KAR Auction Services, Inc.
Form 424B3
June 03, 2013
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The information contained in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell the shares and are not soliciting an offer to buy the shares in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-174038

SUBJECT TO COMPLETION, DATED JUNE 3, 2013

PRELIMINARY PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED JUNE 22, 2011

15,000,000 Shares

KAR Auction Services, Inc.

Common Stock

The shares of common stock are being sold by the selling stockholder. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholder.

Our common stock is listed on the New York Stock Exchange under the symbol KAR. The closing price on the New York Stock Exchange on May 31, 2013 was $23.45 per share.

The underwriters have an option to purchase a maximum of 2,250,000 additional shares from the selling stockholder.

Investing in our common stock involves risks. See Risk Factors on page S-11.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholder
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2013.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

Credit Suisse **Goldman, Sachs & Co.** **J.P. Morgan**

Lead Managers

Barclays **BMO Capital Markets** **BofA Merrill Lynch** **Deutsche Bank Securities**

Senior Co-Managers

Baird **Barrington Research** **BB&T Capital Markets** **Stephens Inc.**

The date of this prospectus supplement is , 2013.

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any related free writing prospectus that we may issue. None of we, the selling stockholder or the underwriters have authorized anyone to provide you with information that is different. The selling stockholder is offering to sell these securities and seeking offers to buy these securities only in jurisdictions where the offers and sales are permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any related free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of their respective dates. Our business, financial condition, results of operations or prospects may have changed since those dates.

The distribution of this prospectus supplement and the accompanying prospectus and this offering in certain jurisdictions may be restricted by law. Persons who receive this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See the section entitled Underwriting.

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You should read this prospectus supplement and the accompanying prospectus carefully before investing in the common stock. This prospectus supplement and the accompanying prospectus contain the terms of this offering of common stock. This prospectus supplement may add, update or change information in the accompanying prospectus. In addition, the information incorporated by reference in the accompanying prospectus may have added, updated or changed information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with any information in the accompanying prospectus, this prospectus supplement will supersede such information.

In this prospectus supplement, unless otherwise specified or the context otherwise requires, the following terms have the following meanings:

- the Company, we, us and our refer to KAR Auction Services, Inc., a Delaware corporation, and its subsidiaries;
- ADESA refers, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc. s subsidiaries, including OPENLANE, Inc. (OPENLANE);
- AFC refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation s subsidiaries;
- Equity Sponsors refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P.;
- IAA refers, collectively, to Insurance Auto Auctions, Inc., a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc. s subsidiaries;
- KAR Auction Services refers to KAR Auction Services, Inc. and not to its subsidiaries;
- KAR LLC refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors, other equity co-investors and management of the Company; and
- 2007 Transactions refers to the following events: On December 22, 2006, KAR LLC entered into a definitive merger agreement to acquire ADESA. The merger occurred on April 20, 2007. Concurrently with the merger, IAA was contributed by affiliates of Kelso & Company and Parthenon Capital and IAA s management to KAR Auction Services. Both ADESA and IAA became wholly-owned subsidiaries of KAR Auction Services.

This prospectus supplement and the accompanying prospectus contain references to a number of trademarks (including service marks) that are our registered trademarks or trademarks for which we have pending applications or common law rights. These include, among others, OPENLANE®, CarsArrive®, LiveBlock®, DealerBlock® and CSAToday® and our logos. Trade names, trademarks and service marks of other companies appearing in this prospectus supplement are the property of their respective holders.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as should, may, will, anticipates, expects, intends, plans, believes, seeks, estimates a expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; dividend declarations and payments; strategic initiatives, greenfields and acquisitions; our competitive position and retention of customers; and our continued investment in information technology, are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled Risk Factors beginning on page S-11 of this prospectus supplement and in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly report on Form 10-Q for the quarter ended March 31, 2013, which are incorporated by reference in this prospectus supplement. Some of these factors include:

- fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;
- trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;
- the ability of consumers to lease or finance the purchase of new and/or used vehicles;
- the ability to recover or collect from delinquent or bankrupt customers;
- economic conditions including fuel prices, foreign exchange rates and interest rate fluctuations;
- trends in the vehicle remarketing industry;
- trends in the number of commercial vehicles being brought to auction, in particular off-lease volumes;
- changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;
- increases in the number of used vehicles purchased on virtual auction platforms;
- the introduction of new competitors;
- laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;

changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;

competitive pricing pressures;

costs associated with the acquisition of businesses or technologies;

litigation developments;

our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;

our ability to maintain our brand and protect our intellectual property;

our ability to develop and implement information systems responsive to customer needs;

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- business development activities, including acquisitions and integration of acquired businesses;
- the costs of environmental compliance and/or the imposition of liabilities under environmental laws and regulations;
- weather, including increased expenses as a result of Superstorm Sandy;
- general business conditions;
- our substantial amount of debt;
- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- any impairment to our goodwill or other intangible assets;
- our self-insurance for certain risks;
- any losses of key personnel;
- interruptions to service from our workforce;
- changes in effective tax rates;
- changes to accounting standards; and
- other risks described from time to time in our filings with the SEC.

Many of these risk factors are outside of our control, and as such, they involve risks which are not currently known that could cause actual results to differ materially from those discussed or implied herein. The forward-looking statements in this prospectus supplement are made as of the date on which they are made and we do not undertake to update our forward-looking statements.

Our future growth depends on a variety of factors, including our ability to increase vehicle sold volumes and loan transaction volumes, expand our product and service offerings, including information systems development, acquire and integrate additional business entities, manage expansion, control costs in our operations, introduce fee increases, and retain our executive officers and key employees. We cannot predict whether our growth strategy will be successful. In addition, we cannot predict what portion of overall sales will be conducted through online auctions or other remarketing methods in the future and what impact this may have on our auction business.

SUMMARY

This summary description about us and our business highlights selected information contained elsewhere in this prospectus supplement or incorporated by reference into this prospectus supplement. It does not contain all the information you should consider before purchasing our securities. This summary may not contain all of the information that may be important to you. You should read in their entirety this prospectus supplement, the accompanying prospectus and any other related free writing prospectus, together with the additional information described under the section entitled Where You Can Find More Information beginning on page S-35 of this prospectus supplement. You should pay special attention to the Risk Factors section beginning on page S-11 of this prospectus supplement and in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly report on Form 10-Q for the quarter ended March 31, 2013, which are incorporated by reference in this prospectus supplement, to determine whether an investment in our common stock is appropriate for you.

Our Company

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace by providing auction services for sellers of used, or whole car, vehicles and salvage vehicles through our 230 physical auction locations as of March 31, 2013, and multiple proprietary Internet venues. In 2012, we facilitated the sale of over 3.3 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers, as well as by providing value-added ancillary services, including transportation, reconditioning, inspections, marshalling, titling and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and generally we do not take title to or ownership of vehicles sold at our auctions. For the three months ended March 31, 2013, our revenues totaled $557.6 million, and our Adjusted EBITDA was $136.2 million. For the three months ended March 31, 2013, our net income was $29.1 million. For the year ended December 31, 2012, our revenues totaled $1,963 million, and our Adjusted EBITDA was $500.2 million. For the year ended December 31, 2012, our net income was $92.0 million. For a reconciliation of net income (loss) to Adjusted EBITDA, which is a non-GAAP financial measure, see Summary Consolidated Financial Data.

ADESA, our whole car auction services business, is the second largest provider of used vehicle auction services in North America. Vehicles at ADESA s auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. In 2011, we acquired OPENLANE, the premier upstream online platform focused on private label auction sales for automobile original equipment manufacturers, or OEMs, and their captive finance companies. OPENLANE provides a comprehensive remarketing solution to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions. IAA, our salvage auction services business, is one of the two largest providers of salvage auction services in North America. Vehicles at our salvage auctions are typically damaged or low-value vehicles that are predominantly sold by automobile insurance companies, non-profit organizations, automobile dealers, vehicle leasing companies and rental car companies to licensed dismantlers, rebuilders, scrap dealers or qualified public buyers. An important component of ADESA s and IAA s services to their buyers is providing short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers through our wholly-owned subsidiary AFC.

As of March 31, 2013, we had a network of 67 whole car auction locations and 163 salvage auction locations. Our auction locations are primarily standalone facilities dedicated to either whole car or salvage auctions; however, some of our sites are utilized to service both whole car and salvage customers at the same location. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with North American providers and buyers of used and salvage vehicles.

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Our Industry

Auctions are the hub of the remarketing system for used and salvage vehicles, bringing professional sellers and buyers together and creating a marketplace for the sale of these vehicles. Whole car auction vehicles include vehicles from dealers turning their inventory, off-lease vehicles, vehicles repossessed by financial institutions and rental and other program fleet vehicles that have reached a predetermined age or mileage. The salvage vehicle auction industry provides a venue for sellers, primarily automobile insurance companies, to dispose or liquidate damaged or low value vehicles to dismantlers, rebuilders, scrap dealers or qualified public buyers. The following are key industry highlights:

Whole Car Auction Industry Volumes

During the period from 1999 to 2009, approximately 9 to 10 million used vehicles per year were sold in North America through whole car auctions. Whole car auction volumes were 8.4 million, 7.7 million and 8.2 million (including units sold by OPENLANE in 2012) in 2010, 2011 and 2012, respectively. Data for the whole car auction industry is collected by the National Auto Auction Association, or NAAA, through an annual survey. The reduction in auction volumes since 2009 is attributable to supply shortages in the North American whole car auction industry caused principally by declines in new vehicle sales and lease originations from 2007 to 2009 and declines in repossessions from 2009 to 2012. We expect the industry to experience an increase in whole car auction volumes as a result of increasing new vehicle sales and lease originations since 2009 and improving credit availability.

Salvage Auction Industry Volumes

We believe that the North American salvage vehicle auction industry volumes are affected primarily by accident rates, the age of the vehicle fleet on the road, miles driven, weather, the increased complexity of vehicles in operation and the increased utilization of after-market recycled parts within the collision repair industry. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicle design becomes more complex with additional enhancements, such as airbags and electrical components, vehicles are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. In addition, the utilization of recycled parts from salvage vehicles by the collision repair industry continues to increase as the quality of these parts gains wider acceptance and insurance companies attempt to reduce their repair claim costs. We believe that salvage volumes will continue to grow over time as the salvage auction industry expands the number of non-insurance vehicles sold, including charity, direct-from-consumer and dealer sales.

Consolidated Whole Car and Salvage Auction Markets

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, and ADESA together represent approximately 70% of the North American whole car auction market. We estimate that ADESA represents approximately 23% of the North American whole car auction market. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, IAA and Copart, Inc., together representing an estimated 70% of the market, with each representing approximately equivalent shares.

High Barriers to Entry

High barriers to entry make it difficult for new entrants to capture significant market share. The required investment in technology and related infrastructure in addition to ongoing maintenance costs required to meet customers demands present challenges for new entrants. Large tracts of land and a significant investment in facilities and land improvements are required to build new physical auctions. In addition, the need to comply with regulatory requirements would pose a challenge for new entrants to build a large-scale operation. Larger participants are also able to better develop relationships with many of the major whole car and salvage sellers and buyers, which increases the sellers flexibility to redistribute vehicles to markets where demand best matches supply in order to maximize proceeds, while also reducing the cost of disposition.

Our Competitive Strengths

Leading Provider of Both Whole Car and Salvage Vehicle Auctions

We are the second largest provider of whole car auctions and the co-leader of salvage vehicle auctions and related services in North America, with estimated market shares of approximately 23% and 35% in the whole car and salvage auction markets, respectively. As of March 31, 2013, we had 67 whole car and 163 salvage auction locations and are the only company in North America with a top two market share position in both the whole car and salvage auction markets. Our market presence, including 12 co-located whole car and salvage facilities, in the 75 largest metropolitan markets in the United States and Canada enables us to attract large whole car and salvage sellers while simultaneously maintaining strong relationships with local franchised and independent automobile dealers. Our auctions attract a high volume of vehicles, thereby ensuring sufficient supply to create the successful marketplaces that buyers and sellers demand. We also have a leading market position in the floorplan financing industry. AFC has 104 branches primarily supporting over 11,000 independent dealers across North America who purchase vehicles primarily from whole car auctions. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction.

Sophisticated Internet-Based Auction Services Complement Physical Presence

The services that we provide are augmented by state-of-the-art information technology solutions, enabling our buyers and sellers to maximize exposure and salability of inventory at all points in the remarketing lifecycle.

ADESA

For our whole car customers, we complement physical auctions with ADESA.com. ADESA.com includes LiveBlock® (real-time simulcast of the physical auction via the Internet, provided by our wholly-owned subsidiary LAI), DealerBlock® (24/7 interactive, virtual auctions) and customized private label solutions powered by our wholly-owned subsidiary, OPENLANE, that allow our institutional consignors (automobile manufacturers, captive finance companies and other institutions) to offer vehicles via the Internet prior to arrival at the physical auction.

IAA

For our salvage buyers, we complement physical auctions with i-Bid LIVE™, a real-time simulcast of the physical auction via the Internet, which allows both a live and Internet buyer to participate in the auctions. i-Bid LIVE s feature rich user interface allows buyers to search inventory, review photos, set up alerts, shop for and purchase vehicles, bid and buy all from one platform. i-Bid LIVE is available as a mobile application, providing buyers the added flexibility to participate in IAA auctions from a smart phone or tablet.

Suppliers, including insurance companies and other participants, can also better process and manage their salvage inventory with IAA s technology. Specific to insurance company suppliers, IAA s patent-pending title procurement tools provide an efficient method of procuring titles and tracking a vehicle s title in the process. This helps reduce cycle time for insurance companies and provides for faster sales of total loss vehicles through IAA s auctions. In addition, IAA s proprietary Internet-based salvage management tool, CSAToday®, provides transparency to suppliers inventory, as well as provides tools, such as salvage return analysis and electronic assignment interfaces. CSAToday is also mobile-compatible, which provides added efficiency to suppliers.

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Provider of High Value Added, Integrated Vehicle Auction Services

We offer a full range of integrated pre- and post-auction services aimed at assisting our customers in the redistribution of their vehicles in an efficient and cost-effective manner. Our services are provided by ADESA at its physical auction locations and wholly-owned brands such as AFC, CarsArrive, Professional Auto Remarketing (PAR), AutoVIN and Dent Demon. For the year ended December 31, 2012, we generated a combined total of more than $600 million of revenue from pre- and post-auction services. Pre-auction services include transportation, reconditioning (such as detailing, body repairs and light mechanical repairs), inspections, storage, titling and other administrative services. Post-auction services include post-sale inspections, reconditioning, the clearing of auction proceeds and collections, floorplan financing, ownership transfer, storage, vehicle delivery and customized reporting and analyses. The combination of our physical auction locations, Internet-based solutions and ancillary services offers our customers a single vendor solution to meet all of their vehicle redistribution needs.

Longstanding Customer Relationships and Diversified Customer Base

We have established long-term customer relationships with franchised and independent vehicle dealers, institutional customers and automobile insurance companies. Our combined whole car and salvage buyer base exceeds 150,000 registered buyers in over 100 countries. No single customer accounted for more than 2% of our consolidated revenue in 2012, and our average relationship is more than ten years with our top ten vehicle suppliers. We believe this diversity allows us to better withstand changes in the economy and market conditions. ADESA enjoys long-term relationships with major vehicle manufacturers, vehicle finance companies, vehicle fleet companies and rental car companies in North America, including, but not limited to, GM Financial, Capital One Auto Finance, Avis, Chase Auto Finance, Enterprise Rent-A-Car, Ford, GE Capital, General Motors, Hertz, Honda, HSBC, Mercedes-Benz, Santander Consumer, Toyota and Wells Fargo. Furthermore, ADESA, primarily through its OPENLANE technology, operates private label platforms for many leading OEMs and captive finance companies, including Toyota, Ford, Honda, Volkswagen, Hyundai, Chrysler, GM Financial, BMW and others. IAA enjoys long-term relationships with top automobile insurers, including, but not limited to, American Family Insurance, GEICO, Progressive, State Farm, USAA and Zurich Financial Services.

Low Capital Intensity and Resilient Financial Model

Our low maintenance capital expenditures and working capital requirements enable the business to generate consistently strong cash flows through a diversified mix of operations. Our business segments are complementary to each other and create a resilient platform for future growth. We generally do not take title to or bear the risk of loss for vehicles sold at whole car or salvage auctions. Furthermore, customers do not receive title or possession of vehicles after purchase until payment is received, proof of floorplan financing is provided or credit is approved. These requirements contribute to limited inventory and accounts receivable exposure. We expect our low capital intensity financial model to allow us to produce significant free cash flow in the future enabling us to continue to reduce debt and return capital to shareholders.

Strong Management Team with Track Record of Driving Growth and Improving Efficiency

Our senior management team continues to implement and execute on various growth initiatives that have resulted in increasing revenue and gross profit expansion during the past five years. Through a better coordination of corporate sales efforts and local auction operations, in addition to numerous strategic Internet initiatives, we have organically grown our revenues at auction while facing decreasing trends in industry volumes. Furthermore, the management team has implemented a disciplined expansion strategy, acquiring or building numerous auction locations and offering more services since 2009. We believe our management team s integration experience and cost discipline will continue to be a competitive advantage as we grow both organically and across the remarketing lifecycle through selective acquisitions. In addition, we have reduced costs through the integration of operating systems and introduction of standard operating practices across all auction sites, resulting in improved operating efficiencies, reduced headcount and improved operating profit at existing and acquired sites.

Our Business Strategy

We continue to focus on growing our revenues and profitability through the execution of the following key operating strategies:

Expand Opportunities for Customers to Buy and Sell Online

We are focused on enhancing our Internet solutions in all of the key channels, and we will continue to invest in our technology platforms to capitalize on new opportunities and attract new customers. Online vehicle remarketing solutions provide the opportunity to improve the customer experience, expand our volume of transactions and potentially increase proceeds for sellers through greater buyer participation at auctions. We acquired OPENLANE in order to better capitalize on the increasing use of the Internet as a means to purchase wholesale vehicles. Through its OPENLANE technology, ADESA offers comprehensive private label remarketing solutions to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions throughout the United States and Canada. IAA is the only national salvage auction company that offers buyers both live and Internet purchasing opportunities. ADESA provides online solutions to sell vehicles directly from a dealership or other interim storage location (upstream selling), online solutions to offer vehicles for sale while in transit to auction locations (midstream selling) and broadcasting video and audio of the physical auctions to online bidders (simulcast).

Grow Our Dealer Consignment Business

The dealer consignment business is a highly market-specific business that requires local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of their local market. We have augmented our local auction teams with the addition of corporate-level resources focused on growing the number of dealer vehicles sold at our physical and online auctions. The corporate team assists the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share. Our sales representatives also utilize proprietary technology solutions to maintain and grow the dealer consignment business by strategically matching the supply of vehicles with prospective buyers at auction. We believe this combination of a standard centralized approach with decentralized resources close to large populations of dealers will enhance our relationships with the dealer community and increase dealer volumes at our whole car auctions. On a same store basis, our dealer consignment sales volumes were up approximately 3% and 11% for the three months ended March 31, 2013 and for the twelve months ended December 31, 2012, respectively, compared with the same periods in prior years.

Continue to Grow Revenue per Vehicle

From 2008 through 2012, our whole car (excluding OPENLANE) and salvage revenue per vehicle grew at compound annual growth rates of 1.7% and 3.3%, respectively. Revenue per vehicle generally consists of auction fees and fees from ancillary services. Increased utilization of ancillary services, selective fee increases, higher used vehicle prices and the introduction of new product offerings were key components of this growth. We believe these services provide economic benefits to our customers who are willing to utilize our products and services that improve their ability to manage their remarketing efforts and increase their returns. We plan to grow revenue by increasing customer utilization of these existing products and by enhancing our core auction services through such initiatives as increasing the number of vehicles offered both online and at physical auctions.

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Leverage AFC s Products and Services at ADESA and IAA

We intend to selectively grow AFC while using enhanced credit analysis and risk management techniques to mitigate risk. We will continue to focus on expanding dealer coverage and improving coordination with ADESA and IAA to capitalize on cross-selling opportunities with AFC. By encouraging a collaborative marketing effort between AFC, ADESA and IAA, we believe we can market an enterprise solution more effectively to used vehicle dealers and tailor AFC s financing products to individual dealer needs. We will maintain our focus on generating additional revenues by expanding our suite of floorplan financing and related products and services and leveraging our market position, broad infrastructure and diversified business relationships to capitalize on current market opportunities.

Grow Our Non-Insurance Salvage Auction Customer Base

More than 12 million vehicles are de-registered annually, but only approximately 3.5 million are sold through salvage auctions, mostly by automobile insurance companies. In order to capture a greater portion of the total unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers, which includes charitable organizations, rental car, captive finance and fleet companies, as well as the general public. ADESA s strong customer relationships with used vehicle dealers as well as rental car, captive finance and fleet companies provide an advantage in accessing such segments, as these customers already use ADESA s whole car auction services.

Continue to Improve Operating Efficiency

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. Since 2007, a number of initiatives have been implemented, which have streamlined operations and improved operating efficiencies. As part of these initiatives, we introduced a management operating system to actively monitor and manage staffing levels and, as a result, have realized additional labor efficiency gains. Additional efficiencies have been gained through two of our wholly-owned subsidiaries, AuctionTrac, a vehicle tracking system at ADESA, and CarsArrive, an Internet-based system that allows customers to review instantly price quotes, delivery times, available transportation loads and also to receive instant notification of available shipments.

Use Excess Cash Flow to Reduce Debt and Return Capital to Shareholders

We generate strong cash flows as a result of our attractive gross margins, the ability to leverage our corporate infrastructure across our multiple auction locations, low maintenance capital expenditures and limited working capital requirements. Management plans to utilize a significant portion of excess cash generated by the business for debt reduction and return capital to shareholders for the foreseeable future. We generated $90.8 million and $74.5 million of cash flow from operations for the three months ended March 31, 2013 and 2012, respectively. We generated $290.2 million and $305.8 million of cash flow from operations for the years ended December 31, 2012 and 2011, respectively. On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock and declared an initial quarterly cash dividend of $0.19 per share, representing an annualized dividend of $0.76 per share, which was paid in December 2012. After paying any future dividends to shareholders (subject to prior declaration by our board of directors), we expect that significant cash flow will remain to support further de-leveraging and to support growth initiatives.

On April 4, 2013, we paid a cash dividend of $0.19 per share to stockholders of record at the close of business on March 25, 2013. On May 1, 2013, we announced that our board of directors declared a cash dividend of $0.19 per share payable on July 3, 2013 to stockholders of record at the close of business on June 24, 2013.

In April 2013, we made an excess cash flow payment of $39.4 million on our senior secured term loan facility, or Term Loan B, and prepaid the entire $150.0 million principal amount of the floating rate senior notes due 2014 with available cash on hand.

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Selective Acquisitions and Greenfield Expansion

Increased demand for single source solutions by our customers and other factors may increase our opportunities to acquire competitors. Both ADESA and IAA have a strong record of acquiring and integrating independent auction operations and improving profitability. We will continue to evaluate opportunities to open and acquire new sites in selected markets in order to effectively leverage our sales and marketing capabilities and expand our geographic presence for both ADESA and IAA. In addition, we may pursue opportunities to acquire additional product offerings in each of our business segments.

Increase Our International Presence

In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with relationships in over 100 countries. We believe we are well positioned to grow internationally through both technology-based and physical auction expansion. We continue to identify opportunities to expand certain of our service offerings globally and specifically plan to extend our OPENLANE technology. We expect that our ability to efficiently layer in the OPENLANE product and technology licensing will allow us to conveniently enter mature auction markets.

Recent Developments

On June 1, 2013, a wholly-owned subsidiary of the Company acquired the common stock of PWI Holdings, Inc., the holding company of Preferred Warranties, Inc. (Preferred Warranties), a vehicle service contract company. The Company believes that the acquisition of PWI Holdings, Inc. will strengthen the Company s overall offering to independent dealers, AFC s primary customer, and that Preferred Warranties products will be enhanced as a result of being backed by the Company s financial strength and stability. The financial impact of this acquisition will be immaterial to the Company s balance sheet and statement of income in 2013.

Our Corporate Information

Our principal executive offices are located at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032, and our telephone number is (800) 923-3725. Our website is located at www.karauctionservices.com. The information on, or accessible through, the website is not a part of, or incorporated by reference into, this prospectus supplement. This reference to our website is an inactive textual reference only and is not a hyperlink. You should not consider the contents of our website in making an investment decision with respect to our securities.

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The Offering

Common stock offered by the selling stockholder	15,000,000 shares
Option to purchase additional shares from the selling stockholder	2,250,000 shares
Common stock outstanding before and after this offering(1)	137,715,512 shares
Use of proceeds	We will not receive any proceeds from the sale of shares of common stock by the selling stockholder in this offering. The selling stockholder will receive all net proceeds from this offering.
NYSE symbol	KAR
Risk Factors	Investing in our common stock involves risks. See Risk Factors beginning on page S-11 and in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly report on Form 10-Q for the quarter ended March 31, 2013, which are incorporated by reference in this prospectus supplement, to read about factors you should consider before buying our common stock.
Conflict of Interest	Because affiliates of Goldman, Sachs & Co. beneficially own more than 10% of our outstanding common stock, Goldman, Sachs & Co. is deemed to be an affiliate of the Company within the meaning of Rule 5121 of the Financial Industry Regulatory Authority, or Rule 5121, and is deemed to have a conflict of interest under Rule 5121. In addition, KAR LLC, the selling stockholder and an affiliate of Goldman, Sachs & Co., will receive all of the net proceeds of this offering. Accordingly, this offering will be made in compliance with the applicable provisions of Rule 5121 as required by Rule 5121. Because there is a bona fide public market (as defined in Rule 5121) for our common stock, the Rule 5121 requirement for the participation of a qualified independent underwriter does not apply to this offering.

(1) Based on the number of shares of our common stock outstanding as of May 17, 2013. Does not include 3,350,354 shares of common stock reserved for future issuance under our equity incentive plans or 8,625,256 shares of common stock issuable upon the exercise of stock options outstanding as of May 17, 2013, at a weighted average exercise price of $11.95 per share.

Except as otherwise indicated, the information in this prospectus supplement assumes no exercise of the underwriters option to purchase additional shares.

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Summary Consolidated Financial Data

The following table sets forth our summary consolidated financial data as of the dates and for the periods indicated. The summary consolidated financial data as of and for the years ended December 31, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements and the related notes incorporated by reference in this prospectus supplement. The summary consolidated financial data as of and for the three months ended March 31, 2013 and 2012 have been derived from our unaudited interim consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and includes all adjustments (consisting of normal recurring adjustments) that we consider necessary for a fair presentation of the financial position and the results of operations for these periods. The operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The following summary consolidated financial data should be read in conjunction with Risk Factors, our audited consolidated financial statements and related notes, and other financial information incorporated by reference in this prospectus supplement.

(Dollars in millions except per share amounts)	Three Months Ended March 31, 2013	2012	Years Ended December 31, 2012	2011	2010
Operations:					
Operating revenues					
ADESA	$ 283.6	$ 270.6	$ 1,053.5	$ 1,017.4	$ 1,075.9
IAA	221.6	189.4	716.1	700.1	610.4
AFC	52.4	46.9	193.8	168.8	136.3
Total operating revenues	557.6	506.9	1,963.4	1,886.3	1,822.6
Operating expenses (exclusive of depreciation and amortization)	432.2	383.5	1,506.2	1,424.6	1,382.5
Operating profit	78.1	74.8	267.0		

•Unemployment: While Michigan has had a higher unemployment rate than the United States as a whole, both the unemployment rate and non-farm payrolls have generally showed positive trends since mid-2009. On a seasonally-adjusted basis, the June 2013 unemployment rate of 8.7% for Michigan compares to 7.6% for the entire United States. Michigan's unemployment rate peaked at 14.2% in

August 2009. A number of our key markets have unemployment rates below the rate for the entire state, including Grand Rapids and Lansing. Since reaching a bottom in 2009, Michigan total employment has added about 200,000 jobs.

- Housing Market: The Michigan housing market has stabilized. The March 2013 Michigan Freddie Mac House Price Index was up 16.2% year-over-year as compared to the 6.7% increase of the National index. The April 2013 S&P/Case-Shiller Detroit Home Price Index was up 20% year-over-year, ranking 5th in the 20-city Index. Existing home sales rose for the second-straight year in 2012 and are following the same trend this year.

- 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 May 2013 index reached a level of 125.2 (2008 = 100), which is up approximately 53.1 points, or 74%, from the index cyclical low of 72.1 in 2009. The higher index reflects improved labor market conditions, strong vehicle production, and better housing market conditions in the state.

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Our asset quality trends are consistent with these generally positive economic trends for the State of Michigan. Our levels of new loan defaults have been declining and non-performing loans, non-performing assets, and loan net charge-offs have decreased significantly since 2009. The improved asset quality metrics have led to lower credit-related costs and our return to profitability starting with the first quarter of 2012.

Our Business Strategy

In response to difficult market conditions and the losses we incurred from 2008 to 2011, we took steps and initiated actions designed to increase our capital, improve our asset quality, and enhance our profitability. This offering is being undertaken to complete our Capital Plan, which should better position our community bank franchise to take advantage of the improving market conditions in Michigan. With the successful final implementation of our Capital Plan, our primary strategies are as follows:

- Further Improve Profitability and Our Efficiency Ratio: Our executive management team is focused on improving profitability and our efficiency ratio primarily through a reduction of non-interest expenses as well as growth in select categories of non-interest income (primarily revenue related to our mortgage banking operations and payment processing activities, such as debit card transactions). In addition to reducing credit-related costs, executive management is also concentrating on improving efficiencies to further reduce other costs, including staffing levels, occupancy costs, and data processing expenses.

- Increase our Efforts to Strategically Grow Our Loan Portfolio: Following the completion of this offering, we believe we will be well-positioned to take advantage of opportunities in our markets to serve commercial clients, including by providing more Small Business Administration (SBA) loans and other business loans through our branch network. We have experienced teams of credit professionals and senior lenders to execute our loan strategy, and we continue to invest in our credit and lending teams, through both hiring experienced commercial lenders and additional underwriting and credit monitoring training of our employees. In addition, we plan to continue our efforts in retail loan origination, with a focus on originating consumer installment loans and mortgage loans for sale.

- Continued Development of New Offerings, Particularly Technology-Based Products and Services, to Grow Deposit Market Share: We view long-term core deposit growth as an important objective as core deposits generally provide a more stable and lower cost source of funds. We intend to continue our investment in and improve our online banking, mobile banking and other technology-based services. Our continued focus on technology, particularly in the context of our established, service-oriented, community banking model, should further strengthen our ability to maintain and grow the core deposit base within our markets. In addition to these technology-based products and services, we have taken several other steps to build our core deposit base, including the implementation of a direct mail account acquisition program, branch staff sales training, increased sales calling efforts, and an expansion of our treasury management products and services. Historically, the loyalty of our customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers.

- Focus on Credit Monitoring and Improvement of Asset Quality: One of our top priorities is to continue to maintain a careful focus on asset quality in order to minimize future credit costs and continue to reduce the level of our non-performing assets. We have created a centralized special asset group to enable us to more effectively deal with problem credits. We have developed and implemented best credit practices, including, among other credit initiatives, a comprehensive quarterly watch process, deal-by-deal real estate portfolio review, and independent risk ratings provided by experienced credit officers. We believe we have a very disciplined and proactive approach in managing and pursuing workouts and other resolutions of non-performing loans.

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- Capitalize on Our Customer Service-Focused, Community Banking Model: We believe our relationship-based, "know your customer" business model and our customer service culture, known within our organization as the "Eagle Experience," are appealing to customers in our market, particularly customers who value local bankers who understand their needs and have local decision-making authority. We believe our recognized brand, core franchise, and loyal customer base, as well as our cross-selling sales culture, help to differentiate us from many of our competitors, including larger banks that have reduced their presence or marketing efforts in Michigan, and should position us to further increase our lending and our strong core deposit market share within the communities we serve.

- Maintain Strong Liquidity Profile: We maintain a diversified securities portfolio with a strategy of maintaining a strong liquidity profile with a heavy reliance on securities that are generally shorter in duration with high credit standards.

Our Competitive Strengths

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

- Strong Net Interest Margin: We have historically had a strong net interest margin, 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.
- 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, 2013, core deposits (checking, savings and money market accounts) accounted for approximately 77% 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. Brad Kessel, our President and Chief Executive Officer, has 26 years of banking-related experience and has been with us for 19 years. Four of the other five members of our executive management each have over 25 years of banking experience, a majority of which have been in our core Michigan markets. Our General Counsel has over 28 years of 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	Years in Present Position
William B. ("Brad") Kessel	President & CEO	26(1)	19	1(2)
Robert N. Shuster	EVP – CFO	30	13	13
David C. Reglin	EVP – Retail Banking	31	31	6
Stefanie M. Kimball	EVP – Chief Risk Officer	31	6	1
Mark L. Collins	EVP – General Counsel	28(3)	4	4
D. James Mack	EVP – Chief Lending Officer	29	4	1

(1) Experience includes positions within the financial services group at a large accounting firm.
(2) Appointed President effective April 1, 2011, and appointed CEO effective January 1, 2013.
(3) Experience includes specialization in commercial law and creditors' rights at a large, Grand Rapids-based law firm.

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- Successful Acquisition and Integration History: Over the past 25 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 four 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. We believe the completion of this offering will improve our capital position, allowing us to pursue local, high quality commercial lending relationships.

- Proactive Approach to Credit: We believe the improvements we have made to our credit administration and risk management programs and processes since the second quarter of 2007 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 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.

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, including:

- We strengthened our credit team through key appointments and experienced hires from larger commercial banks, including a Chief Risk Officer, to oversee the implementation of best credit practices. We made key additions to our already experienced commercial lending team, including a Chief Commercial Lending Officer, Senior Vice Presidents of 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.

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- We enhanced our training to provide comprehensive and ongoing in-house credit, underwriting, and risk management training programs that leverage our systems and infrastructure. We also 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 four 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. Finally, we have significantly increased our efforts to better monitor and manage concentration risks within our loan portfolio.

- We discontinued our resort lending activities, which involved extending residential mortgage loans secured by fractional interests or by full ownership condo-hotel units in resort properties throughout the U.S. At June 30, 2013, this portfolio totaled approximately $158.2 million (including accrued interest) of which, $3.8 million, or 2.4%, were 90 days or more past due.

Realignment of Credit Portfolios

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 commercial and industrial (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, we have implemented a strategy to significantly reduce the payment plan receivables generated by Mepco in light of losses Mepco 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 non-accrual 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 commercial real estate (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;

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- 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 processes;
- 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. During the second quarter of 2013, we sold $6.5 million of commercial loans ($8.6 million book value, less $2.1 million of reserves), for net proceeds of approximately $6.7 million. This loan sale included $7.9 million of classified assets, including approximately $2.9 million of non-accrual loans.

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. As an example, one indicator of the success of our approach is that, as of June 30, 2013, approximately 91% of our retail restructured loans remained performing six months after modification and approximately 87% remained performing one year after modification.

Loan Quality Update and Trends

Our asset quality metrics and credit trends have shown significant improvement since 2009. As of June 30, 2013, our non-performing loans (NPLs) have decreased $89.8 million, or 81.7%, since the end 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, 2013	Dec. 31, 2012	Dec. 31, 2009
	($ in millions)		
Loan Type			
Commercial	$5.0	$14.8	$50.4
Consumer/installment	2.2	2.3	8.4
Mortgage	12.8	15.7	48.0
Payment plan receivables[(1)]	0.1	0.1	3.1
Total	$20.1	$32.9	$109.9
Ratio of non-performing loans to total portfolio loans	1.45 %	2.32 %	4.78 %
Ratio of non-performing assets to total assets	1.78	2.92	4.77
Ratio of the allowance for loan losses to non-performing loans	182.98	134.43	74.35
Ratio of 30-89 days past due loans to total portfolio loans	0.97	1.34	2.81

(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.

The decrease in NPLs since year-end 2009 reflects declines in all loan categories, including for paydowns, net loan charge-offs, negotiated transactions, and the migration of loans into other real estate (ORE).

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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, 2013, is as follows (in 000's):

	Commercial	Retail	Total
Performing TDRs	$ 42,543	$ 83,187	$ 125,730
Non-performing TDRs (1)	3,298	6,470 (2)	9,768
Total	$ 45,841	$ 89,657	$ 135,498

(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 91% 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 borrower's 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) have declined by 73.2% since the end of 2009.

Our 30-89 day past due loans are down 79.3% since the end of 2009, exhibiting significant improvement.

Our provision for loan losses decreased by $9.0 million, or 145%, in the first six months of 2013 compared to the year-ago level, primarily reflecting a reduction in non-performing loans, reduced loan net charge-offs, a lower level of commercial loan watch credits, a reduced level of new loan defaults, and an overall decline in total loan balances. The provision for loan losses was a credit of $2.8 million and an expense of $6.2 million in the first six months of 2013 and 2012, respectively. The level of the provision for loan losses in each period reflects our overall assessment of the allowance for loan losses, taking into consideration factors such as loan mix, levels of non-performing and classified loans, and loan net charge-offs. Loan net charge-offs were $4.7 million (0.68% annualized of average loans) in the first six months of 2013, compared to $12.9 million (1.69% annualized of average loans) in the first six months of 2012. The decline in 2013 loan net charge-offs compared to year ago levels is primarily due to declines in both commercial and mortgage loan net charge-offs that reflect increased recoveries on previous charge-offs as well as a reduced level of loan defaults. At June 30, 2013, the allowance for loan losses totaled $36.8 million, or 2.65% of portfolio loans, compared to $44.3 million, or 3.12% of portfolio loans, at December 31, 2012.

Earnings Overview for First Six Months of 2013

For the six months ended June 30, 2013, we reported net income applicable to common stock of $66.9 million, or $2.90 per diluted share, compared to net income applicable to common stock of $5.7 million, or $0.19 per diluted share, in the prior-year period. 2013 results include an income tax benefit of $57.6 million associated with the reversal of substantially all of our deferred tax asset valuation allowance in June 2013.

For the first six months of 2013, net interest income totaled $39.1 million, a decrease of $4.9 million, or 11.0% from 2012. This was largely due to our sale of 21 branches in the fourth quarter of 2012. Our net interest margin for the first six months of 2013 increased to 4.20% compared to 4.12% in the first six months of 2012.

Service charges on deposit accounts totaled $7.0 million for the first six months of 2013, representing a decrease of 20.2% from the comparable year ago period. Interchange income totaled $3.7 million for the first six months of 2013 representing a decrease of 22.0% over the year ago comparative period. The declines in service charges on deposit accounts and interchange income primarily reflect the impact of the branch sale.

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For the first six months of 2013, net gains on mortgage loans totaled $6.8 million compared to $7.4 million in the first six months of 2012. The decrease in net gains relates primarily to a rise in mortgage loan interest rates during the second quarter of 2013 that has reduced mortgage loan refinance volumes.

For the first six months of 2013, mortgage loan servicing generated income of $2.3 million compared to a loss of $0.4 million in the same period in 2012. This variance is primarily due to the change in the impairment reserve (a $2.5 million recovery of previously recorded impairment charges in the first six months of 2013 compared to a $0.2 million impairment charge in the year-ago period). Capitalized mortgage loan servicing rights totaled $13.0 million at June 30, 2013 compared to $11.0 million at December 31, 2012. As of June 30, 2013, we serviced approximately $1.7 billion in mortgage loans for others on which servicing rights have been capitalized.

For the first six months of 2013, non-interest expenses totaled $53.2 million versus $57.5 million in the first six months of 2012. The branch sale had the most significant impact on the year-over-year declines in most of the categories of non-interest expenses (compensation and benefits, occupancy, furniture, fixtures and equipment, communications and FDIC deposit insurance). Loan and collection expenses (down $1.4 million year-to-date) and net losses on ORE and repossessed assets (down $0.6 million year-to-date) declined due primarily to reduced levels of non-performing loans, commercial watch credits and ORE. In addition, credit card and bank service fees (down $0.6 million year-to-date) declined due primarily to a decrease in the size of our payment plan receivables portfolio. Vehicle service contract counterparty contingencies expense increased by $2.5 million year-to-date. This increase primarily reflects write-downs of vehicle service contract counterparty receivables in the second quarter of 2013. We reached tentative settlements in certain of our litigation matters to collect these receivables. Given the costs and uncertainty of continued litigation, we determined it was in our best interests to resolve these matters.

Corporate Information

Our principal executive offices are located at 230 West Main Street, Ionia, Michigan 48846, and our telephone number at that address is (616) 527-5820.

Our common stock trades on The NASDAQ Global Select Market under the ticker symbol "IBCP."

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The Offering

Common stock offered	11,500,000 shares (13,225,000 shares if the underwriters exercise their over-allotment option in full).
Common stock outstanding after the offering[(1), (2)]	20,993,732 shares (22,718,732 shares if the underwriters exercise their over-allotment option in full).
Net proceeds	Our estimated net proceeds from this offering are approximately $84.1 million, or approximately $96.8 million if the underwriters exercise their over-allotment option in full, after deducting the underwriting discounts and commissions and other estimated expenses of this offering.
Use of proceeds	We plan to use the proceeds of this offering to redeem the preferred stock (including all accrued and unpaid dividends) and related warrant held by the Treasury.
No dividends on common stock	We are not currently paying any cash dividends on our common stock and our ability to pay cash dividends in the near term is significantly restricted by the factors described under "Dividend Policy" below.
Market trading	Our common stock is currently traded on the Nasdaq Global Select Market under the symbol "IBCP." The last reported closing price of our common stock on August 22, 2013, was $8.40 per share.
Risk factors	See "Risk Factors" beginning on page 20 and other information included in this prospectus (including information incorporated by reference) for a discussion of factors you should consider before investing in our common stock.

(1) The number of our shares outstanding immediately after the closing of this offering is based on 9,493,732 shares of our common stock outstanding as of August 21, 2013.

(2) Unless otherwise indicated, the number of shares of common stock stated to be outstanding in this prospectus excludes (a) 1,725,000 shares issuable upon exercise of the underwriters' over-allotment option, (b) 331,048 shares of common stock issuable upon exercise of outstanding stock options as of August 21, 2013 (with a weighted average exercise price of $4.46), (c) 750,528 shares issuable pursuant to potential future awards under our equity compensation plans, and (d) 130,723 shares issued and held in trust under the terms of our deferred compensation and stock purchase plan for non-employee directors. We have also excluded any shares issuable upon exercise of the Warrant held by the Treasury and any shares issuable upon conversion of our Series B Convertible Preferred Stock held by the Treasury given our expectation that these securities will be redeemed with the proceeds from this offering.

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SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial data for us at and for each of the years in the five-year period ended December 31, 2012 and at and for the six-month periods ended June 30, 2013 and 2012.

The selected financial data as of and for the years ended December 31, 2012, 2011, and 2010, has been derived from our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012. The selected financial data as of and for the years ended December 31, 2009 and 2008 has been derived from our audited financial statements included in our Annual Report on Form 10 K for the year ended December 31, 2009.

The selected financial data as of and for the six months ended June 30, 2013 and 2012 has been derived from our unaudited interim financial statements included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. In the opinion of our management, these financial statements reflect all necessary adjustments for a fair presentation of the data for those periods. Historical results are not necessarily indicative of future results and the results for the six months ended June 30, 2013 are not necessarily indicative of our expected results for the full year ending December 31, 2013 or any other period.

You should read this information in conjunction with our consolidated financial statements and related notes, from which this information is derived. See "Incorporation of Certain Information by Reference" above.

	Six-Months Ended June 30,		Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
($ in 000's, except per share amounts)	(Unaudited)		(Audited)				
SUMMARY OF OPERATIONS							
Interest income	$43,812	$50,951	$99,398	$114,762	$148,851	$189,056	$203,736
Interest expense	4,733	7,021	13,143	20,193	37,198	50,533	73,587
Net interest income	39,079	43,930	86,255	94,569	111,653	138,523	130,149
Provision for loan losses	(2,798)	6,187	6,887	27,946	46,765	103,318	71,113
Net gains (losses) on securities	165	591	887	(511)	1,177	3,744	(14,961)
Gain on extinguishment of debt	--	--	--	--	18,066	--	--
Net gain on branch sale	--	--	5,402	--	--	--	--
Other non-interest income	23,914	27,035	57,276	47,424	52,570	56,057	45,510
Non-interest expenses	53,215	57,532	116,735	133,948	155,000	188,443	178,186
Income (loss) before income tax	12,741	7,837	26,198	(20,412)	(18,299)	(93,437)	(88,601)
Income tax expense (benefit)	(56,454)	--	--	(212)	(1,590)	(3,210)	3,063
Net income (loss)	69,195	7,837	26,198	(20,200)	(16,709)	(90,227)	(91,664)
Preferred dividends and discount accretion	2,252	2,148	4,347	4,157	4,095	4,301	215
Net income (loss) applicable to common stock	$66,943	$5,689	$21,851	$(24,357)	$(20,804)	$(94,528)	$(91,879)

PER COMMON SHARE DATA[1]							
Income (loss) per common share							
Basic	$7.14	$0.66	$2.51	$(2.94)	$(4.09)	$(39.60)	$(39.98)
Diluted	2.90	0.19	0.80	(2.94)	(4.09)	(39.60)	(39.98)
Cash dividends declared	0.00	0.00	0.00	0.00	0.00	0.30	1.40
Book value	12.91	3.56	5.58	2.68	5.52	16.94	54.93
SELECTED BALANCES							
Assets	$2,134,674	$2,403,465	$2,023,867	$2,307,406	$2,535,248	$2,965,364	$2,956,245
Loans	1,386,082	1,457,390	1,419,139	1,576,608	1,813,116	2,299,372	2,459,529
Allowance for loan losses	36,786	51,346	44,275	58,884	67,915	81,717	57,900
Deposits	1,816,089	1,765,336	1,779,537	2,086,125	2,251,838	2,565,768	2,066,479
Shareholders' equity	208,835	113,172	134,975	102,627	119,085	109,861	194,877
Long-term debt - FHLB advances	17,503	17,929	17,622	33,384	71,022	94,382	314,214
Subordinated debentures	50,175	50,175	50,175	50,175	50,175	92,888	92,888

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	Six-Months Ended June 30,		Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(Unaudited)		(Audited)				
SELECTED RATIOS							
Net interest income to average interest earning assets	4.20 %	4.12 %	4.01 %	4.42 %	4.36 %	5.00 %	4.48 %
Net income (loss) to [(2)(3)]							
Average common equity	226.29	45.34	68.29	(68.44)	(54.38)	(90.72)	(39.01)
Average assets	6.52	0.48	0.92	(1.02)	(0.75)	(3.17)	(2.88)
Average shareholders' equity to average assets	7.00	4.47	4.82	4.76	3.92	5.80	7.50
Tier 1 capital to average assets	10.35	6.55	8.08	6.25	6.35	5.27	8.61
Non-performing loans to portfolio loans	1.45	3.09	2.32	3.80	3.73	4.78	5.09

(1) Per share data has been adjusted for a 1-for-10 reverse stock split in 2010.

(2) These amounts are calculated using net income (loss) applicable to common stock.

(3) Net income for the 6-month periods ended June 30, 2013 and 2012 has been annualized for purposes of these ratios.

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RISK FACTORS

An investment in our common stock involves risks. You should carefully consider the risks described below together with the other information contained or incorporated by reference into this prospectus, including the information contained in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012, and any risks described in our other filings with the SEC, which are incorporated into this prospectus, before investing in our common stock. The risks described below and in the documents referred to in the preceding sentence are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations and financial condition. If any of these risks actually occur, our business, results of operations, and financial condition could suffer. In that case, the trading price of our common stock may decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR EFFORTS TO RAISE CAPITAL

This offering will be highly dilutive to our existing common shareholders.

If successful, this offering will result in the issuance of a significant number of shares of our common stock and will be highly dilutive to our existing common shareholders and their voting power. Please see "Capitalization" below for more information. The market price of our common stock could decline as a result of the dilutive effect of this offering.

This offering could result in one or more private investors owning a significant percentage of our stock and having the ability to exert influence over our management and operations.

It is possible that one or more investors could end up as the owner of a significant portion of our common stock if, for example, such investor makes a significant investment in our common stock in this offering.

Any such significant shareholder could exercise influence on matters submitted to our shareholders for approval, including the election of directors. In addition, having a significant shareholder could make future transactions more difficult or even impossible to complete without the support of such shareholder, whose interests may not coincide with interests of smaller shareholders. These possibilities could have an adverse effect on the market price of our common stock.

However, we do not expect any single investor to acquire a significant portion of our common stock in this offering. As noted below, if we are deemed to experience a change in ownership under federal tax laws, it would negatively affect our ability to utilize our net operating loss carryforwards and other deferred tax assets in the future. As a means of reducing the likelihood of an ownership change, we adopted a Tax Benefits Preservation Plan in 2011 that discourages any person who is not already a 5% or greater shareholder from becoming a 5% or greater shareholder (with certain limited exceptions).

In addition, we expect to limit the amount of stock acquired by any single investor in this offering to avoid an ownership change under the federal tax laws. It is possible we will agree to sell a number of shares of our common stock in this offering to an investor that would cause that investor to own 5% or more of the outstanding shares of our common stock after completion of this offering. However, we intend to ensure that all sales of our common stock in this offering are conducted in such a manner as to avoid an ownership change under federal tax laws that would preclude us from utilizing the loss carryforwards.

It is possible the sale of our common stock in this offering, by itself or in conjunction with our redemption of the Series B Convertible Preferred Stock and related Warrant, will trigger an ownership change under federal tax law that would negatively affect our ability to utilize net operating loss carryforwards and other deferred tax assets in the future.

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As of June 30, 2013, we had federal loss carryforwards of approximately $110.2 million. Under federal tax law, our ability to utilize these carryforwards and other deferred tax assets is limited if we are deemed to experience a change of ownership pursuant to Section 382 of the Internal Revenue Code. This would result in our loss of the benefit of these deferred tax assets. Please see the more detailed discussion of these tax rules under "Results of Operations - Income Tax Expense (Benefit)" in our Annual Report on Form 10-K.

As noted above, we expect to limit the amount of stock acquired by any single investor in this offering to avoid an ownership change under the federal tax laws that would preclude us from utilizing the loss carryforwards.

We will retain broad discretion in using certain of the net proceeds from this offering.

The primary purpose of this offering is to allow us to exit TARP through a redemption of the Series B Convertible Preferred Stock and related Warrant currently held by the Treasury. As described under "Capital Plan and This Offering" below, we have the ability to cause such redemption if we meet certain conditions. This offering is intended to satisfy the condition that we complete new cash equity raises of not less than $86.0 million and to raise sufficient proceeds for us to complete the redemption of the securities held by the Treasury.

Assuming we are successful in raising aggregate gross cash proceeds of $89.1 million in this offering, we anticipate net proceeds available to us, after paying offering expenses, to be approximately $84.1 million. We intend to use these net proceeds to redeem the preferred stock and warrant held by the Treasury pursuant to the Redemption Agreement, for a total purchase price of $81.0 million.

The underwriters of this offering have the option to purchase up to an aggregate of 1,725,000 additional shares of our common stock at the public offering price, less the underwriting discount and commission set forth on the cover page of this prospectus. If the underwriters exercise this option, it would result in additional net cash proceeds to us of up to approximately $12.7 million. We currently do not have any specific plans as to how such additional cash proceeds would be used. One potential use of the proceeds would be to redeem a portion of our outstanding trust preferred securities. The aggregate liquidation amount (excluding accrued dividends) of our outstanding trust preferred securities is $48.7 million. Of this amount, an aggregate of $9.2 million in liquidation amount (excluding accrued dividends) has a fixed annual dividend rate of 8.25%. (By comparison, as of June 30, 2013, the dividend rates on the $39.5 million balance of our remaining variable rate trust preferred securities ranged from 1.88% to 3.73%.) We have no definitive plans to redeem these trust preferred securities, and such redemption would be subject to the prior approval of our regulators.

Our management will retain broad discretion to allocate any net proceeds of this offering in excess of the amount used to redeem our securities from the Treasury. Our management may use any such excess net proceeds for corporate purposes that may not increase our market value or make us more profitable. Management's failure to use any such excess net proceeds effectively could have an adverse effect on our business, financial condition, and results of operations.

RISKS RELATED TO THE MARKET PRICE AND VALUE OF THE COMMON STOCK OFFERED

You may not receive dividends on the shares of common stock you purchase in this offering at any time in the near future.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are currently prohibited from paying any cash dividends on our common stock. Even when such prohibitions end, there are restrictions on our ability to pay cash dividends that will likely continue to materially limit our ability to pay cash dividends. We cannot provide any assurances of when we may pay cash dividends in the future. Furthermore, our common shareholders are subject to the prior dividend rights of any holders of our preferred stock. See "Dividend Policy" below for more information.

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The trading price of our common stock may be subject to continued significant fluctuations and volatility.

The market price of our common stock could be subject to significant fluctuations due to, among other things:

- actual or anticipated quarterly fluctuations in our operating and financial results, particularly if such results vary from the expectations of management, securities analysts, and investors, including with respect to further loan losses or vehicle service contract counterparty contingencies expenses we may incur;
- announcements regarding significant transactions in which we may engage, including this offering;
- market assessments regarding such transactions, including the timing, terms, and likelihood of success of this offering;
- developments relating to litigation or other proceedings that involve us;
- changes or perceived changes in our operations or business prospects;
- legislative or regulatory changes affecting our industry generally or our businesses and operations;
- the failure of general market and economic conditions to stabilize and recover, particularly with respect to economic conditions in Michigan, and the pace of any such stabilization and recovery;
- the operating and share price performance of companies that investors consider to be comparable to us;
- future offerings by us of debt, preferred stock, or trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions;
- actions of our current shareholders, including future sales of common stock by existing shareholders and our directors and executive officers; and
- other changes in U.S. or global financial markets, economies, and market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general, and our common stock in particular, have experienced significant volatility since October 2007 and continue to experience significant price and volume volatility. As a result, the market price of our common stock, which has ranged from $1.01 per share to $139.20 per share during this period, may continue to be subject to similar market fluctuations that may or may not be related to our operating performance or prospects. Increased volatility could result in a decline in the market price of our common stock.

We urge you to obtain current market quotations for our common stock when you consider this offering.

Our common stock trading volumes may not provide adequate liquidity for investors.

Shares of our common stock are listed on the Nasdaq Global Select Market; however, the average daily trading volume in our common stock is less than that of many larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. This capital offering is likely to positively impact the liquidity in our common stock; however, we cannot be sure this expectation will materialize. Given the current daily average trading volume of our common stock, if there is no change in liquidity as a result of this offering, significant sales of our common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of the stock.

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Any future offerings of debt, preferred stock, or trust preferred securities, each of which would be senior to our common stock upon liquidation and for purposes of dividend distributions, and any future equity offerings may adversely affect the market price of our common stock.

We may attempt to increase our capital resources, or we or our bank could be forced by federal and state bank regulators to raise additional capital, by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our outstanding shares of common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of our shareholders. Our board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. Therefore, if we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Our Articles of Incorporation, certain banking laws, and our Tax Benefits Preservation Plan may have an anti-takeover effect.

Provisions of our Articles of Incorporation and certain federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. In addition, our Tax Benefits Preservation Plan (discussed above) is intended to discourage any person from acquiring 5% or more of our outstanding stock (with certain limited exceptions). The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

Investors could become subject to regulatory restrictions upon ownership of our common stock.

Under the federal Change in Bank Control Act, a person may be required to obtain prior approval from the Federal Reserve before acquiring the power to direct or indirectly control our management, operations, or policy or before acquiring 10% or more of our common stock. As a result, potential investors who seek to participate in this offering should evaluate whether they could become subject to the approval and other requirements of this federal statute.

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NON-GAAP FINANCIAL MEASURES

The following table presents computations of certain financial measures related to "tangible common equity" and "Tier 1 common equity." The tangible common equity ratio has become a focus of some investors, and we believe this ratio may assist investors in analyzing our capital position absent the effects of intangible assets and preferred stock. Traditionally, the Federal Reserve and other banking regulators have assessed a bank's capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. More recently, the banking regulators have also supplemented their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. Because tangible common equity and Tier 1 common equity are not formally defined by generally accepted accounting principles (GAAP) or codified in the federal banking regulations, these measures are considered to be non-GAAP financial measures. Because analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to provide investors the ability to assess our capital adequacy on these same bases.

Tier 1 common equity is often expressed as a percentage of net risk-weighted assets. Under the risk-based capital framework, a bank's balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weight assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (net risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity. Tier 1 common equity is also divided by net risk-weighted assets to determine the Tier 1 common equity ratio. The amounts disclosed as net risk-weighted assets are calculated consistent with banking regulatory requirements.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. To mitigate these limitations, we have procedures in place to ensure that these measures are calculated using the appropriate GAAP or regulatory components and to ensure that our capital performance is properly reflected to facilitate period-to-period comparisons. Although these non-GAAP financial measures are frequently used by investors in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

The following table provides reconciliations of the following:

- Total assets (GAAP) to tangible assets (non-GAAP)
- Total shareholders' equity (GAAP) to tangible common equity (non-GAAP)
- Total shareholders' equity (GAAP) to Tier 1 common equity (non-GAAP)

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These computations are based on our actual results without giving effect to the potential redemption of our Series B Convertible Preferred Stock and related Warrant pursuant to the Redemption Agreement or the offering contemplated by this prospectus.

	June 30, 2013 (Unaudited)	December 31, 2012 (Derived From Audited Financial Statements)	2011	2010	2009	2008
($ in 000's)						
TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS						
Total assets (GAAP)	$2,134,674	$2,023,867	$$2,307,406	$2,535,248	$2,965,364	$2,956,245
Deduct: Goodwill	-	-	-	-	-	16,734
Deduct: Core deposit intangible assets (all other intangibles)	3,569	3,975	7,609	8,980	10,260	12,190
Tangible assets (non-GAAP)	$2,131,105	$2,019,892	$$2,299,797	$2,526,268	$2,955,104	$2,927,321
Total shareholders' equity (GAAP)	$208,835	$134,975	$102,627	$119,085	$109,861	$194,877
Deduct: Goodwill	-	-	-	-	-	16,734
Deduct: Core deposit intangible assets (all other intangibles)	3,569	3,975	7,609	8,980	10,260	12,190
Deduct: Preferred stock	86,455	84,204	79,857	75,700	69,157	68,456
Tangible common equity (non-GAAP)	$118,811	$46,796	$15,161	$34,405	$30,444	$97,497
Tangible common equity to tangible assets ratio (non-GAAP)	5.58 %	2.32 %	0.66 %	1.36 %	1.03 %	3.33 %
TIER 1 COMMON EQUITY						
Total shareholders' equity (GAAP)	$208,835	$134,975	$102,627	$119,085	$109,861	$194,877
Add: Qualifying capital securities	48,668	47,678	38,183	44,084	41,880	72,751
Deduct: Goodwill	-	-	-	-	-	16,734
(Add) deduct: Accumulated other comprehensive (loss) income	(7,270)	(8,058)	(11,921)	(13,120)	(15,679)	(23,208)
Deduct: Intangible assets	3,569	3,975	7,609	8,980	10,260	12,190
Deduct: Disallowed servicing assets	497	788	857	527	559	1,018
Deduct: Disallowed deferred tax assets	52,769	-	-	780	-	-
	-	-	-	-	-	-

Deduct: Net unrealized losses on equity securities						
(Add) deduct: Other	-	-	-	(46)	(101)	(169)
Tier 1 capital (regulatory)	$207,938	$185,948	$144,265	$166,048	$156,702	261,063
Deduct: Qualifying capital securities	48,668	47,678	38,183	44,084	41,880	72,751
Deduct: Preferred stock	86,455	84,204	79,857	75,700	69,157	68,456
Tier 1 common equity (non-GAAP)	$72,815	$54,066	$26,225	$46,264	$45,665	$119,856
Net risk-weighted assets (regulatory)	$1,396,008	$1,390,849	$1,543,372	$1,758,651	$2,204,157	$2,365,082
Tier 1 common equity ratio (non-GAAP)	5.22 %	3.89 %	1.70 %	2.63 %	2.07 %	5.07 %

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USE OF PROCEEDS

Our estimated net proceeds from this offering are approximately $84.1 million, or approximately $96.8 million if the underwriters exercise their over-allotment option in full, after deducting the underwriting discounts and commissions and other estimated expenses of this offering.

We currently expect to use the net proceeds from this offering to redeem the Series B Convertible Preferred Stock and related Warrant held by the Treasury, as contemplated by the Redemption Agreement. As described in this prospectus, we have the ability to cause such redemption if we meet certain conditions. After completion of this offering, we expect all conditions to be met except for our receipt of regulatory approval to cause such redemption. Assuming we are able to receive such regulatory approval following our completion of this offering, we intend to close on the purchase and sale contemplated by the Redemption Agreement as soon as possible after paying in full all accrued but unpaid dividends and distributions on our subordinated debentures (and the related trust preferred securities) in accordance with their governing documents. The purchase price for our redemption of these securities from the Treasury is $81.0 million.

If the underwriters exercise their over-allotment option, it would result in additional net cash proceeds to us of up to approximately $12.7 million. We currently do not have any specific plans as to how such additional cash proceeds would be used. One potential use of the proceeds would be to redeem a portion of our outstanding trust preferred securities. The aggregate liquidation amount (excluding accrued dividends) of our outstanding trust preferred securities is $48.7 million. Of this amount, an aggregate of $9.2 million in liquidation amount (excluding accrued dividends) has a fixed annual dividend rate of 8.25%. (By comparison, as of June 30, 2013, the dividend rates on the $39.5 million balance of our outstanding trust preferred securities ranged from 1.88% to 3.73%.) We have no definitive plans to redeem these trust preferred securities, and such redemption would be subject to the prior approval of our regulators.

Although we currently intend to use the proceeds from this offering in the manner described above, it is possible that other events could change our plans, and we could use any or all of the proceeds for other purposes.

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CAPITALIZATION

The following table sets forth our capitalization and selected capital ratios as of June 30, 2013, reflecting the following three scenarios:

(a) Actual capitalization as of June 30, 2013;

(b) Pro forma capitalization as of June 30, 2013, giving effect to the issuance and sale of 11,500,000 shares of common stock in this offering, assuming that the underwriters' over-allotment is not exercised, at the public offering price per share of $7.75, net of underwriting discounts and commissions and estimated offering expenses; and

(c) Pro forma capitalization as of June 30, 2013, giving effect to the issuance of common stock described in paragraph (b) above, the payment of approximately $8.3 million of accrued but unpaid interest on the subordinated debentures issued to our trust subsidiaries as of September 30, 2013 (which payment is required before we can redeem the preferred shares and related warrant held by the Treasury), and the redemption of the preferred stock and related warrant held by the Treasury using the net proceeds from this offering.

This table should be read in conjunction with the historical financial data included within this prospectus, including the consolidated financial statements (and notes thereto) incorporated in this prospectus by reference.

	June 30, 2013		
	Actual	As adjusted[1]	As adjusted[2]
	(in thousands) (unaudited)		
Certain Long-Term Debt:			
Subordinated debentures	$50,175	$50,175	$50,175
Amount not qualifying as regulatory capital	(1,507)	(1,507)	(1,507)
Amount qualifying as regulatory capital	48,668	48,668	48,668
Shareholders' Equity:			
Convertible preferred stock	86,455	86,455	-
Common stock	255,114	339,183	344,638
Accumulated deficit	(125,464)	(125,464)	(125,464)
Accumulated other comprehensive loss	(7,270)	(7,270)	(7,270)
Total shareholders' equity	208,835	292,904	211,904
Total capitalization	$257,503	$341,572	$260,572
Capital Ratios for Independent Bank Corporation:			
Total Risk-Based Capital Ratio	16.17 %	22.19 %	16.39 %
Tier 1 Capital Leverage Ratio	10.28 %	14.43 %	10.43 %

(1) As adjusted to reflect the issuance of common stock in this offering. Assumes $84.1 million in net proceeds from this offering. See subparagraph (b) above.

(2) As adjusted to reflect the issuance of common stock in this offering, our payment of accrued but unpaid quarterly payments on our trust preferred securities, and our intended application of the proceeds from this offering. See

subparagraph (c) above.

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CAPITAL PLAN AND THIS OFFERING

We are conducting the offering described in this prospectus as part of the more comprehensive Capital Plan adopted by our board of directors and described below. The primary objective of our Capital Plan was to enable our bank to achieve and thereafter maintain the minimum capital ratios established by its board pursuant to resolutions adopted in December 2009. As of June 30, 2013, our bank met both of these minimum capital ratios. However, another objective of our Capital Plan is to complete this offering and cause the redemption of the Series B Convertible Preferred Stock and related Warrant currently held by the Treasury.

Capital Plan

In December 2009, the board of directors of our bank adopted resolutions designed to enhance and strengthen our operations. Importantly, alongside other resolutions regarding the improvement of asset quality, liquidity, and cash management, the resolutions required our bank to adopt a capital restoration plan designed to achieve a minimum Tier 1 capital leverage ratio of 8% and a minimum total risk based capital ratio of 11%. After the adoption of these resolutions, we adopted the Capital Plan required by the resolutions. Although the Capital Plan has been modified from time to time since its initial adoption, the target capital ratios have remained the same.

The primary objective of our Capital Plan was to enable our bank to achieve and thereafter maintain the minimum capital ratios required by the board resolutions adopted in December 2009. As of June 30, 2013, our bank met both of the required minimum capital ratios:

	Independent Bank — Actual as of June 30, 2013	Minimum Ratios Established by Bank's Board	Required to be Well-Capitalized
Total Risk-Based Capital Ratio	16.35%	11.00%	10.00%
Tier 1 Capital Leverage Ratio	10.35%	8.00%	5.00%

Although we have met the minimum capital ratios required by the December 2009 board resolutions and our Capital Plan, we also seek to exit our participation in TARP through the repurchase of the equity position currently held by the Treasury.

Anticipated Payment of Accrued Dividends on Trust Preferred Securities

Beginning in the fourth quarter of 2009, we 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 Treasury under TARP. We are currently still deferring all quarterly distributions on our outstanding trust preferred securities and on all shares of preferred stock held by the Treasury.

Pursuant to the instruments governing our trust preferred securities, we are prohibited from paying any dividends on or redeeming any securities ranking junior to the trust preferred securities, including the preferred stock held by the Treasury, unless we are current on all quarterly dividends related to our trust preferred securities. As a result, before we can redeem the preferred stock and warrant held by the Treasury, we must pay all accrued but unpaid interest on the subordinated debentures we issued to our trust subsidiaries, which will allow those trust subsidiaries to pay all accrued but unpaid dividends on our outstanding trust preferred securities. As of June 30, 2013, the aggregate amount of accrued but unpaid dividends on these trust preferred securities was approximately $7.7 million. This amount will be approximately $8.3 million as of September 30, 2013.

Pursuant to the resolutions adopted by our Board of Directors that are described under "Summary – Background to the Offering" above, we are currently prohibited from making any payments on our trust preferred securities without the approval of our federal and state regulators. We recently obtained regulatory approval to pay all accrued but unpaid dividends on our outstanding trust preferred securities.

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Anticipated Return of Capital from Independent Bank to Independent Bank Corporation

We do not currently have sufficient cash on hand at our holding company to pay the accrued but unpaid dividends on our outstanding trust preferred securities, which amounted to approximately $7.7 million at June 30, 2013 and will total approximately $8.3 million at September 30, 2013. In order to fund such payment, we need our subsidiary bank to return capital previously contributed by our holding company to our holding company, which requires prior regulatory approval. We have recently obtained regulatory approval to allow our subsidiary bank to return $7.5 million of capital to our holding company to allow us to pay the accrued but unpaid dividends on our outstanding trust preferred securities.

We expect to cause our subsidiary bank to return $7.5 million of prior capital contributions to our holding company and then pay all accrued but unpaid dividends on our trust preferred securities after completion of the offering described in this prospectus in accordance with their governing documents.

Redemption of the Preferred Stock and Related Warrant Held by the Treasury

Originally, we issued Series A Fixed Rate Cumulative Perpetual Preferred Stock to the Treasury in December 2008 under the TARP's Capital Purchase Program (CPP). The aggregate liquidation value of the Series A preferred stock issued to the Treasury was $72.0 million.

On April 16, 2010, we completed a transaction with Treasury pursuant to which the Treasury accepted shares of our Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock in exchange for the entire $72.0 million in aggregate liquidation value of the shares of Series A Preferred Stock, plus the value of all accrued and unpaid dividends on such shares of Series A Preferred Stock (approximately $2.4 million). The shares of Series B Convertible Preferred Stock have an aggregate liquidation preference equal to $74,426,000.

With the exception of being convertible into shares of our common stock, the terms of the Series B Convertible Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that were exchanged. The Series B Convertible Preferred Stock qualifies as Tier 1 regulatory capital, subject to limitations, and is entitled to cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. A detailed description of the terms of the Series B Convertible Preferred Stock is set forth under "Description of Our Capital Stock" below.

On July 26, 2013, we entered into the Redemption Agreement with the Treasury. Under the Redemption Agreement, the Treasury has agreed to sell to us all of the Series B Convertible Preferred Stock (including all accrued but unpaid dividends) and the related Warrant for an aggregate purchase price of $81.0 million. The closing of the purchase and sale contemplated by the Redemption Agreement is conditioned upon our receipt of applicable regulatory approvals and our completion of one or more cash equity raises of $86.0 million or more in gross proceeds. This offering is intended to satisfy the condition in the Redemption Agreement that we complete new cash equity raises of not less than $86.0 million and to provide a source of funding for the purchase and sale contemplated by the Redemption Agreement. After completion of this offering, we expect all conditions to be met except for our receipt of regulatory approval to cause such redemption. Assuming we are able to receive such regulatory approval following our completion of this offering, we intend to close on the purchase and sale contemplated by the Redemption Agreement as soon as possible after paying in full all accrued but unpaid dividends and distributions on our subordinated debentures (and the related trust preferred securities) in accordance with their governing documents.

The Redemption Agreement gives both us and the Treasury the right to terminate the Redemption Agreement if the closing of the redemption of securities contemplated by the Redemption Agreement does not occur by October 31, 2013.

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DIVIDEND POLICY

We are not currently paying any cash dividends on our common stock and our ability to pay cash dividends in the near term is significantly restricted by the factors described below.

Current Prohibitions on Our Payment of Dividends

In March 2013, our board of directors adopted resolutions prohibiting us from paying any dividends on our common stock without the prior written approval of the Federal Reserve and the Michigan Department of Insurance and Financial Services ("DIFS"). These resolutions were adopted in conjunction with the termination of a Memorandum of Understanding entered into between the respective boards of directors of our holding company and our bank, the Federal Reserve, and the Michigan DIFS. The March 2013 resolutions also prohibit us from rescinding or materially modifying these resolutions without notice to the Federal Reserve and the Michigan DIFS.

Moreover, our primary source for dividends are dividends payable to us by our bank. The board of directors of our bank adopted similar resolutions in March 2013 that prohibit our bank from paying any dividends to us without the prior written approval of the Federal Reserve and the Michigan DIFS.

In addition, as a result of our election to defer regularly scheduled quarterly payments on our outstanding trust preferred securities and our outstanding shares of Series B Convertible Preferred Stock, we are currently prohibited from paying any cash dividends on shares of our common stock. We may not pay any cash dividends on our common stock until all accrued but unpaid dividends and distributions on such senior securities have been paid in full. As described under "Capital Plan and This Offering" above, we anticipate paying in full all accrued but unpaid dividends and distributions on our subordinated debentures (and the related trust preferred securities) after completion of the offering described in this prospectus in accordance with their governing documents and then redeeming all outstanding shares of Series B Convertible Preferred Stock (including accrued but unpaid dividends thereon) and the related Warrant using the proceeds from this offering. As a result, we expect the restrictions noted in this paragraph to lapse following completion of this offering and our use of the proceeds from this offering in the manner described above. The dividend restrictions contained in our and our bank's board resolutions, described above, will remain in effect following this offering until such time as we receive approval to modify or rescind them.

Other Restrictions

Aside from the specific restrictions set forth above, there are other restrictions that apply under federal and state law to restrict our ability to pay dividends to our shareholders and the ability of our bank to pay dividends to us. Capital guidelines adopted by federal and state regulatory agencies and restrictions imposed by law limit the amount of cash dividends our bank can pay to us. Under these guidelines, the amount of dividends that may be paid in any calendar year is limited to the bank's current year's net profits combined with the retained net profits of the preceding two years. In addition, the bank cannot pay a dividend at any time that it has negative undivided profits. As of June 30, 2013, our bank had negative undivided profits of $59.3 million. We recently requested regulatory approval to reclassify $59.3 million of additional paid-in capital at the bank to retained earnings of the bank. This reclassification would eliminate the bank's negative undivided profits, but would have no impact on our total equity or total regulatory capital. We do not expect our ability to complete such reclassification or the timing of such reclassification, if approved, to have any effect on our ability to complete this offering and apply the proceeds of this offering in the manner described in this prospectus. Even if we receive the required regulatory approval and complete such reclassification, it is not our intent to have dividends paid in amounts that would reduce the capital of our bank to levels below those which we consider prudent and in accordance with guidelines of regulatory authorities.

In addition, the Federal Reserve requires bank holding companies like us to act as a source of financial strength to their subsidiary banks. Accordingly, we are required to inform and consult with the Federal Reserve before paying dividends that could raise safety and soundness concerns. See "Business–Supervision and Regulation" in our Annual Report on Form 10-K for more information.

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MARKET PRICE AND DIVIDEND INFORMATION

Our common stock is currently listed on the Nasdaq Global Select Market under the symbol "IBCP." As of August 21, 2013, we had 9,493,732 shares of our common stock outstanding, which were held by approximately 2,214 shareholders of record. The following table sets forth, for the periods indicated, the high and low closing sales prices per share and the cash dividends declared per share of our common stock.

	Closing Sales Price Per Share		Cash Dividends Declared per Share
	Low	High	
2013			
Third Quarter through August 22, 2013	$5.79	$8.70	None
Second Quarter ended June 30, 2013	5.99	8.79	None
First Quarter ended March 31, 2013	3.50	8.46	None
2012			
Fourth Quarter ended December 31, 2012	$2.65	$3.95	None
Third Quarter ended September 30, 2012	2.49	3.10	None
Second Quarter ended June 30, 2012	2.18	3.89	None
First Quarter ended March 31, 2012	1.36	2.44	None
2011			
Fourth Quarter ended December 31, 2011	$1.30	$1.94	None
Third Quarter ended September 30, 2011	1.80	2.64	None
Second Quarter ended June 30, 2011	1.87	3.65	None
First Quarter ended March 31, 2011	1.36	4.53	None

On August 22, 2013, the closing sales price of our common stock on the Nasdaq Global Select Market was $8.40 per share.

There are restrictions that currently materially limit our ability to pay dividends on our common stock and that may continue to materially limit future payment of dividends on our common stock. Please see "Dividend Policy" above.

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DESCRIPTION OF OUR CAPITAL STOCK

The following section is a summary and does not describe every aspect of our capital stock. In particular, we urge you to read our articles of incorporation and bylaws because they describe the rights of holders of our common stock. Our articles of incorporation and bylaws are exhibits to the registration statement filed with the SEC of which this prospectus is a part.

Common Stock

General

Our authorized capital stock consists of 500,000,000 shares of common stock and 200,000 shares of preferred stock (described below). As of August 21, 2013, there were 9,493,732 shares of common stock and 74,426 shares of preferred stock outstanding.

All of the outstanding shares of our common stock are fully paid and non-assessable. Subject to the prior rights of the holders of shares of preferred stock that may be issued and outstanding, the holders of common stock are entitled to receive:

- dividends when, as, and if declared by our board out of funds legally available for the payment of dividends; and
- in the event of our dissolution, to share ratably in all assets remaining after payment of liabilities and satisfaction of the liquidation preferences, if any, of then outstanding shares of our preferred stock, as provided in our articles of incorporation.

We do not currently pay any cash dividends on our common stock and are currently prohibited from doing so. See "Dividend Policy" above for information regarding these prohibitions and other restrictions that materially limit our ability to pay dividends on our common stock.

In addition, as a bank holding company, our ability to pay dividends on our common stock is affected by the ability of our bank to pay dividends to us under applicable laws, rules and regulations. The ability of our bank, as well as us, to pay dividends in the future currently is, and could be further, influenced by bank regulatory requirements and capital guidelines. See "Dividend Policy" above for more information.

Each holder of our common stock is entitled to one vote for each share held of record on all matters presented to a vote at a shareholders meeting, including the election of directors. Holders of our common stock have no cumulative voting rights or preemptive rights to purchase or subscribe for any additional shares of our common stock or other securities, and there are no conversion rights or redemption or sinking fund provisions with respect to our common stock. Our common stock is currently listed on the Nasdaq Global Select Market under the symbol "IBCP."

Certain Restrictions Under Federal Banking Laws

As a bank holding company, the acquisition of large interests in our common stock is subject to certain limitations described below. These limitations may have an anti-takeover effect and could prevent or delay mergers, business combination transactions, and other large investments in our common stock that may otherwise be in our best interests and the best interests of our shareholders.

The federal Bank Holding Company Act generally would prohibit any company that is not engaged in banking activities and activities that are permissible for a bank holding company or a financial holding company from acquiring control of us. Control is generally defined as ownership of 25% or more of the voting stock or other exercise of a controlling influence. In addition, any existing bank holding company would require the prior approval of the Federal Reserve before acquiring 5% or more of our voting stock. In addition, the federal Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as us, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. See "Business–Supervision and Regulation" in our Annual Report on Form 10-K for more information.

Restrictions Under Our Tax Benefits Preservation Plan

On November 15, 2011, we entered into a Tax Benefits Preservation Plan (the "Preservation Plan") with our stock transfer agent, American Stock Transfer & Trust Company. Our board of directors adopted the Preservation Plan in an effort to protect the value to our shareholders of our ability to use deferred tax assets such as net operating loss carryforwards to reduce potential future federal income tax obligations. Under federal tax rules, this value could be lost in the event we experienced an "ownership change," as defined in Section 382 of the federal Internal Revenue Code. The Preservation Plan attempts to protect this value by reducing the likelihood that we will experience such an ownership change by discouraging any person who is not already a 5% shareholder from becoming a 5% shareholder (with certain limited exceptions)

On November 15, 2011, our board of directors declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of our common stock under the terms of the Preservation Plan. The dividend is payable to the holders of common stock outstanding as of the close of business on November 15, 2011 or outstanding at any time thereafter but before the earlier of a "Distribution Date" and the date the Preservation Plan terminates. Each Right entitles the registered holder to purchase from us 1/1000 of a share of our Series C Junior Participating Preferred Stock, no par value per share ("Series C Preferred Stock"). Each 1/1000 of a share of Series C Preferred Stock has economic and voting terms similar to those of one whole share of common stock. The Rights are not exercisable and generally do not become exercisable until a person or group has acquired, subject to certain exceptions and conditions, beneficial ownership of 4.99% or more of the outstanding shares of common stock. At that time, each Right will generally entitle its holder to purchase securities of the Company at a discount of 50% to the current market price of the common stock. However, the Rights owned by the person acquiring beneficial ownership of 4.99% or more of the outstanding shares of common stock would automatically be void. The significant dilution that would result is expected to deter any person from acquiring beneficial ownership of 4.99% or more and thereby triggering the Rights.

To date, none of the Rights have been exercised or have become exercisable because no unpermitted 4.99% or more change in the beneficial ownership of the outstanding common stock has occurred. The Rights will generally expire on the earlier to occur of the close of business on November 15, 2016 and certain other events described in the Preservation Plan, including such date as our board of directors determines that the Preservation Plan is no longer necessary for its intended purposes.

Certain Other Limitations

In addition to the foregoing limitations, our articles of incorporation and bylaws contain provisions that could also have an anti-takeover effect. Some of the provisions also may make it difficult for our shareholders to replace incumbent directors with new directors who may be willing to entertain changes that our shareholders may believe will lead to improvements in our business.

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Preferred Stock

Our authorized capital stock includes 200,000 shares of preferred stock, no par value per share. Our board of directors is authorized to issue preferred stock in one or more series, to fix the number of shares in each series, and to determine the designations and preferences, limitations, and relative rights of each series, including dividend rates, terms of redemption, liquidation amounts, sinking fund requirements, and conversion rights, all without any vote or other action on the part of our shareholders. This power is limited by applicable laws or regulations and may be delegated to a committee of our board of directors.

Series B Convertible Preferred Stock

On April 16, 2010, we issued 74,426 shares of Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock (the "Series B Convertible Preferred Stock") to the Treasury pursuant to the terms of an Exchange Agreement we entered into with the Treasury on April 2, 2010 (the "Exchange Agreement"). Under the Exchange Agreement, the Treasury accepted the shares of Series B Convertible Preferred Stock in exchange for the entire $72 million in aggregate liquidation value of the shares of Series A Preferred Stock we issued to the Treasury under its Capital Purchase Program, plus the value of all accrued and unpaid dividends on such shares of Series A Preferred Stock (approximately $2.4 million). The shares of Series B Convertible Preferred Stock have an aggregate liquidation preference equal to $74,426,000, plus accrued but unpaid dividends (which totaled $12,866,000 as of June 30, 2013).

With the exception of being convertible into shares of our common stock, the terms of the Series B Convertible Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that were exchanged. The Series B Convertible Preferred Stock qualifies as Tier 1 regulatory capital, subject to limitations, and pays cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and 9% per annum thereafter. The Series B Convertible Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect such shares. In addition, the Series B Convertible Preferred Stock contains a provision that automatically increases the size of our board of directors by two persons and allows the Treasury to fill the two new director positions at such time that the dividends payable on the Series B Convertible Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether or not consecutive. These two directors would be elected annually and serve until all accrued and unpaid dividends on the Series B Convertible Preferred Stock have been paid. Because we have deferred dividends on the Series B Convertible Preferred Stock for at least six quarterly dividend periods, the Treasury currently has the right to elect two directors to our board. At this time, in lieu of electing such directors, the Treasury requested us to allow (and we agreed) an observer to attend our Board of Directors meetings beginning in the third quarter of 2011. The Treasury continues to retain the right to elect two directors as described above.

The Series B Convertible Preferred Stock may be redeemed by us, subject to prior regulatory approval, at any time at a redemption price per share equal to the greater of (i) the $1,000 liquidation amount plus accrued and unpaid dividends, and (ii) the product of the conversion rate (as described below) and the average of the market prices per share of our common stock over the 20 consecutive trading day period after the notice of redemption is given, plus accrued and unpaid dividends. In the event of any such redemption, certain rules would apply that would require us to redeem a minimum amount of the outstanding Series B Convertible Preferred Stock.

The Treasury (and any subsequent holder of the shares) has the right to convert the Series B Convertible Preferred Stock into our common stock at any time, subject to the receipt of any applicable approvals. We have the right to compel a conversion of the Series B Convertible Preferred Stock into our common stock if the following conditions are met:

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

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

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(iii) 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

(iv) 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.

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 that at least $40 million aggregate liquidation amount of our trust preferred securities are exchanged for shares of our common stock.

If converted by the Treasury (or any subsequent holder) or by us pursuant to either of the above-described conversion rights, each share of Series B Convertible Preferred Stock (liquidation amount of $1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is $750 and the denominator of which is $7.234, referred to as the "conversion rate," provided that such conversion rate will be subject to certain anti-dilution adjustments.

The conversion rate is subject to anti-dilution adjustments that may result in a greater number of shares being issued to the holder of the Series B Convertible Preferred Stock. Specifically, the conversion rate is subject to adjustment in the event of any of the following:

- Cash Offering. If we issue shares of our common stock (or rights or warrants or other securities exercisable or convertible into or exchangeable for such shares) to one or more investors other than the Treasury pursuant to an offering providing a minimum aggregate amount of $100 million in cash proceeds to us, including pursuant to the offering described in this prospectus, at a consideration per share (or having a conversion price per share) that is less than 90% of the market price of our common stock on the trading day immediately preceding the pricing of such offering (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock), then the conversion rate is subject to adjustment.

- Other Issuances of Common Stock. If we otherwise issue shares of our common stock or convertible securities, other than pursuant to certain "permitted transactions" (including issuances to fund acquisitions or in connection with employee benefit plans and compensation arrangements or a public or broadly marketed registered offering for cash), at a consideration per share (or having a conversion price per share) that is less than the conversion rate in effect immediately prior to such issuance, then the conversion rate is subject to adjustment.

- Stock Splits, Subdivisions, Reclassifications or Combinations. If we (i) pay a dividend or make a distribution on our common stock in shares of our common stock, (ii) subdivide or reclassify the outstanding shares of our common stock into a greater number of such shares, or (iii) combine or reclassify the outstanding shares of our common stock into a smaller number of such shares, then the conversion rate is subject to adjustment.

- Other Events. The conversion rate is also subject to adjustment in connection with certain distributions to our shareholders (excluding permitted cash dividends and certain other distributions) and in connection with a pro rata repurchase of our common stock. In addition, if any event occurs as to which the other anti-dilution adjustments are not strictly applicable or, if strictly applicable, would not fairly and adequately protect the conversion rights of the Treasury in accordance with their intent, then we must make such adjustments in the application thereof as necessary to protect such conversion rights.

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Unless earlier converted by the Treasury (or any subsequent holder) or by us as described above, the Series B Convertible Preferred Stock will convert into shares of our common stock on a mandatory basis on April 16, 2017, the seventh anniversary of the date of issuance. In any such mandatory conversion, each share of Series B Convertible Preferred Stock (liquidation amount of $1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is $1,000 and the denominator of which is the market price of the Company's common stock at the time of such mandatory conversion (as such market price is determined pursuant to the terms of the Series B Convertible Preferred Stock).

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 shares being converted in cash or, at our option, in shares of our common stock at the same conversion rate as is applicable to the conversion of the Series B Convertible Preferred Stock.

The maximum number of shares of our common stock that may be issued upon conversion of all Series B Convertible Preferred Stock (including any accrued dividends) is 14.4 million, unless we receive shareholder approval to issue a greater number of shares.

As part of the terms of the Exchange Agreement, we also amended and restated the terms of the Warrant, dated December 12, 2008, issued to the Treasury to purchase 346,154 shares of our common stock. The amended and restated Warrant issued upon the closing of the Exchange Agreement adjusted the exercise price of the Warrant to be the same as the conversion rate applicable to the Series B Convertible Preferred Stock described above.

As a result of the transactions contemplated by the Exchange Agreement, all outstanding shares of Series A Preferred Stock were surrendered in exchange for the Series B Convertible Preferred Stock. As a result, our only series of preferred stock issued and outstanding is our Series B Convertible Preferred Stock.

On July 26, 2013, we entered into the Redemption Agreement with the Treasury. Under the Redemption Agreement, the Treasury has agreed to sell to us all of the Series B Convertible Preferred Stock (including all accrued but unpaid dividends) and the related Warrant for an aggregate purchase price of $81.0 million. The closing of the purchase and sale contemplated by the Redemption Agreement is conditioned upon our receipt of applicable regulatory approvals and our completion of one or more cash equity raises of $86.0 million or more in gross proceeds. In lieu of pursuing the conversion of the Series B Convertible Preferred Stock into shares of our common stock, this offering is intended to allow us to cause the redemption of the Series B Convertible Preferred Stock (including accrued and unpaid dividends) and the related Warrant pursuant to the Redemption Agreement.

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UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement with Keefe, Bruyette & Woods, Inc., as the representatives of the underwriters named below, each underwriter named below has severally agreed to purchase from us the respective number of shares of our common stock set forth opposite its name in the table below.

Name	Number of Shares
Keefe, Bruyette & Woods, Inc.	9,200,000
Sandler O'Neill & Partners, L.P.	2,012,500
Boenning & Scattergood, Inc.	287,500
Total	11,500,000

The underwriting agreement provides that the underwriters' obligations are several, which means that each underwriter is required to purchase a specific number of shares of common stock, but it is not responsible for the commitment of any other underwriter. The underwriting agreement provides that the underwriters' several obligations to purchase our shares of common stock depend on the satisfaction of the conditions contained in the underwriting agreement, including:

- the representations and warranties made by us to the underwriters are true;
- there is no material adverse change in the financial markets; and
- we deliver customary closing documents and legal opinions to the underwriters.

Subject to these conditions, the underwriters are committed to purchase and pay for all shares of common stock offered by this prospectus, if any such shares of common stock are purchased. However, the underwriters are not obligated to purchase or pay for the shares of common stock covered by the underwriters' over-allotment option described below, unless and until they exercise this option.

The shares of common stock are being offered by the several underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the underwriters and other conditions. The underwriters reserve the right to withdraw, cancel, or modify this offering and to reject orders in whole or in part.

Offering Price

We have been advised that the underwriters propose to offer the shares of common stock to the public at the offering price set forth on the cover of this prospectus and to certain selected dealers at this price, less a concession not in excess of $0.2325 per share. The underwriters may allow, and any selected dealers may reallow, a concession not to exceed $0.1000 per share to certain brokers and dealers. After the shares of common stock are released for sale to the public, the offering price and other selling terms may from time to time be changed by the underwriters.

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Over-Allotment Option

We have granted to the underwriters an over-allotment option, exercisable no later than 30 days from the date of this prospectus, to purchase up to an aggregate of 1,725,000 additional shares of our common stock at the public offering price, less the underwriting discount and commission set forth on the cover page of this prospectus. To the extent that the underwriters exercise their over-allotment option, the underwriters will become obligated, so long as the conditions of the underwriting agreement are satisfied, to purchase the additional shares of our common stock in proportion to their respective initial purchase amounts. We will be obligated to sell the shares of our common stock to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the shares of our common stock offered by this prospectus.

Commissions and Expenses

The following table shows the per share and total underwriting discount that we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option.

	Per Share	Total Without Option Exercised	Total With Option Exercised
Public offering price	$7.7500	$89,125,000	$102,493,750
Underwriting discount	$0.3875	$4,456,250	$5,124,680

We estimate that our share of the total offering expenses, excluding underwriting discounts and commissions, will be approximately $600,000.

Lock-Up Agreements

We, our executive officers and our directors have agreed that for a period of 90 days from the date of this prospectus (subject to possible extension), neither we nor any of our executive officers or directors will, without the prior written consent of Keefe, Bruyette & Woods, Inc., on behalf of the underwriters, subject to certain exceptions, sell, offer to sell or otherwise dispose of or hedge any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock. The 90-day restricted period described above will be automatically extended if (1) during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day the 90-day restricted period, in which case the restricted period will continue to apply until the expiration of the 18-day period beginning on the date on which the earnings release is issued or the material news or material event related to us occurs. Keefe, Bruyette & Woods, Inc. in its sole discretion may release the securities subject to these lock-up agreements at any time without notice.

Indemnity

We and our bank, jointly and severally, have agreed to indemnify the underwriters and persons who control the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make for these liabilities.

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Electronic Prospectus Delivery

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters. In connection with this offering, certain of the underwriters or securities dealers may distribute this prospectus electronically. Keefe, Bruyette & Woods, Inc., as representatives for the several underwriters, may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. The representatives will allocate shares of common stock to underwriters that may make Internet distributions on the same basis as other allocations. Other than this prospectus in electronic format, the information on any of these web sites and any other information contained on a web site maintained by an underwriter or syndicate member is not part of this prospectus.

Passive Market Making

In connection with this offering, the underwriters and selected dealers, if any, who are qualified market makers on The Nasdaq Global Select Market, may engage in passive market making transactions in our common stock on The Nasdaq Global Select Market in accordance with Rule 103 of Regulation M under the Securities Act. Rule 103 permits passive market making activity by the participants in our common stock offering. Passive market making may occur before the pricing of our offering, or before the commencement of offers or sales of our common stock. Each passive market maker must comply with applicable volume and price limitations and must be identified as a passive market maker. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for the security. If all independent bids are lowered below the bid of the passive market maker, however, the bid must then be lowered when purchase limits are exceeded. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker's average daily trading volume in our common stock during a specified period and must be discontinued when that limit is reached. The underwriters and other dealers are not required to engage in passive market making and may end passive market making activities at any time.

Stabilization

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, covering transactions, and penalty bids in accordance with Regulation M under the Exchange Act as set forth below:

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing shares in the open market;

- Covering transactions involve the purchase of common stock in the open market after the distribution has been completed in order to cover short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering; and

- Penalty bids permit the underwriters to reclaim a selling concession from a selected dealer when the common stock originally sold by the selected dealer is purchased in a stabilizing covering transaction to cover short positions.

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These stabilizing transactions, covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the Nasdaq Global Select Market or otherwise and, if commenced, may be discontinued at any time.

Other Considerations

It is expected that delivery of the shares of our common stock will be made against payment therefor on or about the date specified on the cover page of this prospectus. Under Rule 15c6-1 promulgated under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise.

Certain of the underwriters and their affiliates have in the past provided, and may in the future from time to time provide, investment banking and other financing and banking services to us, for which they have in the past received, and may in the future receive, customary fees and reimbursement for their expenses.

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LEGAL MATTERS

The validity of the shares of common stock to be issued in this offering will be passed upon for us by Varnum LLP, Grand Rapids, Michigan. Certain legal matters related to this offering are being passed upon for the underwriters by Lewis, Rice & Fingersh, L.C., St. Louis, Missouri.

EXPERTS

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2012, have been so incorporated in reliance on the report of Crowe Horwath LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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11,500,000 Shares
Common Stock

PROSPECTUS

August 22, 2013

Keefe, Bruyette & Woods
A Stifel Company

Sandler O'Neill + Partners, L.P.

Boenning & Scattergood, Inc.

Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus. When you make a decision whether to invest in our common stock, you should not rely upon any information other than the information that is in this prospectus. Neither the delivery of this prospectus nor the sale of common stock means that the information in this prospectus is current after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these shares of common stock in any circumstances under which the offer or solicitation in unlawful.