
- Establishment of key vendor relationships with realtors, property managers, and other real estate management service providers to obtain up-to-date market feedback and for assistance in the workout and disposition process;
- Regular acquisition and review of new credit bureau scores on our retail portfolios to aid collection efforts and guide retail loss forecasts;
- Implementation of retail collection initiatives and loss mitigation programs to increase home retention, avoid unnecessary foreclosures, and minimize associated costs; and
- Regular monitoring of the secondary market for potential sale of our non-performing loans, which we will consider as market conditions warrant.

Our approach is to work with our clients as long as they are working with us. We believe this customized approach to our clients lending needs has produced, and should continue to produce, better results for us than if we used the less personalized approaches of some of our competitors. One indicator of the success of our approach is, for example, that approximately 78% of our retail restructured loans remained performing six months after modification as of June 30, 2010.

Loan Quality Update and Trends

We believe our asset quality metrics and credit trends have started to show signs of improvement over the last several quarters. Our non-performing loans (NPLs) decreased 34.5% in the second quarter of 2010 from their peak in the first quarter of 2009 and declined 23.1% from the fourth quarter of 2009. A breakdown of NPLs (excluding loans classified as troubled debt restructurings (TDRs) that are still performing) by loan type is as follows:

	June 30, 2010	Dec. 31, 2009	June 30, 2009

Loan Type	($ in millions)		
Commercial	$ 37.6	$ 50.4	$ 63.0
Consumer/installment	5.9	8.4	7.8
Mortgage	38.6	48.0	51.4
Payment plan receivables[1]	2.4	3.1	3.1
Total	$ 84.5	$ 109.9	$ 125.3
Ratio of non-performing loans to total portfolio loans	4.16%	4.78%	5.13%
Ratio of non-performing assets to total assets	4.61	4.77	5.21
Ratio of the allowance for loan losses to non-performing loans	89.46	74.35	52.10
Ratio of 30-89 days past due loans to total portfolio loans	2.59	2.81	3.14

(1) Represents payment plans for which no payments have been received for 90 days or more and for which Mepco has not yet completed the process to charge the applicable counterparty for the balance due to Mepco.

Table of Contents

The decrease in NPLs since year-end 2009 is due principally to declines in non-performing commercial loans and residential mortgage loans. These declines primarily reflect net charge-offs of loans, negotiated transactions, and the migration of loans into other real estate (ORE). Non-performing commercial loans largely relate to delinquencies caused by cash flow difficulties encountered by real estate investors. Non-performing commercial loans have declined for the past six quarters. The elevated level of non-performing residential mortgage loans is primarily due to delinquencies reflecting both weak economic conditions and soft residential real estate values in many parts of Michigan. However, retail NPLs have shown four quarters of improvement and are now at their lowest level since the first quarter of 2009.

Loans classified as troubled debt restructurings (TDRs) are loans for which we have modified the terms. A TDR loan that continues to perform after being modified is not included in our NPLs, except with respect to certain retail loans, as noted in footnote (2) to the table below. However, NPLs do include TDRs that are no longer performing, including TDRs that are on non-accrual or are 90 days or more past due. A breakdown of our TDRs as of June 30, 2010, is as follows (in 000 s):

	Commercial	Retail	Total
Performing TDRs	$ 20,480	$ 85,913	$ 106,393
Non-performing TDRs (1)	7,544	17,970(2)	25,514
Total	$ 28,024	$ 103,883	$ 131,907

(1) Included in NPL table above.

(2) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

The majority of our TDRs are accruing as they have a demonstrated ability to pay. Our approach to residential mortgage TDRs is to re-underwrite the loan with relatively conservative credit criteria. Almost 80% of these modified mortgage loans continue to pay six or more months after the modifications. On the commercial side, we perform a detailed analysis to determine TDR status. We restructure commercial TDR loans to right-size the debt to a level that can be supported by the cash flow and meet other more conservative credit criteria. We re-evaluate performance on a quarterly basis and update TDR status as warranted.

Non-performing assets (NPAs) declined 18.6% in the first half of 2010 from their peak in the first quarter of 2009 and decreased 10.7% from the fourth quarter of 2009. Our commercial NPAs have declined in each of the past six quarters.

Our 30-89 day past due loans are down 31.3% at June 30, 2010 from their peak in the second quarter of 2009, exhibiting four consecutive quarters of improvement. Commercial 30-89 day past due loans have remained relatively stable at 1.82% of the commercial loan portfolio as of June 30, 2010. Our level of watch credits has been relatively stable over the past five quarters. Classified assets as of June 30, 2010 are also showing three quarters of improvement and are down 14% from their peak in the third quarter of 2009.

We believe we have a