CECO ENVIRONMENTAL CORP
Form 10-K
March 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2012

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File No. 0-7099

CECO ENVIRONMENTAL CORP.

4625 Red Bank Road, Cincinnati, Ohio 45227

Telephone (513) 458-2600

IRS Employer Identification No. 13-2566064

State of Incorporation: Delaware

Securities registered under Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	**The NASDAQ Stock Market LLC**

Securities registered under Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the exchange act. (check one)

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of voting stock held by non-affiliates of the registrant was $69.6 million based upon the closing market price and common shares outstanding as of June 30, 2012. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant and owners of more than 10% of the registrant s common stock are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily conclusive for any other purpose.

The number of shares outstanding of each of the issuer s classes of common equity, as of the latest practical date: 17,722,296 shares of common stock, par value $0.01 per share, as of March 1, 2013.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2013 Annual Meeting of Shareholders, which is to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2012, are incorporated by reference into Part III of this Annual Report to the extent described herein.

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CECO Corporation and Subsidiaries

ANNUAL REPORT ON FORM 10-K

For the year ended December 31, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding industry prospects or future results of operations or financial position made in this Annual Report on Form 10-K are forward-looking. We use words such as believe, expect, anticipate, intends, estimate, forecast, project, should, and similar expressions to identify forward-looking statements. Forward-looking statements are based on management s current expectations of our near-term results, based on current information available pertaining to us and are inherently uncertain. We wish to caution investors that any forward-looking statements made by or on our behalf are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to: the affect of the unfavorable global, national and local economic conditions on our customers and our businesses; the changing political conditions in the United States and other countries; governmental laws and regulations surrounding various matters such as environmental remediation; contract pricing; changes in or developments with respect to any litigation or investigations relating to the Company; international trading restrictions; customer product acceptance; continued access to capital markets; and foreign currency risks. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management s expectations, are described in greater detail in Item 1A, Risk Factors, which describes some, but not all, of the factors that could cause actual results to differ significantly from management s expectations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements we make, whether as a result of new information, future events, or otherwise.

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PART I

Item 1. Business

General

CECO Environmental Corp. and its consolidated subsidiaries (CECO, Company, we, us, or our) is a leading provider of global, air pollution control technology. CECO Environmental Corp. was incorporated in New York State in 1966 and reincorporated in Delaware in January 2002. We operate as a provider of air pollution control technology, products and services through three principal product groups: our Engineered Equipment Technology and Parts Group, which produces various types of air pollution control technology and equipment, our Contracting/Services Group, which produces air pollution control and engineered industrial ventilation systems, and our Component Parts Group, which manufactures products used by us and other air pollution control companies and air system contractors. It is through combining the efforts of certain or all of these groups which enables us to offer complete full systems to our customers and leverage the operational efficiencies between our family of technology companies. In November 2011, we sold kbd/Technic, which comprised our small Engineering Group. kbd/Technic provided industrial ventilation engineering and source emission testing services.

Our business is characterized by the breadth and diversity of our product and service offerings, customer base, and end market applications. We market our products and services under multiple brands, including Effox, Flextor, Kirk & Blum, KB Duct, Fisher-Klosterman, FKI, Bu A.V.C., Busch International, CECO Filters, CECO Abatement Systems, Adwest, and Aarding to multiple end markets, a broad group of customers and for a wide range of applications.

We have created a family of companies, each playing a specialized role in the creation of clean air solutions. In December 1999, we acquired Kirk & Blum, one of the largest sheet metal fabricators in the country. This major acquisition significantly changed our focus and capabilities by transforming the Company from a manufacturing operation to a full-service product, engineering and design service provider of air pollution control solutions. We have built upon this end-to-end platform strategy by broadening our offerings through both acquisitions and the creation of new service offerings. Other important organizational developments include the following:

Acquired the assets of Effox, Inc. (Effox), a leading producer of dampers and expansion joints, in February 2007 to continue the execution of our horizontal integration strategy, broadening our exposure to the multibillion-dollar energy, power and utility markets.

Acquired in February 2008, the assets of Fisher-Klosterman, Inc. (FKI), which produces air pollution and particulate recovery products in the fields of petroleum refinery, power production, petrochemicals, and manufacturing. Included in the acquisition of FKI was their 30,000 square foot manufacturing facility in Shanghai, China, which is increasingly playing a significant role in our organization.

Acquired in August 2008, Flextor, Inc. (Flextor), of Montreal, Canada. Flextor, like Effox, is a producer of dampers and expansion joints. The addition of Flextor gives us a greater international presence in that market, especially in Latin America.

Acquired in August 2008, the assets of A.V.C. Specialists (A.V.C.). A.V.C. produces replacement parts for electrostatic precipitators. Their primary markets are the refining and power industries. A.V.C. s operations fit well as a division of FKI.

Consolidated management of Effox and Flextor to strengthen the marketing of their technology, products, and services to the energy, power, and utility markets.

Acquired in December 2012, Adwest Technologies, Inc. (Adwest). Adwest is a designer and manufacturer of regenerative thermal oxidizers (RTOs). Adwest joins our CECO Abatement division and offers an increased selection of RTO technology to fully meet

the air pollution control requirements of our global customer base.

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Recent Company Developments

In addition to the Adwest acquisition in December 2012, on February 28, 2013, the Company acquired Aarding Thermal Acoustics B.V., a Netherlands company (Aarding), pursuant to the terms of a Share Purchase Agreement, (the SPA) dated February 28, 2013 among the Company, CECO Environmental Netherlands B.V., N.F.J.A. Pieterse Beheer B.V., and W.M. Pranger Beheer B.V. Aarding is a global provider of natural gas turbine exhaust systems and silencer applications. We acquired Aarding to lead CECO s expanding global natural gas business including the Flextor division, which provides complimentary and integrated engineered solutions to those of Aarding. The purchase price was approximately $31.8 million, consisting of net cash paid of approximately $24.0 million, and restricted common stock worth approximately $7.8 million based on the February 28, 2013 closing price of the Company s common stock. Additionally, the former owners of Aarding are entitled to earn-out payments of up to $7.2 million upon the attainment of specified financial targets through December 31, 2017.

During 2012 and 2011, our operational efficiency and profitability continued to improve due to streamlining, price management, consolidation of our facilities, and reduced overhead expenses across all business units. Our Contracting/Services Group locations at Louisville, Kentucky, Columbia, Tennessee and Greensboro, North Carolina, continue to be more fully utilized and are operating at an increased level of performance. We additionally implemented a strategy in early 2011 to prune lower margin customer backlog in this group.

We sold two small divisions, Buell-APC and kbd/Technic, in December 2012 and November 2011, respectively, in strategic moves to strengthen our focus on the continued development and resources in our core capabilities of being a global provider of air pollution control technology, products and services.

Industry Overview

We serve a large industry that has grown steadily over the last several years. The market for air pollution control and industrial ventilation products is a multi-billion dollar market that has grown rapidly and is highly fragmented. Today, more so than ever, people demand to live in a world of clean air and water and an environment that is free of industrial pollutants.

We believe demand for air pollution control and industrial ventilation products in the U.S. and globally has recently and will continue to be driven by these factors:

Favorable Regulatory Environment. The adoption of increasingly stringent environmental regulations in the U.S. and globally forces businesses to pay strict attention to environmental protection. Businesses and industries of all types from aerospace, brick, cement, ceramics, and metalworking to ethanol, automobile, food, foundries, power plants, woodworking, printing, tobacco and pharmaceuticals must comply with these various international, federal, state and local government environmental regulations or potentially face substantial fines or be forced to suspend production or alter their production processes. Regulations range from the air quality standards promulgated by the Environmental Protection Agency (EPA) to Occupational Safety and Health Administrative Agency (OSHA) standards regulating allowable contaminants in workplace environments.

Increasingly stringent air quality standards and the need for improved industrial workplace environments are the principal factors that drive our business. Some of the underlying federal legislation that affects air quality standards is the Clean Air Act of 1970 and the Occupational Safety and Health Act of 1970. The EPA and OSHA, as well as other state and local agencies, administer air quality standards. Industrial air quality has been improving through EPA mandated Maximum Achievable Control Technology standards and OSHA established Threshold Limit Values for more than 1,000 industrial contaminants. Any of these factors, individually or collectively, tend to cause increases in industrial capital spending that is not directly impacted by general economic conditions, expansion, or capacity increases. Favorable conditions in the economy generally lead to plant

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expansions and the construction of new industrial sites. However, in a weak economy, customers tend to lengthen the time from their initial inquiry to the purchase order, or defer purchases.

Worldwide Industrialization. Global trade has increased significantly over the last couple of years driven by growth in emerging markets, including China and India, as well as other developing nations in Asia and Latin America. Furthermore, as a result of globalization, manufacturing that was historically performed domestically continues to migrate to lower cost countries. This movement of the manufacture of goods throughout the world increases demand for industrial ventilation products as new construction continues, and we expect more rigorous environmental regulations will be introduced to create a cleaner and safer working environment and reduce environmental emissions as these economies evolve.

Strategy and Vision

Our goal is to become the world-class leader in air pollution control technology by focusing on the following key elements:

1. ***Profitable Growth***	-	Implementing profitable organic and inorganic strategies to grow globally with premier air pollution technology and solutions
2. ***Product, Service and Project Excellence***	-	Creating customer successes and building customer loyalty
3. ***Operational Excellence***	-	Running smart, lean, best-in-class, innovative processes
4. ***Employee Development***	-	Investing in the training and development of our employees
5. ***Global Market Coverage***	-	Improving sales and manufacturing resources to expand our customer base, grow and uncover new opportunities
6. ***Safety Leadership***	-	Increasing employee safety with preventative safety practices so no one gets hurt

Our strategy utilizes all of our resource capabilities to help customers improve efficiencies and meet specific regulatory requirements within their business processes through optimal design and integration of full contaminant and pollution control systems. Our engineering and design expertise in air quality management combined with our comprehensive suite of product and service offerings allow us to provide customers with a one-stop cost-effective solution to meet their integrated abatement needs.

Competitive Strengths

Leading Market Position as a Complete Solution Provider. We believe we are the leading provider of complete solutions to the air pollution control and industrial ventilation industry and one of the largest and most diversified solution providers globally. The multibillion-dollar global air pollution control market is highly fragmented with numerous small and regional contracting firms separately supplying engineering services, fabrication, installation, testing and monitoring, products and spare parts. Through the vertical integration of our family of companies, we offer our customers a complete end-to-end solution from engineering and project management services, to procurement and fabrication, to construction and installation, to aftermarket support and sale of consumables, which allows our customers to avoid dealing with multiple vendors when managing projects.

Long standing experience and customer relationships in growing industry. We have serviced the environmental needs of the industrial workplace for over 100 years. Our extensive experience and expertise in providing full solutions for the air pollution control and industrial ventilation industry enhances our overall

customer relationships, and provides us a competitive advantage in our markets relative to other companies in the industry. We believe this is evidenced by strong relationships with many of our world class customers. We believe no single competitor has the resources to offer a similar portfolio of product and service capabilities. Our family of companies offers the depth of a large organization, while our lean organizational structure keeps us close to our customers and markets allowing us to offer fast complete solutions to each unique situation.

Global Diversification and Broad Customer Base. The global diversity of our operations and customer base provides us with multiple growth opportunities. As of December 31, 2012, we had a diversified customer base of more than 3,500 active customers across a range of industries. Our customers represent some of the largest aerospace, automotive, refining, chemical, foundry, ethanol, power and metals companies, including General Motors Corporation, The Procter & Gamble Company, Nissan Motor Co., Ltd., Houston Refining, Ecopetrol, Toyota North America, Inc., The Babcock & Wilcox Company, Alcoa, Inc., Valero, Alstom, Matheson Tri-Gas, Exxon, Allegheny Steel, and Vale. In addition, we believe that the diversity of our customers and end markets mitigates our risk of a potential fluctuation or downturn in demand from any individual industry or particular customer. We believe we have the resources and capabilities to meet the operating needs of our customers as they upgrade and expand domestically as well as into new international markets. Once systems have been installed and a relationship has been established with the customer, we often win repetitive service and maintenance business as the customers processes change and modifications or additions to systems become necessary.

Experienced Management and Engineering Team. Our senior management team has an average of 25 years of experience in the air pollution control and industrial ventilation industry. Our Chief Executive Officer, Jeff Lang, has more than 30 years of executive operating management experience in manufacturing. The business experience of our management team creates a strong skill set for the successful execution of our strategy. Our senior management team is supported by a strong operating management team, which possesses extensive operational and managerial experience, averaging over 20 years of industry experience, most of which has been with CECO Environmental and our family of companies. Our workforce includes approximately 130 engineers, designers, and project managers whose significant specialized industry experience and technical expertise enables them to have a deep understanding of the solutions that will best suit the needs of our customers. The experience and stability of our management, operating and engineering team has been crucial to our growth, developing and maintaining customer relationships, and increasing our market share.

Disciplined Acquisition Program with Successful Integration. We believe that we have demonstrated an ability to successfully acquire and integrate air pollution control and industrial ventilation companies with complementary product or service offerings into our family of companies. In February 2007, we acquired Effox, which gave us access to the multi-billion dollar energy, power and utility markets. In February 2008, we acquired FKI, which we believe has given us expanded access to the petroleum and power industries and gives us a manufacturing presence in China. In August 2008, we acquired Flextor which added an international scope to Effox s business. In that same month we also acquired A.V.C., which added additional replacement parts capability to FKI. In December 2012, we acquired Adwest, a designer and manufacturer of RTOs, which will enhance our abilities to fully meet the air pollution control requirements of our global customer base. In February 2013, we acquired Aarding, a global provider of natural gas turbine exhaust systems and silencer applications, to lead our expanding global natural gas business including the Flextor division which provides complimentary and integrated engineered solutions to those of Aarding. We believe that the breadth and diversity of our products and services and our ability to deliver full solutions to various end markets provides us with multiple sources of stable growth and a competitive advantage relative to other players in the industry.

Expand Customer Base and Penetrate End Markets through Global Market Coverage. We constantly look for opportunities to penetrate new customers, geographic locations, and end markets with existing products and services or acquired new product or service opportunities. For example, we have successfully expanded our sales to new customers and entered new end markets through the strategic acquisitions of Effox in February 2007, Flextor in August 2008, and A.V.C. in August 2008. Our acquisition of Effox has allowed us to access the

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multibillion-dollar energy, power and utilities markets. The acquisition of Flextor in August 2008 further expanded Effox s business internationally. Our acquisition of FKI expanded our access to the petroleum and power markets. The FKI acquisition also provides us with a manufacturing facility in China, which continues to increase in significance to the Company. The acquisition of A.V.C. added additional replacement parts sales to FKI s business. Recently acquired Adwest expands our abilities to design and RTOs. We intend to continue to expand our sales force, customer base, and end markets, and have identified a number of potential attractive growth opportunities both domestically and globally, including international projects in China, India, Latin America, Europe and the Middle East.

Develop Innovative Solutions. We intend to continue to leverage our engineering and manufacturing expertise and strong customer relationships to develop new customized products to address the identified needs of our customers or a particular end market. We thoroughly analyze new product opportunities by considering projected demand for the product or service, price point, and expected operating costs, and only pursue those opportunities that we believe will contribute to earnings growth in the near-term. In addition, we continually improve our traditional technologies and adapt them to new industries and processes.

Maintain Strong Customer Focus. We enjoy a diversified customer base of more than 3,500 active customers as of December 31, 2012, across a broad base of industries, including aerospace, brick, cement, steel, ceramics, metalworking, ethanol, printing, paper, food, foundries, power plants, metal plating, refineries, wood working, chemicals, tobacco, glass, automotive, and pharmaceuticals. We believe that there are multiple opportunities for us to expand our penetration of existing markets and customers.

Products and Services

We believe that we are recognized as a leading provider in the air pollution control technology industry. We focus on engineering, designing, building, and installing systems that capture, clean and destroy airborne contaminants from industrial facilities as well as equipment that control emissions from such facilities. We now market these full pollution control services through all our companies. With a diversified base of more than 3,500 active customers, we provide services to numerous industries including aerospace, brick, cement, steel, ceramics, metalworking, printing, paper, food, foundries, utilities, metal plating, woodworking, chemicals, glass, automotive, ethanol, pharmaceuticals, and refining. The table below illustrates how our family of companies are spread over this diversified customer base, providing a broad range of applications.

Divisions	Capabilities (products and services)	Typical Industries	Typical Applications
Engineered Equipment Technology and Parts Group			
	Regenerative Thermal Oxidation Catalytic and Thermal Oxidation Selective and Regenerative Catalytic Reduction	Chemical Processing Ethanol Paint Booth Emissions Wastewater Treatment Wood Products Asphalt	High Efficiency Destruction: - Volatile Organic Compounds - Fumes - Industrial Odors

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Divisions	Capabilities (products and services)	Typical Industries	Typical Applications
	Design and manufacture: - Dampers - Expansion Joints - Gas Turbine Exhaust Systems & Silencer Applications Aftermarket Service	Coal-Fired and Natural Gas Power Plants Petro-chemical Chemical Processing Refining Metals Wood Products	Steam Heat Recovery Flue Gas Desulphurization Catalytic (NOx) Reduction Gas Turbine Exhaust
	Fiber-Bed Filter Mist Collectors Catenary Grid and Narrow Gap Venturi Scrubbers Replacement Filters Repack Services	Asphalt Chemical Fertilizer Metals Semiconductors	Acid/Caustic Mist Storage Tank Emissions Lubricant Emissions Nitric Acid Platinum Recovery Wet Bench Acid Mist
	Heavy Duty Air Handling and Conditioning Fume Exhaust Systems Air-Curtain Hoods JET*STAR Strip/ Coil Coolers and Dryers	Aluminum Chemical Paper Power Steel	Rolling Mill Oil Mist Collection Heavy Gauge Strip and Coil: - Coolers - Dryers General Ventilation
	Design, Manufacture and/or Install: - Industrial Cyclones - FCC Cyclones - Scrubbers - Venturi - Packed Bed - Multiple Purpose	Refineries Utilities Bio Fuels Petrochemicals Pharmaceutical Forest Products Manufacturing Food	Air Pollution Control Product Recovery and Capture Petroleum Refining Catalyst Recovery Manufactured Sand Protection of Downstream Process and Pollution Control Equipment Flyash Beneficiation

Medial Filtration:

- Baghouse Fabric Filters

- Cartridge Collectors

Pneumatic Conveying and Industrial Ventilation

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Divisions	Capabilities (products and services)	Typical Industries	Typical Applications
Contracting / Services Group			
	Full Design, Build, Install:	Aerospace	Collection:
	- Dust Collectors	Automotive	- Dust
	- Oil Mist Collectors	Food	- Oil Mist
	- Chip Conveyance Systems	Foundry	- Fume Exhaust
	Custom Sheet Metal Fabrication	Glass	Exhaust/Make-up Air
		Primary Metals	Paint/Finishing Booths
		Printing	Pneumatic Conveying
Components Parts Group			
	Component Parts for Industrial Air Systems	Industrial Sheet Metal Contractors	Industrial Ventilation Systems
	Clamp-Together Componentized Ducting Systems	Industrial Sheet Metal Contractors	Capture in Moderately Abrasive Environments
		Chemical	- Dust Particles
		Food	- Fumes
		Furniture	- Oil Mist
		Metals	
		Pharmaceuticals	

Engineered Equipment Technology and Parts Group

Our Engineered Equipment Technology and Parts Group, located in the United States as well as the Netherlands, Canada, Brazil, China, and India, is comprised of CECO Filters, Busch International, Adwest, CECO Abatement, Effox-Flextor, Aarding, FKI, and A.V.C. We enable our customers to meet BACT requirements and compliance targets for fumes, volatile organic compounds, process, and industrial odors. Our services eliminate toxic emission fumes and volatile organic compounds from large-scale industrial processes. We have a presence in the chemical processing, ethanol, paint booth emissions, wastewater treatment, and wood products industries.

In February 2007, we acquired the assets of Effox in Cincinnati, Ohio, to continue the execution of our horizontal integration strategy. The acquisition of Effox increases our exposure to the multibillion dollar electric power generation market, coal and gas, and the ethanol, metals and mineral products markets. We provide dampers and expansion joints for flue gas and process air systems with emphasis on steam heat recovery, flue gas desulphurization, and catalytic (NOx) reduction. For existing systems, Effox provides rebuilding and repair services, including basic design modification. Flextor, which was acquired in 2008, is similar to Effox but its business is more international with an emphasis on Latin America. The management of Effox and Flextor was consolidated to strengthen the marketing of their technology, products, and services to the energy, power, and utility markets.

In February 2008, we acquired the assets of FKI, to further expand our access to the petrochemical, petroleum, and power markets. FKI produces cyclones, electrostatic precipitator parts and service, air filtration equipment and scrubbers. A.V.C., acquired in August 2008, added to FKI s replacement parts business. Recently in December 2012, we acquired Adwest Technologies, Inc., a designer and manufacturer of RTOs, which will add to our abilities to fully meet the air pollution control requirements of our global customer base.

Our fiber bed filter technology is marketed under the CECO Filters trade name directly to customers. The principal functions of the filters are: (a) the removal of damaging mists and particles (e.g., in process operations that could cause downstream corrosion and damage to equipment), (b) the removal of pollutants, and (c) the recovery of valuable materials for reuse. The filters are also used to collect fine insoluble particulates. Major users are chemical and electronics industries, manufacturers of various acids, vegetable and animal based cooking oils, textile products, alkalies, chlorine, papers, asphalt, and pharmaceutical products. In February 2004, we established CECO Environmental India Pvt. Ltd. in Pune, India to market filtering equipment under the CECO Filters trade name to extend our penetration into the Asia market. We manufacture fiber beds in Philadelphia and in China.

We design and build air handling equipment and systems for filtering, cooling, heating, and capture of emissions in the metal industries under the Busch International name. Our fume exhaust systems with industry recognized hood designs provide high efficiency control of oil mist and fumes, removing liquid particles and vapor phase emissions from rolling mill, machining, and other oil mist generating processes. We also provide systems for corrosion protection, fugitive emissions control, evaporative cooling, and other ventilation and air handling applications. We also market a strip cooler under the JET*STAR name that is designed to cool metal strip coatings even at high strip speeds. This engineered equipment is globally marketed to the steel and aluminum industries.

Contracting/Services Group

Our Contracting/Services Group is comprised of the contracting/services operations of our Kirk & Blum divisions located in the United States. We provide custom metal engineered fabrication services at our Kirk & Blum Columbia, Tennessee and Louisville, Kentucky locations. These facilities fabricate parts, engineered subassemblies, and customized products for air pollution and non-air pollution systems from sheet, plate, and structurals. In addition, these facilities perform engineered fabrication for CECO Filters, Busch International and CECO Abatement. These systems, primarily sold on a turnkey basis; include oil mist collection, dust collection, industrial exhaust, chip collection, make-up air, as well as automotive spray booth systems, industrial and process piping, and other industrial sheet metal work. We provide a cost effective engineered solution to in-plant process problems in order to control airborne pollutants. Representative customers include General Electric Company, General Motors Corporation, The Procter & Gamble Company, Nissan Motor Co., Ltd., Honda Motor Co., Inc., Toyota Motor North America, Inc., The Boeing Company, Lafarge, Corning Incorporated, RR Donnelley, and Alcoa Inc. North America is the principal market served, though, we supply equipment and engineering services globally. Mexico and China are two markets we supply on a global basis.

We have developed significant expertise in custom industrial air sheet metal fabrication. As a result, these facilities give us flexible production capacity to meet project schedules and cost targets in air pollution control projects while generating additional fabrication revenue in support of non-air pollution control industries. Kirk & Blum is the custom fabricator of product components for many companies located in the Midwest choosing to outsource their manufacturing. Occasionally, we will market custom fabrication services under a long-term sales agreement.

Component Parts Group

We market component parts for industrial air systems to contractors, distributors and dealers throughout the United States under the Kirk & Blum Parts division. In 2001, we started the KB Duct product line to provide a cost effective alternative to traditional duct. Primary users for this product line are those that generate dry particulate such as furniture manufacturers, metal fabricators, and any other users desiring flexibility in a duct system. Customers include end users, contractors, and dealers.

Project Design and Research and Development

We focus our development efforts on designing and introducing new and improved approaches and methodologies which for our customers produce better system performance, and often improve customer process performance. For example, the patented JET*STAR strip cooler produced by Busch International routinely allows customers to increase the speed of galvanizing lines, thus enhancing productivity, while at the same time increasing product quality by, through the use of the cooling air, holding the strip more stable as the zinc coating cools. We produce specialized products that are often tailored to the specifications of a customer or application. We continually collaborate with our customers to develop the proper solution and ensure customer satisfaction. During 2012 and 2011, costs expended on research and development were not significant. Such costs are generally included as factors in determining pricing.

We also specialize in the design, fabrication and installation of full ventilation systems and processes. The project development cycle may follow many different paths depending on the specifics of the job and end market. The process normally takes between one and six months from concept and design to production, which may vary significantly depending on developments that occur during the process, including among others, the emergence of new environmental demands, changes in design specifications and ability to obtain necessary approvals.

Sales, Marketing and Support

Our global selling strategy is to provide a solutions-based approach for controlling industrial airborne contaminants by being a single source provider of industrial ventilation and air-pollution control technology products and services. The strategy involves horizontally expanding our scope of products and services through selective acquisitions and the formation of new business units that are then vertically integrated into our growing family of technology and system providers. We believe this strategy provides a discernible competitive advantage. We execute this strategy by utilizing our portfolio of in-house technologies and those of third party equipment suppliers. Many of these have been long standing relationships, which have evolved from pure supplier roles to value-added business partnerships. This enables us to leverage existing business with selective alliances of suppliers and application specific engineering expertise. Our products primarily compete on the basis of price, performance, speed of delivery, quality, customer support, and single source responsibility. Our value proposition to customers is to provide competitively priced, customized full solutions. Our combined industry-specific knowledge base, accompanied by our product and service offerings, provides valuable synergies for design innovation.

We sell and market our products and services with our own direct workforce, including employees in the Netherlands, Canada, India, Mexico, China, Singapore, and South America, in conjunction with outside sales representatives in North America, Latin America, Europe, Middle East & Africa, Asia, and India. We will continue expanding our sales and support capabilities and our network of outside sales representatives in key regions domestically and internationally.

Much of our marketing effort consists of individual visits to customers, dissemination of sales and advertising materials, such as product announcements, brochures, magazine articles, advertisements and cover or article features in trade journals and other publications. We also participate in public relations and promotional events, including industry tradeshows and technical conferences. We have an internal marketing organization that is responsible for these initiatives.

Our customer service organization or sales force provides our customers with technical assistance, use and maintenance information as well as other key information regarding their purchase. We also actively provide our customers with access to key information regarding changes in environment regulations and potentially pending changes as well as new product or service developments. We believe that maintaining a close relationship with our customers and providing them with the support they request improves their level of satisfaction and enables

us to foresee their potential future product needs or service demands. Moreover, it leads to sales of annual service and support contracts as well as consumables. Our website (www.cecoenviro.com) also provides our customers with online tools and technical resources.

Quality Assurance

In engineered systems, quality is defined as system performance. We review with our customers, before the contract is signed, the level of pollutants capture required and the efficiency of the equipment that will remove the contaminant from the air stream prior to it being exhausted to the atmosphere. We then review these same parameters internally to assure that warranties will be met. Standard project management and production management tools are used to help ensure that all work is done to specification, that project schedules are met, and that the system is started up in the proper manner. Equipment is tested at the site to ensure it is functioning properly. Every fiber bed filter we build is tested at the factory, whether built in China, India or the United States. Historically, warranty expense is very low.

Customers

We are not dependent upon any single customer, with no customer comprising 10% or more of our consolidated revenues for 2012 or 2011. We do not believe the loss of any one of our customers would have a material adverse effect on us and our subsidiaries taken as a whole.

Suppliers and Subcontractors

We purchase our angle iron and sheet plate products from a variety of global sources. When possible, we directly secure these materials from steel mills. Other materials are purchased from a variety of steel service centers. Steel prices have been volatile, but we typically mitigate the risk of higher prices by including a surcharge on our standard products. On contract work, we mitigate the risk of higher prices by including the current price in our estimate, and generally including when possible in our terms and conditions price inflation clauses for protection.

We have a good relationship with our suppliers and do not anticipate any difficulty in continuing to receive such items on terms acceptable to us. We have not experienced difficulty in procuring a sufficient supply of materials in the past. We typically agree to billing terms with our suppliers ranging from net 30 to 45 days. To the extent that our current suppliers are unable or unwilling to continue to supply us with materials, we believe that we would be able to obtain such materials from other suppliers on acceptable terms.

Typically on turnkey projects, we subcontract such things as electrical work, concrete work, controls, conveyors, insulation, etc. We use subcontractors with whom we have good working relationships and review each project, both at the beginning and on an ongoing basis, to help ensure that all work is being done according to our specifications. Subcontractors are generally paid when we are paid by our customers according to the terms of our contract with the customer.

Backlog

Backlog is a representation of the amount of revenue expected from complete performance of signed firm fixed-price contracts that have not been completed for products and services we expect to substantially deliver within the next 12 months. Our customers may have the right to cancel a given order, although historically cancellations have been rare. Backlog was approximately $59.5 million and $54.9 million at the end of the fiscal years 2012 and 2011, respectively. Substantially all 2011 backlog was completed in 2012. Approximately 90% of the 2012 backlog is expected to be completed in 2013. Backlog is not defined by generally accepted accounting principles and our methodology for calculating backlog may not be consistent with methodologies used by other companies.

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Competition

We believe that there are no singly dominant companies in the industrial ventilation and air pollution control technology markets in which we participate. These markets are fragmented with numerous smaller and regional participants. Due to the size and shipping weight of many of our projects, localized manufacturing/fabrication capabilities is very important to our customers. As a result, competition varies widely by region and industry. The market for our engineered products is reasonably competitive and is characterized by technological change, continuously changing environment regulations, and evolving customer requirements. CECO offerings are engineered and differentiated. We believe that the principle competitive factors in our markets include:

- Performance track record in difficult plant applications;
- Breadth and diversity of product offerings;
- Ability to design standard and custom products that meet customers needs;
- Ability to provide reliable solution in a timely manner;
- Quality customer service and support; and
- Financial and operational stability, including reputation.

We believe we compete favorably with respect to these factors.

Seasonality

Our business is subject to seasonal fluctuations. The fourth quarter of our fiscal year, which ends December 31, is typically our strongest quarter. This is due to a combination of factors. First, many of our customers attempt to complete major capital improvement projects before the end of the calendar year. Also, many customers shut down over the December holidays to perform maintenance services on their facilities. These factors create increased demand for our products and services during this period.

Conversely, the first quarter of our calendar fiscal year is typically our weakest quarter. This is caused to some extent by winter weather constraints on outside construction activity but also by the seasonality of capital improvement projects as discussed relating to the fourth quarter.

Government Regulations

We believe our operations are in material compliance with applicable environmental laws and regulations. We believe that changes in environmental laws and regulations will not have a material adverse effect on our operations. Given the nature of our business, such changes create opportunity.

We are also subject to the requirements of OSHA and comparable state statutes. We believe we are in material compliance with OSHA and state requirements, including general industry standards, record keeping requirements and monitoring of occupational exposures. In general, we expect to increase our expenditures to comply with stricter industry and regulatory safety standards such as those described above. Although such expenditures cannot be accurately estimated at this time, we do not believe that they will have material adverse effect on our financial position, results of operations or cash flows.

Intellectual Property

Our business has historically relied on technical know-how and experience rather than patented technology. We hold a few patents at our Busch International, CECO Filters, and Fisher-Klosterman subsidiaries. We do not view our patents to be material to our business.

Financial Information about Geographic Areas

For 2012 and 2011, sales to customers outside the United States, including export sales, accounted for approximately 14% and 23%, respectively, of consolidated net sales. Sales were made in 31 countries in 2012. The largest portion of these sales was destined for Canada. Generally, sales are denominated in U.S. dollars.

In March 2008, we acquired FKI which leases a 40,000 square foot facility in Shanghai, China, and in August 2008, we acquired Flextor which at that time leased a 15,000 square foot facility in Montreal, Canada. That production facility was closed in April 2011 and a smaller sales and technical services office is being leased. The management of Effox and Flextor was consolidated to strengthen the marketing of their technology, products, and services to the energy, power, and utility markets. In February 2013, we acquired Aarding which leases a 58,125 square foot facility in Nunspeet, the Netherlands.

With the February 2013 acquisition of Aarding in the Netherlands and anticipated growth of our China operations, foreign results will increase in significance to the operational results of the Company.

Employees

We had 450 full-time and 2 part-time employees as of December 31, 2012. The facilities of Kirk & Blum are unionized except for selling, engineering, design, administrative and operating management personnel. None of our other employees are subject to a collective bargaining agreement. We consider our relationship with our employees to be satisfactory. In total, as of December 31, 2012, approximately 190 employees are represented by international or independent labor unions under various union contracts that expire at various intervals.

Executive Officers of the Registrant

The following are the executive officers of the Company as of March 1, 2013. The terms of all officers expire at the next annual meeting of the board of directors and upon the election of the successors of such officers. The ages given are as of March 1, 2013.

Name	Age	Position with CECO
Phillip DeZwirek	75	Chairman of the Board of Directors
Jeff Lang	56	Chief Executive Officer and Chief Operating Officer, Director
Benton Cook	50	Interim Chief Financial Officer and Controller
Jason DeZwirek	42	Secretary, Director

Phillip DeZwirek became a director and the Chairman of the Board in August 1979. Mr. DeZwirek also served as Chief Executive Officer from August 1979 through February 15, 2010. Mr. DeZwirek also serves as a member of the boards of directors of the Company s subsidiaries. In addition to serving as our Chairman, Mr. DeZwirek s principal occupations during the past five years have been serving as President of Icarus Investment Corp. (Icarus) (since 1990) and a director and Chairman (November 2006 through January 2011) and Chief Executive Officer (November 2006 through April 2008 and September 2010 through January 2011), of API Technologies Corp., a publicly traded company (NASDAQ:ATNY) that is a prime contractor in electronics, highly engineered systems, secure communications and electronic components and sub-systems for the defense and aerospace industries. Mr. DeZwirek is also involved in private investment activities. Mr. DeZwirek is the father of Mr. Jason DeZwirek.

Jeff Lang has served as our Chief Executive Officer since February 15, 2010 and as a director and our Chief Operating Officer since May 20, 2010. Prior to joining the Company, Mr. Lang was the Executive Vice President, Operating Officer of McJunkin Red Man Corporation, a Goldman Sachs Capital Partners portfolio company, from 2007 to 2009, a $4.5 billion provider of pipe, valves and fittings, and related services serving the petrochemical, petroleum refining, pulp and paper, oil, gas industry and utilities. He was the Senior Vice

President and Operating Officer of Red Man Pipe and Supply Company from 2006 to 2007, a $1.8 billion pipe, valve, fitting company, which merged with McJunkin Corporation to form McJunkin Red Man Corporation. Mr. Lang was employed by Ingersoll Rand Company, a global industrial company, for twenty-five years from 1980 to 2005. He started out as a sales engineer in 1980, became a Sales and Service Branch Manager in 1985, the Southeast U. S. Area Manager, Air Solutions in 1995, and by 1999 was the Director and General Manager, North American Distributor Division and from 2002 to 2005 served as the Director and General Manager, North American industrial Air Solutions Technology, reporting directly to the President of the Air Solutions Group.

Benton Cook became the Interim Chief Financial Officer as of September 28, 2011. Mr. Cook joined CECO in 2004 in the role of Project Manager Sarbanes-Oxley and has served as CECO s Controller since 2008, which position he continues to hold. From 2001 to 2004, Mr. Cook served as location Controller for TAC Americas, Inc. a subsidiary of TAC AB, Malmo, Sweden which was purchased in 2003 by Schneider Electric SA. Mr. Cook reported directly to the TAC Chief Financial Officer in Carrollton, Texas. From 1998 to 2001, Mr. Cook served as Corporate Controller for Control Solutions Ltd, LLC, a subsidiary of DQE Energy, Pittsburgh, PA, reporting directly to the Chief Financial Officer. From 1990 to 1998, Mr. Cook served as Corporate Controller for the privately held companies Rich Housh Services, Inc. and ControlSolutions, Inc. in Lebanon, Ohio reporting directly to the Chief Executive officer and owner. Mr. Cook is a Certified Public Accountant.

Jason DeZwirek became a director of the Company in February 1994. He became Secretary of the Company on February 20, 1998. He also serves as a member of the boards of directors of the Company s subsidiaries. He was the founder (1999), Chairman and CEO of Kaboose, Inc., which was listed on the Toronto Stock Exchange and was the largest independent family focused online media company in the world. Kaboose Inc. was sold to Disney and Barclays Private Equity in 2009. Mr. DeZwirek also previously served as a director and the Secretary of API Technologies Corp., a publicly traded company engaged in the manufacture of electronic components and systems for the defense and communications industries from November 2006 through January 2011. Mr. DeZwirek is and has also been involved in private investments activities.

Where to Find More Information

CECO Environmental Corp. is subject to the reporting and other information requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Reports and other information filed with the Securities and Exchange Commission (SEC) pursuant to the Exchange Act may be inspected and copied at the public reference facility maintained by the SEC in Washington, D.C. The SEC maintains a website at www.sec.gov containing our reports, proxy materials and other items. We also maintain a website at www.cecoenviro.com on which we provide a link to access CECO s SEC reports free of charge. The content of our website is available for information purposes only and is not incorporated by reference.

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Item 1A. Risk Factors

An investment in our securities involves a high degree of risk. You should carefully consider the risk factors described below, together with the other information included in this Annual Report on Form 10-K before you decide to invest in our securities. The risks described below are the material risks of which we are currently aware; however, they may not be the only risks that we may face. Additional risks and uncertainties not currently known to us or that we currently view as immaterial may also impair our business. If any of these risks develop into actual events, it could materially and adversely affect our business, financial condition, results of operations and cash flows, the trading price of your shares could decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

Changes in current environmental legislation could have an adverse impact on the sale of our environmental control systems and products and on our operating results.

Our environmental systems business is primarily driven by capital spending, clean air rules, plant upgrades by our customers to comply with laws and regulations governing the discharge of pollutants into the environment or otherwise relating to the protection of the environment or human health. These laws include U.S. federal statutes such as the Resource Conservation and Recovery Act of 1976, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Clean Water Act, the Clean Air Act, the Clean Air Interstate Rule, and the regulations implementing these statutes, as well as similar laws and regulations at state and local levels and in other countries. These U.S. laws and regulations may change and other countries may not adopt similar laws and regulations. Our business may be adversely impacted to the extent that environmental regulations are repealed, amended, implementation dates delayed, or to the extent that regulatory authorities reduce enforcement.

Our dependence upon fixed-price contracts could adversely affect our operating results.

The majority of our projects are currently performed on a fixed-price basis. Under a fixed-price contract, we agree on the price that we will receive for the entire project, based upon a defined scope, which includes specific assumptions and project criteria. If our estimates of our own costs to complete the project are below the actual costs that we incur, our margins will decrease, and we may incur a loss. The revenue, cost and gross profit realized on a fixed-price contract will often vary from the estimated amounts because of unforeseen conditions or changes in job conditions and variations in labor and equipment productivity over the term of the contract. If we are unsuccessful in mitigating these risks, we may realize gross profits that are different from those originally estimated and incur reduced profitability or losses on projects. Depending on the size of a project, these variations from estimated contract performance could have a significant effect on our operating results for any quarter or year. In general, turnkey contracts to be performed on a fixed-price basis involve an increased risk of significant variations. This is a result of the long-term nature of these contracts and the inherent difficulties in estimating costs and of the interrelationship of the integrated services to be provided under these contracts whereby unanticipated costs or delays in performing part of the contract can have compounding effects by increasing costs of performing other parts of the contract.

If actual costs for our projects with fixed-price contracts exceed our original estimates, our profits will be reduced or we may suffer losses.

The majority of our contracts are fixed-priced contracts. Although we benefit from cost savings, we have limited ability to recover cost overruns. Because of the large scale and long-term nature of certain of our contracts, unanticipated cost increases may occur as a result of several factors, including:

- Increases in cost or shortages of components, materials or labor;
- Unanticipated technical problems;
- Required project modifications not initiated by the customer; and
- Suppliers or subcontractors failure to perform.

Any of these factors could delay delivery of our products. Our contracts often provide for liquidated damages in the case of late delivery. Unanticipated costs that we cannot pass on to our customers, for example the increases in steel prices or the payment of liquidated damages under fixed contracts, would negatively impact our profits.

Percentage-of-completion method of accounting for contract revenue may result in material adjustments that would adversely affect our operating results.

We recognize contract revenue using the percentage-of-completion method on fixed price contracts over $50,000. Under this method for each contract, estimated contract revenue is calculated based generally on the percentage that actual direct costs to date are to total estimated direct costs. Estimated contract losses are recognized in full when determined. Accordingly, contract revenue and total direct cost estimates are reviewed and revised periodically as the work progresses and as change orders are approved, and adjustments based upon the percentage-of-completion are reflected in contract revenue in the period when these estimates are revised. These estimates are based on management s reasonable assumptions and our historical experience, and are only estimates. Variation of actual results from these assumptions, which are outside the control of management or our historical experience, could be material. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract revenue, we would recognize a credit or a charge against current earnings, which could be material.

We have recently made and may make future acquisitions, which involve numerous risks that could impact our business and results of operations.

Our operating strategy involves horizontally expanding our scope of products and services through selective acquisitions and the formation of new business units that are then vertically integrated into our growing family of turnkey system providers. We have acquired, and may selectively acquire, other businesses, product or service lines, assets or technologies that are complementary to our business. We may be unable to find or consummate future acquisitions at acceptable prices and terms. We continually evaluate potential acquisition opportunities in the ordinary course of business, including those that could be material in size and scope. Acquisitions involve numerous risks, including:

- difficulties in integrating the acquired businesses, product or service lines, assets or technologies;
- diverting management s attention from normal daily operations of the business;
- entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- unanticipated costs and exposure to undisclosed or unforeseen liabilities;
- potential loss of key employees and customers of the acquired businesses, product or service lines, assets or technologies;
- our ability to properly establish and maintain effective internal controls over an acquired company; and
- increasing demands on our operational and information technology systems.

Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses, product or service lines, assets or technologies we purchase, an unavoidable level of risk remains regarding their actual operating and financial condition. Until we actually assume operating control of these businesses, product or service lines, assets or technologies, we may not be able to ascertain the actual value or understand the potential liabilities. This is particularly true with respect to acquisitions outside the United States.

In addition, acquisitions of businesses may require additional debt or equity financing, resulting in additional leverage or dilution of ownership.
Our credit facility with Fifth Third Bank (the Bank Facility)

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contains certain covenants that limit, or which may have the effect of limiting, among other things acquisitions, capital expenditures, the sale of assets and the incurrence of additional indebtedness.

We may incur material costs as a result of existing or future product liability claims, or other claims and litigation which could adversely affect our business, results of operations and financial condition and cash flows; and our insurance coverage may not cover all claims or may in insufficient to cover the claims.

Despite our quality assurance measures, we may be exposed to product liability claims, other claims and litigation in the event that the use of our products results, or is alleged to result, in bodily injury and/or property damage or our products actually or allegedly fail to perform as expected. While we maintain insurance coverage with respect to certain product liability and other claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against product liability and other claims. Any future damages that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our financial condition and results of operations. In addition, product liability and other claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome.

An unsuccessful defense of a product liability or other claim could have an adverse effect on our business, results of operations and financial condition and cash flows. Even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and our Company.

Our business may be adversely affected by global economic conditions.

The continuation or resurgence of the recent global economic downturn and credit crisis may have a significant negative impact on our business, financial condition, and future results of operations. Specific risk factors related to these overall economic and credit conditions include the following: customer or potential customers may reduce or delay their procurement or new product development; key suppliers may become insolvent resulting in delays for our material purchases; vendors and other third parties may fail to perform their contractual obligations; customers may be unable to obtain credit to finance purchases of our products and services; and certain customers may become insolvent. These risk factors could reduce our product sales, increase our operating costs, impact our ability to collect customer receivables, lengthen our cash conversion cycle and increase our need for cash, which would ultimately decrease our profitability and negatively impact our financial condition. It could also limit our ability to expand through acquisitions due to the tightening of the credit markets.

Our ability to obtain financing for future growth opportunities may be limited.

Our ability to execute our growth strategies may be limited by our ability to secure and retain additional financing at terms reasonably acceptable to us or at all. Certain of our competitors are larger companies that may have greater access to capital, and therefore, may have a competitive advantage over us should our access to capital be limited.

Our inability to deliver our backlog on time could affect our future sales and profitability, and our relationships with our customers.

Our backlog has increased to $59.5 million at December 31, 2012 from $54.9 million at December 31, 2011. Our ability to meet customer delivery schedules for our backlog is dependent on a number of factors including, but not limited to, access to the raw materials required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects, sufficient manufacturing plant capacity and appropriate planning and scheduling of manufacturing resources. Our failure to deliver in accordance with customer expectations may result in damage to existing customer relationships and result in the loss of future business. Failure to deliver backlog in accordance with expectations could negatively impact our financial performance and cause adverse changes in the market price of our common stock.

Since our financial performance is seasonal, current results are not necessarily indicative of future results.

Our operating results may fluctuate significantly due to the seasonality of our business and these fluctuations make it more difficult for us to predict accurately in a timely manner factors that may have a negative impact on our business. The fourth quarter of our fiscal year, which ends December 31, is typically our strongest quarter. For example, many of our customers attempt to complete major capital improvement projects before the end of the calendar year. In addition, many customers shut down over the Christmas holidays to perform maintenance services on their facilities. These factors create increased demand for our products and services during this period.

Conversely, the first quarter of our fiscal year is typically our weakest quarter. This is caused to some extent by winter weather constraints on outside construction activity but also by the seasonality of capital improvement projects as discussed relating to the fourth quarter. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

Our financial performance may vary significantly from period to period, making it difficult to estimate future revenue.

Our annual revenues and earnings have varied in the past and are likely to vary in the future. Our contracts generally stipulate customer specific delivery terms and may have contract cycles of a year or more, which subjects these contracts to many factors beyond our control. In addition, contracts that are significantly larger in size than our typical contracts tend to intensify their impact on our annual operating results. Furthermore, as a significant portion of our operating costs are fixed, an unanticipated decrease in our revenues, a delay or cancellation of orders in backlog, or a decrease in the demand for our products, may have a significant impact on our annual operating results. Therefore, our annual operating results may be subject to significant variations and our operating performance in one period may not be indicative of our future performance.

A significant portion of our accounts receivable are related to larger contracts, which increases our exposure to credit risk.

We closely monitor the credit worthiness of our customers. Significant portions of our sales are to customers who place large orders for custom products and whose activities are related to the power and oil/gas industries. As a result, our exposure to credit risk is affected to some degree by conditions within these industries and governmental and/or political conditions. If any of these customers enter bankruptcy or liquidation it may have a material adverse effect on our revenues and accounts receivable. We frequently attempt to reduce our exposure to credit risk by requiring progress payments and letters of credit. However, the continuing economic climate and other unanticipated events that affect our customers could have a materially adverse impact on our operating results.

Our operations outside of the United States are subject to political, investment and local business risks.

In 2012, approximately 14% of our total revenue was derived from products or services ultimately delivered or provided to end-users outside the United States. As part of our operating strategy, we intend to expand our international operations through internal growth and selected acquisitions. Our aspirations in the future are to balance revenues 50/50 between the U.S. and global market. Operations outside of the United States, particularly in emerging markets, are subject to a variety of normal risks which are different from or additional to the risks we face within the United States. Among others, these risks include:

- local, economic, political and social conditions, including potential hyperinflationary conditions and political instability in certain countries;
- imposition of limitations on the remittance of dividends and payments by foreign subsidiaries;
- adverse currency exchange rate fluctuations, including significant devaluations of currencies;
- tax-related risks, including the imposition of taxes and the lack of beneficial treaties, that result in a higher effective tax rate for us;

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- difficulties in enforcing agreements and collecting receivables through certain foreign local systems;
- domestic and foreign customs, tariffs and quotas or other trade barriers;
- increased costs for transportation and shipping;
- difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- managing and obtaining support and distribution channels for overseas operations;
- hiring and retaining qualified management personnel for our overseas operations;
- legal and regulatory requirements, including import, export, defense regulations and foreign exchange controls;
- imposition or increase of restrictions on investment; and
- required compliance with a variety of local laws and regulations which may be materially different than those to which we are subject in the United States.

The occurrence of one or more of the foregoing factors could have a material adverse effect on our international operations or upon the financial condition and results of operations.

Changes in billing terms can increase our exposure to working capital and credit risk.

Our products are generally sold under contracts that allow us to bill upon the completion of certain agreed upon milestones or upon actual shipment of the product, and in certain contracts include a retention provision. We attempt to negotiate progress-billing milestones on all large contracts to help us manage the working capital and credit risk associated with these large contracts. Consequently, shifts in the billing terms of the contracts in our backlog from period to period can increase our requirement for working capital and can increase our exposure to credit risk.

Customers may cancel or delay projects. As a result, our backlog may not be indicative of our future revenue.

Customers may cancel or delay projects for reasons beyond our control, including due to current economic conditions. Our orders normally contain cancellation provisions which permit us to recover our costs, and, for most contracts, a portion of our anticipated profit in the event a customer cancels an order. If a customer elects to cancel an order, we may not realize the full amount of revenues included in our backlog. If projects are delayed, the timing of our revenues could be affected and projects may remain in our backlog for extended periods of time. Revenue recognition occurs over long periods of time and is subject to unanticipated delays. If we receive relatively large orders in any given quarter, fluctuations in the levels of our quarterly backlog can result because the backlog in that quarter may reach levels that may not be sustained in subsequent quarters. As a result, our backlog may not be indicative of our future revenues. With rare exceptions, we are not issued contracts until a customer is ready to start work on a project. Thus, it is our experience that the only relation between the length of a project and the possibility that a project may be cancelled is simply the fact that there is more time involved. In a year-long as opposed to a three-month project more time is available for the customer to experience a softening in their business, which may cause the customer to cancel a project.

An SEC investigation involving us may result in future costs to us, and could adversely affect us.

As previously disclosed, we are currently the subject of a non-public formal investigation by the SEC. We have been cooperating with and intend to continue to cooperate with the SEC. However, there can be no assurance that the SEC will not take any action that could adversely affect us as a result of the matters it is reviewing. We have incurred legal fees and other expenses in connection with the informal SEC inquiry and could incur significant legal fees, penalties and other expenses in connection with the ongoing SEC investigation.

In addition, members of our management have devoted in the past, and may need to devote in the future, a significant amount of time to these matters, which would reduce the amount of time they can devote to our business and therefore have an adverse effect on our business.

Our gross margins are affected by shifts in our product mix.

Certain of our products have higher gross profit margins than others. Consequently, changes in the product mix of our sales from quarter-to-quarter or from year-to-year can have a significant impact on our reported gross profit margins. Certain of our products also have a much higher internally manufactured cost component. Therefore, changes from quarter-to-quarter or from year-to-year can have a significant impact on our reported gross margins. In addition, contracts with a higher percentage of subcontracted work or equipment purchases may result in lower gross profit margins.

If our goodwill or intangibles becomes impaired, we may be required to recognize charges that would reduce our net income or increase our net loss.

As of December 31, 2012, goodwill and indefinite lived intangibles represented approximately $23.1 million, or 24.5% of our total assets. Goodwill and indefinite lived intangible assets not amortized, but instead are subject to annual impairment evaluations (or more often if circumstances require). Major factors that influence our evaluations are our estimates for future revenue and expenses associated with the specific intangible asset or the reporting unit in which our goodwill resides. This is the most sensitive of our estimates related to our evaluations. Other factors considered in our evaluations include assumptions as to the business climate, industry and economic conditions. These assumptions are subjective and different estimates could have a significant impact on the results of our analyses. While management, based on current forecasts and outlooks, believes that the assumptions and estimates are reasonable, we can make no assurances that future actual operating results will be realized as planned and that there will not be material impairment charges as a result. In particular, a prolonged continuation of the current economic climate could continue to have a material adverse impact on our customers thereby forcing them to reduce or curtail doing business with us and such a result may materially affect the amount of cash flow generated by our future operations. Any write-down of goodwill or intangible assets resulting from future periodic evaluations would, as applicable, either decrease our net income or increase our net loss and those decreases or increases could be material.

We face significant competition in the markets we serve.

The industries in which we compete are all highly competitive and highly fragmented. We compete against a number of local, regional and national contractors and manufacturers in each of our product or service lines, many of which have been in existence longer than us and some of which have substantially greater financial resources than we do. Our products primarily compete on the basis of price, performance, speed of delivery, quality, customer support and single source responsibility. We believe new entrants that are large corporations may be able to compete with us on the basis of price and as a result may have a material adverse affect on the results of our operations. In addition, we cannot state that other companies will not develop new or enhanced products that are either more effective than ours or would render our products non-competitive or obsolete. Any failure by us to compete effectively in the markets we serve could have a material adverse effect on our business, results of operations and financial condition.

Increasing costs for manufactured components, raw materials, transportation, health care and energy prices may adversely affect our profitability.

We use a broad range of manufactured components and raw materials in our products, including raw steel, steel-related components, filtration media, and equipment such as fans, motors, etc. Materials and subcontracting costs comprise the largest component of our costs, representing approximately 52% of our net sales in 2012. Further increases in the price of these items could further materially increase our operating costs and materially adversely affect our profit margins. Similarly, transportation and health care costs have risen steadily over the

past few years and represent an increasingly important burden for us. Although we try to contain these costs wherever possible, and although we try to pass along increased costs in the form of price increases to our customers, we may be unsuccessful in doing so for competitive reasons, and even when successful, the timing of such price increases may lag significantly behind our incurrence of higher costs.

We rely on a few key employees whose absence or loss could disrupt our operations or be adverse to our business.

We are highly dependent on the experience of our management in the continuing development of our operations. The loss of the services of certain of these individuals would have a material adverse effect on our business. Although we have employment and non-competition agreements with certain of our key employees, as a practical matter, those agreements will not assure the retention of our employees, and we may not be able to enforce all of the provisions in any employment or non-competition agreement. Our future success will depend in part on our ability to attract and retain qualified personnel to manage our development and future growth. We cannot state that we will be successful in attracting and retaining such personnel. Our failure to recruit additional key personnel could have a material adverse effect on our business, financial condition and results of operations.

Any incurrence of indebtedness could adversely affect our ability to operate our business, remain in compliance with debt covenants, make payments on the debt and limit our growth.

Outstanding indebtedness could have important consequences for investors, including the following:

- it may be more difficult for us to satisfy our obligations with respect to our Bank Facility, and any failure to comply with the obligations of any of the agreements governing such indebtedness, including financial and other restrictive covenants, could result in an event of default under such agreements;
- the covenants contained in our debt agreements limit our ability to borrow money in the future for acquisitions, capital expenditures or to meet our operating expenses or other general corporate obligations;
- the amount of our interest expense may increase because certain of our borrowings are at variable rates of interest, which, if interest rates increase, could result in higher interest expense;
- we may need to use a portion of our cash flows to pay principal and interest on our debt, which will reduce the amount of money we have for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other business activities;
- we may have a higher level of debt than some of our competitors, which could put us at a competitive disadvantage;
- we may be more vulnerable to economic downturns and adverse developments in our industry or the economy in general; and
- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We will not be able to control many of these factors, such as economic conditions and governmental regulation. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our existing or future debt and meet our other obligations. If we do not have enough money to service our existing or future debt, we may be required to refinance all or part of our existing or future debt, sell assets, borrow more money or raise equity. We may not be able to refinance our existing or future debt, sell assets, borrow more money or raise equity on terms acceptable to us, if at all.

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Our manufacturing operations are dependent on third-party suppliers.

Although we are not dependent on any one supplier, we are dependent on the ability of our third-party suppliers to supply our raw materials, as well as certain specific component parts. We purchase our entire chemical grade fiberglass from one domestic supplier, which we believe is the only domestic supplier of such fiberglass, and certain specialty items from only two domestic suppliers. These items also can be purchased from foreign suppliers. Failure by our third-party suppliers to meet our requirements could have a material adverse effect on us. We cannot assure you that our third-party suppliers will dedicate sufficient resources to meet our scheduled delivery requirements or that our suppliers will have sufficient resources to satisfy our requirements during any period of sustained demand. Failure of manufacturers or suppliers to supply, or delays in supplying, our raw materials or certain components, or allocations in the supply of certain high demand raw components could materially adversely affect our operations and ability to meet our own delivery schedules on a timely and competitive basis.

Failure to maintain adequate internal controls could adversely affect our business.

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in each of our annual reports on Form 10-K, a report containing our management s assessment of the effectiveness of our internal control over financial reporting. The Company believes based on the requirements of Section 404 that management s assessment of internal controls will need to include an attestation report of our independent auditors for 2013. These laws, rules and regulations continue to evolve and could become increasingly stringent in the future. We have undertaken actions to enhance our ability to comply with the requirements of the Sarbanes-Oxley Act of 2002, including, but not limited to, the engagement of consultants, the documentation of existing controls and the implementation of new controls or modification of existing controls as deemed appropriate.

We continue to devote substantial time and resources to the documentation and testing of our controls, and to planning for and implementation of remedial efforts in those instances where remediation is indicated. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended in the future; we could be subject to regulatory actions, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition, results of operations and cash flows. We believe that the out-of-pocket costs, the diversion of management s attention from running our day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 will continue to be significant.

There are inherent limitations in all internal control systems over financial reporting, and misstatements due to error or fraud may occur and not be detected.

While we continue to take action to ensure compliance with the internal control, disclosure control and other requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the Securities and Exchange Commission, or SEC, implementing these requirements, there are inherent limitations in our ability to control all circumstances. Our management, including our Chief Executive Officer and Interim Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be evaluated in relation to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions or the degree of compliance with the policies or procedures

may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

If we do not develop improved products and new products in a timely manner in response to industry demands, our business and revenues will be adversely affected.

The air pollution control and filtration industry is characterized by ongoing technological developments and changing customer requirements. As a result, our success and continued growth depend, in part, on our ability in a timely manner to develop or acquire rights to, and successfully introduce into the marketplace, enhancements of existing products or new products that incorporate technological advances, meet customer requirements and respond to products developed by our competition. We cannot assure you that we will be successful in developing or acquiring such rights to products on a timely basis or that such products will adequately address the changing needs of the marketplace.

Our business can be significantly affected by changes in technology and regulatory standards.

The air pollution control and filtration industry is characterized by changing technology, competitively imposed process standards and regulatory requirements, each of which influences the demand for our products and services. Changes in legislative, regulatory or industrial requirements may render certain of our filtration products and processes obsolete. Acceptance of new products and services may also be affected by the adoption of new government regulations requiring stricter standards. Our ability to anticipate changes in technology and regulatory standards and to develop and introduce new and enhanced products successfully on a timely basis will be a significant factor in our ability to grow and to remain competitive. We cannot state that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain of our products or services will not become obsolete.

Work stoppages or similar difficulties could significantly disrupt our operations.

As of March 1, 2013, 143 of our 495 employees are represented by international or independent labor unions under various union contracts that expire from May 31, 2013 to May 31, 2014. It is possible that our workforce will become more unionized in the future. Although we consider our employee relations to generally be good, our existing labor agreements may not prevent a strike or work stoppage at one or more of our facilities in the future and we may be affected by other labor disputes. A work stoppage at one or more of our facilities may have a material adverse effect on our business. Unionization activities could also increase our costs, which could have an adverse effect on our profitability.

Additionally, a work stoppage at one of our suppliers could adversely affect our operations if an alternative source of supply were not readily available. Stoppages by employees of our customers also could result in reduced demand for our products.

Liability to customers under warranties may adversely affect our reputation, our ability to obtain future business and our earnings.

We provide certain warranties as to the proper operation and conformance to specifications of the products we manufacture or produce. Failure of our products to operate properly or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to a customer. We have in the past received warranty claims, are subject to warranty claims, and we expect to continue to receive them in the future. To the extent that we incur substantial warranty claims in any period, our reputation, our ability to obtain future business and our earnings could be adversely affected.

Our use of subcontractors could potentially harm our profitability and business reputation.

Occasionally we act as a prime contractor in some of the engineered projects we undertake. In our capacity as lead provider and when acting as a subcontractor, we perform most of the work on our projects with our own resources and typically subcontract only such specialized activities as electrical work, concrete work, insulation,

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conveyors, controls, etc. In our industry, the lead contractor is normally responsible for the performance of the entire contract, including subcontract work. Thus, when acting as a prime contractor, we are subject to the risk associated with the failure of one or more subcontractors to perform as anticipated. We are strategically selecting only certain profile type projects to become the lead contractor going forward.

We employ subcontractors at various locations around the world to meet our customers needs in a timely manner, meet local content requirements and reduce costs. Subcontractors generally perform the majority of our manufacturing for international customers. We also utilize subcontractors in North America. The use of subcontractors decreases our control over the performance of these functions and could result in project delays, escalated costs and substandard quality. These risks could adversely affect our profitability and business reputation. In addition, many of our competitors, who have greater financial resources and greater bargaining power than we have, use the same subcontractors that we use and could potentially influence our ability to hire these subcontractors. If we were to lose relationships with key subcontractors, our business could be adversely impacted.

Currency fluctuations may reduce profits on our foreign sales or increase our costs, either of which could adversely affect our financial results.

With the acquisition of Aarding, an increasing portion of our consolidated revenues will be generated outside the United States. Consequently, we are subject to fluctuations in foreign currency exchange rates. Translation losses resulting from currency fluctuations may adversely affect the profits from our operations and have a negative impact on our financial results. Foreign currency fluctuations may also make our systems and products more expensive for our customers, which could have a negative impact on our sales. In addition, we purchase some foreign-made products directly and through our subcontractors. Due to the multiple currencies involved in our business, foreign currency positions partially offset and are netted against one another to reduce exposure. We cannot assure that fluctuations in foreign currency exchange rates will not make these products more expensive to purchase. Increases in our direct or indirect cost of purchasing these products could negatively impact our financial results if we are not able to pass those increased costs on to our customers.

Our business is subject to risks of terrorist acts, acts of war and natural disasters.

Terrorist acts, acts of war, or national disasters may disrupt our operations and information and distribution systems, as well as those of our customers. These types of acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could weaken the domestic/global economies and create additional uncertainties, thus forcing our customers to reduce their capital spending, or cancel or delay already planned construction projects, which could have a material adverse impact on our business, operating results and financial condition.

We might be unable to protect our intellectual property rights and our products could infringe the intellectual property rights of others, which could expose us to costly disputes.

Although we believe that our products do not infringe patents or violate the proprietary rights of others, it is possible that our existing patent rights may not be valid or that infringement of existing or future patents or proprietary rights may occur. In the event our products infringe patents or proprietary rights of others, we may be required to modify the design of our products or obtain a license for certain technology. We cannot state that we will be able to do so in a timely manner, upon acceptable terms and conditions, or at all. Failure to do any of the foregoing could have a material adverse effect upon our business. In addition, we state that we will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violations action which may be brought against us. Moreover, if our products infringe patents or proprietary rights of others, we could, under certain circumstances, become liable for damages, which also could have a material adverse effect on our business.

Risks Related to Our Common Stock

Our executive officers and directors are able to exercise significant influence over CECO, and their interests may conflict with those of our other stockholders.

As of March 1, 2013, our executive officers and directors beneficially own approximately 30% of our outstanding common stock, assuming the exercise of currently exercisable warrants and options beneficially held by them. The interests of management with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings and other corporate opportunities and attempts to acquire us, may conflict with the interests of our other stockholders. Management s continued concentrated ownership may have the effect of delaying or preventing a change of control of us, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

We have engaged in the past, and continue to engage, in related party transactions and such transactions present possible conflicts of interest.

We have engaged in the past, and continue to engage, in several related party transactions, including management consulting services and office space and other expenses related to our Toronto office. All such transactions were approved by the Audit Committee of our Board of Directors, which believed that the transactions were in our best interest. Transactions of this nature present the possibility of a conflict of interest whereby the other party may advance its economic or business interests or objectives that may conflict with or be contrary to our best interests. Any such conflict could have a material adverse effect on our financial conditions and results of operations.

The limited liquidity for our common stock could affect your ability to sell your shares at a satisfactory price.

Our common stock is relatively illiquid. As of March 1, 2013, we had 17,722,296 shares of common stock outstanding. The average daily trading volume in our common stock during the 60 calendar days ended March 1, 2013 was approximately 24,013 shares. A more active public market for our common stock, however, may not develop, which would continue to adversely affect the trading price and liquidity of our common stock. Moreover, a thin trading market for our stock causes the market price for our common stock to fluctuate significantly more than the stock market as a whole. Without a large float, our common stock is less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In addition, in the absence of an active public trading market, liquidation of a holding of our stock at a satisfactory price might not be possible.

The market price of our common stock may be volatile or may decline regardless of our operating performance and investors may not be able to resell shares they purchase at their purchase price.

The stock market has experienced and may in the future experience volatility that has often been unrelated to the operating performance of particular companies. The market price of our common stock has experienced, and may continue to experience, substantial volatility. During the twelve-month period ended March 1, 2013, the sale prices of our common stock on The NASDAQ Global Market have ranged from a low of $6.81 to a high of $11.24 per share. We expect our common stock to continue to be subject to fluctuations. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- the relatively low float of our common stock caused, among other reasons, by the holdings of our principal shareholders;
- adverse general economic conditions, such as those currently being experienced, including withdrawals of investments in the stock markets generally and a tightening of credit available to potential acquirers of businesses, that result in a lower average prices being paid for public company shares and lower valuations being placed on businesses;

- other domestic and international macroeconomic factors unrelated to our performance;
- our failure to meet the expectations of the investment community;
- industry trends and the business success of our customers;
- loss of key customers;
- announcements of technological advances by us or our competitors;
- current events affecting the political and economic environment in the United States;
- conditions or trends in our industry, including demand for our products and services, technological advances and governmental regulations;
- litigation or other proceedings involving or affecting us; and
- additions or departures of our key personnel.

The realization of any of these risks and other factors beyond our control could cause the market price of our common stock to decline significantly.

The number of shares of our common stock eligible for future sale could adversely affect the market price of our stock.

We have reserved 2.0 million shares of our common stock for issuance under our 2007 Equity Incentive Plan (2007 Plan), which may include option grants, stock grants and restricted stock grants. As of December 31, 2012, approximately 1.2 million options or shares of restricted stock have been issued under the 2007 Plan. Icarus, an affiliate of Phillip DeZwirek and Jason DeZwirek, also owns warrants to purchase 250,000 shares of common stock that have piggy-back rights granting it the right to require that we register such shares in the event we file any registration statements in the future.

We had outstanding options to purchase approximately 187,500 shares of our common stock as of December 31, 2012 under our 1997 Stock Option Plan and outstanding options to purchase approximately 1,056,151 shares under our 2007 plan. The shares under both plans are registered for resale on currently effective registration statements.

We may issue additional restricted securities or register additional shares of common stock under the Securities Act of 1933, as amended (the Securities Act) in the future. The issuance of a significant number of shares of common stock upon the exercise of stock options or warrants, or the availability for sale, or resale, of a substantial number of the shares of common stock under registration statements, under Rule 144 or otherwise, could adversely affect the market price of the common stock.

Issuance of shares under our stock incentive plan or under warrants, or in connection with financing transactions will dilute current stockholders.

Pursuant to our stock incentive plan, our management is authorized to grant stock awards to our employees, directors and consultants. Dilution will occur upon exercise of any outstanding stock awards. If we raise additional funds by issuing additional common stock, or securities convertible into or exchangeable or exercisable for common stock, further dilution to our existing stockholders will result, and new investors could have rights superior to existing stockholders. In addition, we have historically issued warrants to purchase common shares in conjunction with business acquisitions, debt issuances and employment contracts, of which 250,000 warrants are currently outstanding, which may cause

dilution when exercised.

Our ability to issue preferred stock could adversely affect the rights of holders of our common stock.

Our certificate of incorporation authorizes us to issue up to 10,000 shares of preferred stock in one or more series on terms that may be determined at the time of issuance by our board of directors. Accordingly, we may issue shares of any series of preferred stock that would rank senior to the common stock as to voting or dividend rights or rights upon our liquidation, dissolution or winding up.

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Certain provisions in our charter documents have anti-takeover effects.

Certain provisions of our certificate of incorporation and bylaws may have the effect of delaying, deferring or preventing a change in control of us. Such provisions, including those limiting who may call special stockholders meetings, together with the possible issuance of our preferred stock without stockholder approval, may make it more difficult for other persons, without the approval of our board of directors, to make a tender offer or otherwise acquire substantial amounts of our common stock or to launch other takeover attempts that a stockholder might consider to be in such stockholder s best interest.

Item 1B. Unresolved Staff Comments Not Applicable
Not Applicable

Item 2. Properties
Our corporate headquarters and the Contracting/Services Group management offices are located in Cincinnati, Ohio at a 7,000 square foot facility that we lease. We also have an executive office in Toronto, Canada, at facilities maintained by an affiliate of our Chairman of the Board and our Secretary, who work at the Toronto office. We reimburse such affiliate $10,000 per month for the use of the space and other office expenses. The Engineered Equipment Technology and Parts Group has management offices in Cincinnati, Ohio as well as in Louisville, Kentucky, and our Component Parts Group management office is located in Greensboro, North Carolina. The Contracting/Services Group owns a 35,000 square foot manufacturing facility in Louisville, Kentucky.

Leased Locations	Type	Square Footage	Annual Rent	Expiration
Engineered Equipment Technology and Parts Group:				
Anaheim, California	Mfg.	17,200	$ 228,672	December 2016
Moorpark, California	Mfg.	4,300	$ 51,528	April 2014
Ventura, California	Sales	1,281	$ 15,372	April 2013
Louisville, Kentucky	Mfg.	61,095	$ 108,617	March 2018
Cincinnati, Ohio	Mfg.	96,400	$ 313,300	November 2016
Conshohocken, Pennsylvania	Mfg.	30,000	$ 220,626	April 2014
Lebanon, Pennsylvania	Sales	6,800	$ 88,614	September 2014
Pittsburgh, Pennsylvania	Sales	4,000	$ 61,000	May 2013
Montreal, Canada	Sales	3,514	$ 34,332	October 2017
Shanghai, China	Mfg.	40,000	$ 151,177	March 2013
Pune, India	Sales	255	$ 3,477	December 2014
Nunspeet, the Netherlands	Office/Mfg.	58,125	$ 400,000	December 2016
Singapore	Sales	161	$ 12,000	September 2013
Contracting / Services Group:				
Indianapolis, Indiana	Sales	5,000	&n="bottom">N/R	

		$ 14,780	$	(2,664)	$	$ 12,116		$
Private Mortgage-Backed Securities								
Private Mortgage-Backed Securities One	A19	$ 6,539	$		$ (908)	$ 5,631	CC (Fitch)	$ (1,205)
Private Mortgage-Backed Securities Two	2A1	10,054		(811)		9,243	CC (Fitch)	

	$ 16,593	$ (811)	$ (908)	$ 14,874	$ (1,205)

* For the securities deemed impaired the amortized cost reflects previous OTTI recognized in earnings.

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Security Name	Number of Performing Banks and Insurance Cos. in Issuance (Unique)	Current Deferrals/Defaults/Losses (As a % of Original Collateral)	Total Projected Defaults/Losses (as a % of Performing Collateral)	Excess Subordination (After Taking Into Account Best Estimate of Future Deferrals/Defaults/Losses)*
Pooled Trust Preferred Securities				
Trust Preferred Security A	70	28.49%	24.15%	0.00%
Trust Preferred Security B	70	28.49%	24.15%	0.00%
Trust Preferred Security C	55	30.10%	25.02%	0.00%
Trust Preferred Security D	55	30.10%	25.02%	0.00%
Trust Preferred Security E	57	20.02%	24.05%	0.00%
Trust Preferred Security F	37	20.02%	21.75%	41.78%
Trust Preferred Security G	37	20.02%	21.75%	20.25%
Private Mortgage-Backed Securities				
Private Mortgage-Backed Securities One	N/A	0.38%	5.68%	0.00%
Private Mortgage-Backed Securities Two	N/A	0.00%	7.61%	0.00%

* Excess subordination represents the additional default/losses in excess of both current and projected defaults/losses that the security can absorb before the security experiences any credit impairment.

Per review of the factors outlined above it was determined that six of the securities shown in the table above were deemed to be OTTI. The remaining securities were not deemed to be OTTI as the Company does not intend to sell these investments and has determined, based upon available evidence that it is more likely than not that the Company will not be required to sell the security before the recovery of its amortized cost basis.

The Company recorded OTTI of $5.1 million through earnings during the third quarter of 2009, all of which was determined to be credit related. Additionally, the Company reclassified $33,000 from OCI to earnings for OTTI

previously considered to be non-credit related. The Company recorded OTTI of $7.4 million for the nine months ended September 30, 2009, of which $6.8 million was determined to be credit related. The remaining $590,000 was considered non-credit related and recorded through OCI. For the year ended December 31, 2008 the Company recorded OTTI on certain investment grade pooled trust preferred securities, which resulted in a charge to non-interest income of $7.2 million. Pursuant to the Investments Debt and Equity Securities topic of the FASB ASC which states that previously recorded impairment charges which did not relate to credit loss should be reclassified from retained earnings to OCI as of January 1, 2009, the Company recorded a cumulative effect adjustment that increased retained earnings and decreased OCI by $6.0 million, or $3.8 million, net of tax. The remaining $1.2 million of the original $7.2 million OTTI charge was deemed to be credit related. The following table shows the credit related component of other-than-temporary impairment.

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Credit Related Component of Other-Than-Temporary Impairment
(Dollars in Thousands)

For the three months ended:	
Balance at June 30, 2009	$ (2,889)
Add:	
Incurred on Securities not Previously Impaired	(1,835)
Incurred on Securities Previously Impaired	(3,306)
Less:	
Realized Gain/Loss on Sale of Securities	
Reclassification Due to Changes in Company s Intent	
Increases in Cash Flow Expected to be Collected	
Balance at September 30, 2009	$ (8,030)
For the nine months ended:	
Balance at January 1, 2009	$ (1,236)
Add:	
Incurred on Securities not Previously Impaired	(2,133)
Incurred on Securities Previously Impaired	(4,661)
Less:	
Realized Gain/Loss on Sale of Securities	
Reclassification Due to Changes in Company s Intent	
Increases in Cash Flow Expected to be Collected	
Balance at September 30, 2009	$ (8,030)

NOTE 5 FAIR VALUE

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the Fair Value Measurements and Disclosures Topic of the FASB ASC are described below:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument s level within the fair

value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company s own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level to another.

Valuation Techniques

There have been no changes in the valuation techniques used during the current period.

Trading Securities

These equity and fixed income securities are valued based on market quoted prices. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied.

U.S. Treasury and Government Sponsored Enterprises

Fair value is estimated using either multi-dimensional spread tables or benchmarks. The inputs used include benchmark yields, reported trades, and broker/dealer quotes. These securities are classified as Level 2 within the fair value hierarchy.

Agency Mortgage-Backed Securities

Fair value is estimated using either a matrix or benchmarks. The inputs used include benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. These securities are categorized as Level 2.

Agency Collateralized Mortgage Obligations and Private Mortgage-Backed Securities

The valuation model for these securities is volatility-driven and ratings based, and uses multi-dimensional spread tables. The inputs used include benchmark yields, recent reported trades, new issue data, broker and dealer quotes, and collateral performance. If there is at least one significant model assumption or input that is not observable, these securities are categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2.

State, County, and Municipal Securities

The fair value is estimated using a valuation matrix with inputs including bond interest rate tables, recent transactions, and yield relationships. These securities are categorized as Level 2 within the fair value hierarchy.

Corporate Debt Securities

The fair value is estimated using market prices (to the extent they are available and observable), recently executed transactions, and bond spreads. Corporate bonds are categorized as Level 2.

Single/Pooled Issuer Trust Preferred Securities

The fair value of trust preferred securities, including pooled and single issued preferred securities, is estimated using external pricing models, discounted cash flow methodologies or similar techniques. The inputs used in these valuations include benchmark yields, recent reported trades, new issue data, broker and dealer quotes and collateral performance. Accordingly, these trust preferred securities are categorized as Level 3 within the fair value hierarchy.

Derivative Financial Instruments

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings. Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2009, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Residential Mortgage Loan Commitments and Forward Sales Agreements

The fair value of the commitments and agreements are estimated using the anticipated market price based on pricing indications provided from syndicate banks. These commitments and agreements are categorized as Level 2.

Impaired Loans

Loans that are deemed to be impaired are valued based upon the lower of cost or fair value of the underlying collateral or discounted cash flow analyses. The inputs used in the appraisals of the collateral are not always observable, and therefore the loans may be categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2. The inputs used in performing discounted cash flow analyses are not observable and therefore such loans are classified as Level 3.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. Fair value is measured on a non-recurring basis using quoted market prices when available. If quoted market prices are

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not available, comparable market values or discounted cash flow analysis may be utilized. These assets are typically categorized as Level 2.

Other Real Estate Owned

The fair values are estimated based upon recent appraisal values of the property less costs to sell the property. Certain inputs used in appraisals are not always observable, and therefore Other Real Estate Owned may be categorized as Level 3 within the fair value hierarchy. When inputs in appraisals are observable, they are classified as Level 2 within the fair value hierarchy.

Mortgage Servicing Asset

The mortgage servicing asset is carried at cost and is subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis encompassing interest rates and prepayment speed assumptions currently quoted for comparable instruments, is used for impairment analysis. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies the mortgage servicing asset as Level 3.

Goodwill and Other Intangible Assets

Goodwill and identified intangible assets are subject to impairment testing. The Company conducts an annual impairment test of goodwill in the third quarter of each year and more frequently if necessary. To estimate the fair value of goodwill and other intangible assets the Company utilizes both a comparable analysis of relevant price multiples in recent market transactions and discounted cash flow analysis. Both valuation models require a significant degree of management judgment. In the event the fair value as determined by the valuation model is less than the carrying value, the intangibles may be impaired. If the impairment testing resulted in impairment, the Company would classify goodwill and other intangible assets subjected to non-recurring fair value adjustments as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2009 and December 31, 2008 are as follows:

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	Balance	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(Dollars in Thousands)	
As of September 30, 2009				
Description				
Assets				
Trading Securities	$ 23,090	$ 23,090	$	$
Securities Available for Sale:				
U.S. Treasury and Government Sponsored Enterprise	752		752	
Agency Mortgage-Backed Securities	485,744		485,744	
Agency Collateralized Mortgage Obligations	34,703		34,703	
Private Mortgage-Backed Securities	14,874			14,874
State, County, and Municipal Securities	4,104		4,104	
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	3,142			3,142
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,806			2,806
Residential Mortgage Loan Commitments & Forward Sales Agreements, net	317		317	
Liabilities				
Derivatives:				
Derivative Financial Instruments, net	6,777		6,777	
As of December 31, 2008				
Description				
Assets				
Trading Securities	$ 2,701	$ 2,701	$	$
Securities Available for Sale:				
U.S. Treasury and Government Sponsored Enterprise	710		710	
Agency Mortgage-Backed Securities	475,083		475,083	
Agency Collateralized Mortgage Obligations	56,783		56,783	
Private Mortgage-Backed Securities	15,514		15,514	
State, County, and Municipal Securities	18,954		18,954	
Corporate Debt Securities	25,852		25,852	
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	2,201		2,201	
Pooled Trust Preferred Securities Issued by Banks and Insurers	5,194			5,194

Residential Mortgage Loan Commitments & Forward Sales Agreements, net	367	367
Liabilities		
Derivatives:		
Derivative Financial Instruments, net	12,852	12,852

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three and nine months ended September 30, 2009 and year ended December 31, 2008. These instruments were valued using pricing models and discounted cash flow methodologies.

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	Reconciliation for All Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) Securities Available for Sale			
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage-Backed Securities	Total
	(Dollars in Thousands)			
Quarter-to-Date				
Balance at June 30, 2009	$ 4,239	$ 2,798	$ 16,684	$ 23,721
Gains and Losses (realized/unrealized)				
Included in earnings	(4,937)		(204)	(5,141)
Included in Other Comprehensive Income	3,522	344	216	4,082
Purchases, issuances and settlements	(18)		(1,822)	(1,840)
Transfers in to Level 3				
Balance at September 30, 2009	$ 2,806	$ 3,142	$ 14,874	$ 20,822
Year-to-Date				
Balance at January 1, 2008	$	$	$	$
Gains and Losses (realized/unrealized)				
Included in earnings	(7,216)			(7,216)
Reclass to OCI (2)	5,974			5,974
Included in Other Comprehensive Income	(8,957)			(8,957)
Purchases, issuances and settlements				
Transfers in to Level 3	15,393			15,393
Balance at January 1, 2009	$ 5,194	$	$	$ 5,194
Gains and Losses (realized/unrealized)				
Included in earnings	(6,497)		(297)	(6,794)
Included in Other Comprehensive Income	4,127	940	1,479	6,546
Purchases, issuances and settlements	(18)		(1,822)	(1,840)
Transfers in to Level 3		2,202	15,514	17,716
Balance at September 30, 2009	$ 2,806	$ 3,142	$ 14,874	$ 20,822

The amount of gains and losses due to change in fair value, including both realized and unrealized gains and losses, included in earnings for Level 3 assets and liabilities during the three and nine month periods, ending September 30, 2009 and the twelve month period ending December 31, 2008 and that are still held were classified as follows:

For the three months ending	For the nine months ending	For the twelve months ending

September 30, 2009		September 30, 2009		December 31, 2008	
Trading Income	Non-Interest Income	Trading Income	Non-Interest Income	Trading Income	Non-Interest Income
$	$(5,141) (1)	$	$(6,794)(1)	$	$(7,216)(1)

(1) Represents write-downs on certain securities that were deemed to be other-than-temporarily impaired during the three and nine months ended September 30, 2009 and twelve months ended December 31, 2008.

(2) Pursuant to the Investments -Debt and Equity Securities Topic of the FASB ASC, $6.0 million of securities impairment that represented non credit related impairment was reclassed to OCI. The table above reflects the reclass to OCI for comparative illustrative purposes only as the guidance was adopted effective January 1, 2009.

Assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2009 and December 31, 2008 are as follows:

		Fair Value Measurements at Reporting Date Using			
	Balance	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
			(Dollars in Thousands)		
As of September 30, 2009 Description					
Impaired Loans	$ 22,028	$	$	$ 22,028	$ (688)
Loans Held For Sale	16,264		16,264		515

Other Real Estate Owned		6,491				2,396		4,095	164
Mortgage Servicing Asset		2,165						2,165	
As of December 31, 2008									
Description									
Impaired Loans	$	2,754	$		$	2,754	$		$ (1,453)

As required by the FASB ASC Topic No. 825, Fair Value Measurements and Disclosures , the estimated fair values and related carrying amounts of the Company s

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financial instruments are listed below. Excluded from this listing are certain financial instruments such as post retirement plans, lease contracts, investments accounted for under the equity method, equity investments in consolidated subsidiaries, and all non-financial instruments. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	SEPTEMBER 2009		DECEMBER 2008	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
	(Dollars In Thousands)		(Dollars In Thousands)	
FINANCIAL ASSETS				
Securities Held To Maturity	$ 83,063	$ 83,479	$ 32,789	$ 30,390(a)
Loans, Net of Allowance for Loan Losses	3,346,182	3,350,329	2,615,487	2,621,550(b) (e)
FINANCIAL LIABILITIES				
Time Certificates of Deposits	$ 937,854	$ 949,301	$ 846,096	$ 855,585(c)
Federal Home Loan Bank Advances	396,218	384,123	429,634	435,431(c)
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	188,707	192,442	170,880	166,600(c)
Subordinated Debentures	30,000	24,400	30,000	31,188(c)
Junior Subordinated Debentures	61,857	1,580	61,857	10,894(d)

(a) The fair value values presented are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments and/or discounted cash flow analyses.

(b) Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to

borrowers with similar credit ratings and for the same remaining maturities or cash flows.

(c) Fair value was determined by discounting anticipated future cash payments using rates currently available for instruments with similar remaining maturities.

(d) Fair value was determined based upon market prices of securities with similar terms and maturities.

(e) The book value of net loans excludes loans held for sale.

This summary excludes financial assets and liabilities for which the carrying value approximates fair value. For financial assets, these include cash and due from banks, federal funds sold, short-term investments, Federal Home Loan Bank of Boston stock, and Bank Owned Life Insurance. For financial liabilities, these include demand, savings, money market deposits, and federal funds purchased and assets sold under repurchase agreements. The estimated fair value of demand, savings and money market deposits is the amount payable at the reporting date. The Financial Instruments topic of the FASB ASC requires the use of carrying value because the accounts have no stated maturity date and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments measured at fair value on a recurring and non-recurring basis, as previously described.

NOTE 6 EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing net income available to the common shareholder by the weighted average number of common shares (excluding shares of unvested restricted stock) outstanding before any dilution during the period. Diluted earnings per share have been calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options, unvested restricted stock awards, and outstanding warrants) were issued during the period, computed using the treasury stock method.

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Earnings per share consisted of the following components for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in Thousands)		(Dollars in Thousands)	
Net Income	$ 6,841	$ 8,815	$ 13,888	$ 20,943
Less: Preferred Stock Dividends			5,698	
Net Income Available to Common Shareholders	$ 6,841	$ 8,815	$ 8,190	$ 20,943
Weighted Average Shares				
Basic EPS	20,921,635	16,275,442	19,210,431	15,518,540
Effect of dilutive securities	48,254	62,738	26,181	72,627
Diluted EPS	20,969,889	16,338,180	19,236,612	15,591,167
Net Income Available to Common Shareholders per Share				
Basic EPS	$ 0.33	$ 0.54	$ 0.43	$ 1.35
Effect of dilutive securities				0.01
Diluted EPS	$ 0.33	$ 0.54	$ 0.43	$ 1.34

The following table illustrates options to purchase common stock and shares of restricted stock, that were excluded from the calculation of diluted earnings per share because they were anti-dilutive:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Stock Options	1,011,736	784,599	1,059,363	738,254
Restricted Stock				

NOTE 7 EMPLOYEE BENEFITS

POST RETIREMENT BENEFITS, SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS & DEFINED BENEFIT PENSION PLAN

The Company maintains a defined benefit pension plan (Pension Plan) administered by Pentegra Retirement Services (the Fund), a multiple employer plan. The Fund does not segregate the assets or liabilities of all participating employers, accordingly, disclosure of accumulated vested and non-vested benefits is not possible. Effective July 1, 2006, the Company froze the Pension Plan. The Pension Plan year is July 1st through June 30th. Contributions for the 2008-2009 plan year were all paid in 2008. It has not yet been determined what the contribution is expected to be related to the 2009-2010 plan year. During the three months ended September 30, 2009 and 2008, $339,000 and $318,000 of pension expense had been recognized, respectively. During the nine months ended September 30, 2009 and 2008, $713,000 and $837,000 of pension expense had been recognized, respectively.

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As a result of the acquisition of Slade s Ferry Bancorp Inc. (Slades) in 2008, the Company acquired a defined benefit pension plan (Slades Pension Plan) that covers substantially all of Slades previous employees that met certain eligibility requirements and that were employed up to January 1, 1998 when the plan was frozen. During the first quarter of 2009, the Company merged the Slades Pension Plan into the Company s existing Pension Plan.

As a result of the acquisition of Benjamin Franklin Bancorp., Inc (Ben Franklin) during 2009 the Company acquired an Employee Stock Ownership Program (ESOP). The Company is in the process of terminating and winding down the plan, pending approval from the Internal Revenue Service. All vested participants benefits will be distributed upon termination. The Company has no liability relating to this plan.

The Company administers post-retirement benefit plans and previously disclosed in its financial statements for the fiscal year ended December 31, 2008 that it expected to contribute $83,000 to its post-retirement benefit plans in 2009. For the three and nine months ended September 30, 2009 $25,000 and $55,000 of contributions have been made to the post-retirement benefit plans, respectively, as compared to $17,000 and $56,000 for the comparative periods in 2008.

The Company also administers supplemental executive retirement plans (SERPs) and previously disclosed in its financial statements for the fiscal year ended December 31, 2008 that it expected to record an expense of $244,000 for its SERPs in 2009. For the three and nine months ended September 30, 2009 $62,000 and $162,000 have been recorded as an expense for the SERPs, respectively, as compared to $26,000 and $85,000 for the comparative periods in 2008.

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NOTE 8 COMPREHENSIVE INCOME

Information on the Company s comprehensive income, presented net of taxes, is set forth below for the three and nine months ended September 30, 2009 and 2008.

Comprehensive income (loss) is reported net of taxes, as follows:
(Dollars in Thousands)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
Net Income	$ 6,841	$ 8,815	$13,888	$20,943
Other Comprehensive Income/(Loss), Net of Tax:				
Cumulative Effect Accounting Adjustment, net of tax of $2,151			(3,823)(a)	
Increase (Decrease) in fair value of securities available for sale, net of tax of $4,269 and ($444) for the three months ended September 30, 2009 and 2008, respectively and $6,835 and ($2,532) for the nine months ended September 30, 2009 and 2008, respectively.	7,035	(995)	11,831	(4,633)
Less: reclassification adjustment for realized gains included in net income, net of tax of $536 and $56 for the nine months ended September 30, 2009 and 2008, respectively.			(843)	(77)
Net change in fair value of securities available for sale, net of tax of $4,269 and ($444) for the three months ended September 30, 2009 and 2008, respectively, and $6,299 and ($2,588) for the nine months ended September 30, 2009 and 2008, respectively.	7,035	(995)	10,988	(4,710)
Change in unrealized (losses)/gains on cash flow hedges, net of tax of($1,035) and ($402) for the three months ended September 30, 2009 and 2008, respectively and $4,394 and ($608) for the nine months ended September 30, 2009 and 2008, respectively.	(1,499)	(555)	6,362(c)	(857)(b)
Less: reclassification of realized loss on cash flow hedges, net of tax of ($40) and $71 for the three months ended September 30, 2009 and 2008, respectively, and $828 and $145 for the	(57)	98	1,189	202

nine months ended September 30, 2009 and 2008, respectively.				
Change in fair value of cash flow hedges, net of tax of ($995) and ($331) for the three months ended September 30, 2009 and 2008, respectively, and $3,565 and ($471) for the nine months ended September 30, 2009 and 2008, respectively.	(1,442)	(457)	5,173	(655)
Amortization of certain costs included in net periodic post retirement costs, net of tax of ($45) and $30 for the three months ended September 30, 2009 and 2008, respectively, and ($134) and $91 for the nine months ended September 30, 2009 and 2008, respectively.	(65)	42	(195)	126
Other Comprehensive Gain/(Loss), Net of Tax:	5,528	(1,410)	12,143	(5,239)
Comprehensive Income	$12,369	$ 7,405	$26,031	$15,704

(a) Represents reclassifications of non credit related components of previously recorded OTTI pursuant to the adoption of the Investments - Debt and Equity Securities topic of the FASB ASC.

(b) Includes the remaining balance of $473,000 at September 30, 2008 of realized but unrecognized loss from the sale of an interest rate swap in

January 2008. The loss will be recognized in earnings through January 2010, the original maturity date of the interest rate swap.

(c) Includes the remaining balance of $1.3 million at September 30, 2009 of realized but unrecognized gain, net of tax, from the sale of interest rate swaps in June 2009. The gain will be recognized in earnings through December 2018, the original maturity date of the swap. Also, includes the remaining balance of $103,000 at September 30, 2009 of realized but unrecognized loss from the sale of an interest rate swap in January 2008.

NOTE 9 ACQUISITION

On April 10, 2009 the Company completed its acquisition of Benjamin Franklin Bancorp, Inc. (Ben Franklin), the parent of Benjamin Franklin Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes, and former Ben Franklin shareholders received 0.59 shares of the Company s common stock for each share of Ben Franklin common stock which they owned. Under the terms of the merger, cash was issued in lieu of fractional shares. Based upon the Company s $18.27 per share closing price on April 9, 2009, the transaction was valued at $10.7793 per share of Ben Franklin common stock or approximately $84.5 million in the aggregate. As a result of the acquisition, the Company s outstanding shares increased by 4,624,948 shares.

The Company accounted for the acquisition using the acquisition method pursuant to the Business Combinations Topic of the FASB ASC. Accordingly, the Company recorded merger and acquisition expenses of $41,000 and $12.4 million during the three and nine months ended September 30, 2009, respectively. Additionally, the acquisition method requires an acquirer to recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition.

	Net Assets Acquired (Dollars in Thousands)	
Assets:		
Cash	$	98,089
Investments		147,548
Loans		687,444
Premises and Equipment		5,919
Goodwill		12,193
Core Deposit & Other Intangible		7,616
Other Assets		47,639
Total Assets Acquired		1,006,448
Liabilities:		
Deposits		701,407
Borrowings		196,105
Other Liabilities		24,433
Total Liabilities Assumed		921,945
Purchase Price	$	84,503

As noted above, the Company acquired loans at fair value of $687.4 million. Included in this amount was $3.9 million of loans with evidence of deterioration of credit quality since origination for which it was probable, at the time of the acquisition, that the Company would be unable to collect all contractually required payments receivable. The Company s evaluation of loans with evidence of loan deterioration as of the acquisition date resulted in a nonaccretable difference of $806,000, which is defined as the loan s contractually required payments receivable in excess of the amount of its cash flows expected to be collected. The Company considered factors such as payment history, collateral values, and accrual status when determining whether there was evidence of deterioration of loan s credit quality at the acquisition date.

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A core deposit intangible of $6.6 million was recorded with an expected life of ten years. There was an additional $650,000 of other intangibles recorded related to non-compete agreements with a life of one year, and other various intangibles of $340,000.

The following summarizes the unaudited proforma results of operations as if the Company acquired Ben Franklin on January 1, 2009 (2008 amounts represent combined results for the Company and Ben Franklin).

	Three months ended September 30,	
	2009	**2008**
Net Interest Income	$40,908	$37,853
Net Income	6,868	10,037
Earnings Per Share- Basic	$ 0.33	$ 0.49
Earnings Per Share- Diluted	$ 0.33	$ 0.48

	Nine months ended September 30,	
	2009	**2008**
Net Interest Income	$114,006	$105,898
Net Income	24,974	24,448
Earnings Per Share- Basic	$ 1.30	$ 1.23
Earnings Per Share- Diluted	$ 1.30	$ 1.23

Excluded from the pro forma results of operations for the three and nine months ended September 30, 2009 are merger costs net of tax of $27,000, which had no effect on earnings per diluted share, and $9.7 million, or $0.50 per diluted share, respectively, primarily made up of the acceleration of certain compensation and benefit costs arising due to the change in control and other merger expenses.

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NOTE 10 GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

The changes in goodwill and intangible assets for the period ended September 30, 2009 are shown in the table below. During the second quarter of 2009, the Company acquired Ben Franklin resulting in additional goodwill of $12.2 million and core deposit and other identifiable intangible assets of $7.6 million.

Carrying Amount of Goodwill and Intangibles
(Dollars in Thousands)

	Goodwill	**Core Deposit Intangibles**	**Other Identifiable Intangible Assets**	**Total**
Balance at December 31, 2008	$ 116,437	$ 8,367	$ 906	$ 125,710
Additions	12,619	6,626	990	20,235
Amortization Expense		(1,396)	(397)	(1,793)
Balance at September 30, 2009	$ 129,056	$ 13,597	$ 1,499	$ 144,152

The following table sets forth the remaining estimated annual amortization expense of the identifiable assets.

Remaining Estimated Annual Amortization Expense
(Dollars in Thousands)

	2009	**2010**	**2011**	**2012**	**2013**	**2014 -2038**	**Total**
Core Deposit Intangibles	$ 534	$ 1,789	$ 1,611	$ 1,449	$ 1,449	$ 6,765	$ 13,597
Other Intangible Assets	181	254	78	156	158	672	1,499
Total Identifiable Intangible Assets	$ 715	$ 2,043	$ 1,689	$ 1,605	$ 1,607	$ 7,437	$ 15,096

NOTE 11 CAPITAL PURCHASE PROGRAM

On April 22, 2009 the Company repaid $78.2 million in preferred stock to the U.S. Treasury in conjunction with its exit from the United States Treasury Department s Capital Purchase Program. As a result, during the second quarter the Company recorded a $4.4 million non-cash deemed dividend charge to earnings, amounting to $0.22 per diluted share, associated with the repayment of the preferred stock and an additional preferred stock dividend of $141,000 for the second quarter. The Company also repurchased common stock warrants issued to the Treasury for $2.2 million, the cost of which has been reflected as a reduction in additional paid in capital.

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NOTE 12 DERIVATIVE FINANCIAL INSTRUMENTS

The Company manages economic risks, including interest rate, and liquidity, primarily by managing the amount, sources, and duration of its debt, funding, and the use of derivative financial instruments. The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company s known or expected cash receipts and its known or expected cash payments principally to manage the Company s interest rate risk. Additionally, the Company enters into derivative instruments with customers, which allows the Company to retain variable rate commercial loans.

Derivative instruments are carried at fair value in the Company s financial statements. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. As of September 30, 2009, the Company has entered into interest rate swap contracts as part of the Company s interest rate risk management program, which are designated and qualify as cash flow hedges. In addition, the Company may from time to time enter into interest rate swap contracts with commercial customers, which are not designated as hedging instruments.

Asset Liability Management

The Bank currently utilizes interest rate swap agreements as hedging instruments against interest rate risk associated with the Company s borrowings. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount, for a predetermined period of time, from a second party. The amounts relating to the notional principal amount are not actually exchanged. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable interest on existing financial instruments is ten years. The notional amounts for the Company s cash flow hedges at September 30, 2009 and December 31, 2008 amounted to $185.0 million and $235.0 million, respectively.

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Derivative Positions
(Dollars In Thousands)

Derivatives Designated as Hedging:
Cash Flow Hedges
As of September 30, 2009

	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at September 30, 2009
Interest Rate Swaps					(Unaudited Dollars in Thousands)			
	$ 35,000	19-Mar-08	19-Mar-08	20-Jan-10	3 Month LIBOR	0.51%	2.28%	$ (209)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%	(3,378)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%	(3,306)
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.65%	(318)
	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.59%	(259)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.30%	2.94%	478
	25,000	16-Dec-08	18-Dec-08	18-Dec-13	3 Month LIBOR	0.29%	2.09%	229
Total	$ 185,000						Total	$ (6,763)

As of December 31, 2008

	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at December 31, 2008
Interest Rate Swaps					(Unaudited Dollars in Thousands)			
	$ 35,000	19-Mar-08	19-Mar-08	20-Jan-10	3 Month LIBOR	4.50%	2.28%	$ (321)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	2.00%	5.04%	(4,890)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	2.00%	5.04%	(4,877)
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	2.19%	2.65%	(616)

	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	2.19%	2.59%	(547)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	2.19%	2.94%	(987)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	2.19%	2.94%	(1,001)
	25,000	16-Dec-08	18-Dec-08	18-Dec-13	3 Month LIBOR	1.85%	2.09%	(22)
	25,000	17-Dec-08	19-Dec-08	19-Dec-18	3 Month LIBOR	1.58%	2.24%	445
Total	$ 235,000						Total	$ (12,816)

For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses are reported as a component of OCI, and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately $4.3 million to be reclassed to earnings from OCI in the next twelve months, related to the Company s cash flow hedges.

The ineffective portion of the cash flow hedge is recognized directly in earnings. The Company recognized $49,000, and $61,000 three and nine months ending September 30, 2009, of hedge ineffectiveness in earnings. During 2008, the amount that was recognized in earnings was not material. The ineffective portions that were recognized during 2009 and 2008 were associated with the unwinding of certain borrowings and their associated cash flow hedges.

During 2009, the Company unwound certain borrowings and their associated cash flow hedges. As a result of the termination of the cash flow hedges, the Company recognized a gain of $3.8 million, pre-tax in non-interest income. Additionally, a gain of $1.4 million remained in OCI, net of tax, and will be amortized over the original maturity of the swap (until December 2018), to the extent the hedged forecasted transaction remain probable.

In March 2008, the Company exited a $35.0 million notional value LIBOR based interest rate swap hedging 3 month revolving FHLB advances with Bear Stearns and replaced it with a $35.0 million notional value LIBOR based interest rate swap hedging 3 month revolving FHLB advances with Citigroup Financial. Upon exiting the swap, a $1.2 million loss remained in OCI, net of tax, which is being amortized into interest expense on borrowings over the original maturity of the swap (until January 2010.)

Associated net amortization on these swaps of $98,000 and $398,000 was recognized in interest expense on borrowings in the three and nine months ended September 30, 2009.

Customer Related Positions

Interest rate derivatives, primarily interest-rate swaps, offered to commercial borrowers through the Bank s derivative program are not designated as hedging instruments. However, the Bank believes that its exposure to commercial customer derivatives is limited because these contracts are simultaneously matched at inception with an offsetting dealer transaction. The commercial customer derivative program allows the Bank to retain variable-rate commercial loans while allowing the customer to synthetically fix the loan rate by entering into a variable-to-fixed interest rate swap. It is anticipated that over time customer interest rate derivatives will reduce the interest rate risk inherent in the longer-term, fixed-rate commercial business and real estate loans. As of September 30, 2009 the Company has entered into twenty customer-related positions and offsetting dealer transactions. For the quarter ended September 30, 2009, and the year ended December 31, 2008 the Bank had a total notional amount of $84.5 million and $20.4 million, respectively, of interest rate swap agreements with commercial borrowers and an equal notional amount of dealer transactions.

Derivative Positions
(Dollars In Thousands)

Derivatives Not Designated as Hedging:

	Notional Amount Maturing						
As of September 30, 2009	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Total**	**Fair Value**
				(Unaudited Dollars in Thousands)			
Customer Related Positions							
Receive fixed, pay variable					$ 84,491	$ 84,491	$ (1,985)
Pay fixed, receive variable					$ 84,491	$ 84,491	$ 1,971

	Notional Amount Maturing						
As of December 31, 2008	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Total**	**Fair Value**
				(Unaudited Dollars in Thousands)			
Customer Related Positions							
Receive fixed, pay variable					$ 20,403	$ 20,403	$ (1,048)
Pay fixed, receive variable					$ 20,403	$ 20,403	$ 1,012

Changes in the fair value of customer related positions are recorded directly in earnings as they are not afforded hedge accounting treatment. The Company recorded a decrease in fair value of $112,000 and a net increase in fair value of $22,000 for the three and nine months

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ended September 30, 2009, respectively. There were no material amounts recorded in the comparative 2008 periods.

The tables below present the fair value of the Company s derivative financial instruments as well as their classification on the Balance Sheet as of September 30, 2009 and December 31, 2008:

Fair Values of Derivative Instruments
(In thousands)

	Asset Derivatives				**Liability Derivatives**			
	September 30, 2009		**December 31, 2008**		**September 30, 2009**		**December 31, 2008**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:								
Interest rate swaps	Other Assets	$ 707	Other Assets	$ 445	Other Liabilities	$ 7,470	Other Liabilities	$ 13,261
Derivatives not designated as hedges:								
Customer related positions	Other Assets	$ 2,044	Other Assets	$ 1,011	Other Liabilities	$ 2,058	Other Liabilities	$ 1,048

The tables below present the effect of the Company s derivative financial instruments on the Income Statement as of September 30, 2009 and 2008:

Amount of Derivative Gain/(Loss) Recognized/Reclassified
(Dollars in Thousands)

For the three months ended September 30, 2009 Derivatives Designated as Hedges:	**Gain/ (Loss) in OCI on Derivative (Effective Portion)**		**Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective**	**From Accumulated OCI Into Income (Effective Portion)**		**Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing)**	**On Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing**	
	9/30/2009	**9/30/2008**	**Income**	**9/30/2009**	**9/30/2008**		**9/30/2009**	**9/30/2008**

			Portion)					
Interest rate swaps	$ (1,662)	$ 1,295	Interest income/(expense)	$ (373)	$ 46	Interest income/(expense)	$ (49)	$

For the nine months ended September 30, 2009 Derivatives Designated as Hedges:	Gain/ (Loss) in OCI on Derivative (Effective Portion)		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	From Accumulated OCI Into Income (Effective Portion)		Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount excluded from Effectiveness	On Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing	
	9/30/2009	9/30/2008		9/30/2009	9/30/2008			
Interest rate swaps	$ 4,972	$	Interest income/(expense)	$ (1,277)	$ 251	Interest income/(expense)	$ (61)	$
			Other income	937				
				$ (340)	$ 251			

Derivative contracts involve the risk of dealing with derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have an investment grade credit rating and be approved by the Company s Board of Directors. The Company s credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. The Company s credit exposure relating to interest rate swaps with bank customers was approximately $2.0 million at September 30, 2009. The credit

exposure is partly mitigated as transactions with customers are secured by the collateral, if any, securing the underlying transaction being hedged. Collateral levels for upstream financial institution counterparties are monitored and adjusted as necessary.

The Company currently holds derivative instruments that contain credit-risk related contingent features that are in a net liability position. The notional amount of these instruments as of September 30, 2009 was $85.0 million. The aggregate fair value of these instruments at September 30, 2009 was $9.1 million. As of September 30, 2009, the Company has collateral assigned to these derivative instruments amounting to $9.6 million. Per a review completed by management of these instruments at September 30, 2009 it was determined that no additional collateral would have to be posted to settle these instruments immediately. The Company does not offset fair value amounts recognized for derivative instruments. The Company does net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Certain derivative instruments, primarily forward sales of mortgage loans, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain single-family residential mortgage loans, an interest rate locked commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. The interest rate locked commitments and forward sales commitments are recorded at fair value, with changes in fair value recorded in current period earnings. Loans held for sales are carried at the lower of aggregate cost or fair value.

The table below summarizes the fair value of residential mortgage loans commitments and forward sales agreements:

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	Fair Value at	
	September 30, 2009	December 31, 2008
	(Dollars in Thousands)	
Residential Mortgage Loan Commitments	$ 716	$ 338
Forward Sales Agreements	$(399)	$ 29

	Change for the Nine Months Ended September 30,	
	2009	2008
Residential Mortgage Loan Commitments	$ 378	($126)
Forward Sales Agreements	(428)	(8)
Total Change in Fair Value*	($50)	($134)

* Changes in these fair values are recorded as a component of mortgage banking income.

NOTE 13 SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing date of this Form 10-Q. The Company has determined that there are no subsequent events that require disclosure through this date.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

A number of the presentations and disclosures in this Form 10-Q, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by, or which include the words may, could, should, will, would, hope, might, believe, expect, anticipate, estimate, intend, plan, assume or similar expressi forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to Independent Bank Corp. s (the Company s) beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including the Company s expectations and estimates with respect to the Company s revenues, expenses, earnings, return on equity, return on assets, efficiency ratio, asset quality and other financial data and capital and performance ratios.

Although the Company believes that the expectations reflected in the Company s forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond the Company s control). The following factors, among others, could cause the Company s financial performance to differ materially from the Company s goals, plans, objectives, intentions, expectations and other forward-looking statements:

a weakening in the strength of the United States economy in general and the strength of the regional and local economies within the New England region and Massachusetts which could result in a deterioration of credit quality, a change in the allowance for loan losses or a reduced demand for the Company s credit or fee-based products and services;

adverse changes in the local real estate market could result in a deterioration of credit quality and an increase in the allowance for loan loss, as most of the Company s loans are concentrated in southeastern Massachusetts, including Cape Cod and Rhode Island and a substantial portion of these loans have real estate as collateral;

the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, could affect the Company s business environment or affect the Company s operations;

the effects of, any changes in, and any failure by the Company to comply with tax laws generally and requirements of the federal New Markets Tax Credit program in particular could adversely affect the Company s tax provision and its financial results;

inflation, interest rate, market and monetary fluctuations could reduce net interest income and could increase credit losses;

adverse changes in asset quality could result in increasing credit risk-related losses and expenses;

competitive pressures could intensify and affect the Company s profitability, including as a result of continued industry consolidation, the increased financial services provided by non-banks and banking reform;

a deterioration in the conditions of the securities markets could adversely affect the value or credit quality of the Company s assets, the availability and terms of

funding necessary to meet the Company s liquidity needs and the Company s ability to originate loans;
the potential to adapt to changes in information technology could adversely impact the Company s operations and require increased capital spending;

changes in consumer spending and savings habits could negatively impact the Company s financial results;

acquisitions may not produce results at levels or within time frames originally anticipated and may result in unforeseen integration issues or impairment of goodwill and/or other intangibles;

adverse conditions in the securities markets could lead to impairment in the value of securities in the Company s investment portfolios and consequently have an adverse effect on the Company s earnings; and

laws and programs designed to address capital and liquidity issues in the banking system, including, but not limited to, the Federal Deposit Insurance Corporation s (FDIC s) Temporary Liquidity Guaranty Program and the U.S. Treasury Department s Capital Purchase Program and Troubled Asset Relief Program may have significant effects on the financial services industry, the exact nature and extent of which cannot be determined at this time.

If one or more of the factors affecting the Company s forward-looking information and statements proves incorrect, then the Company s actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-Q. Therefore, the Company cautions you not to place undue reliance on the Company s forward-looking information and statements.

The Company does not intend to update the Company s forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to the Company are expressly qualified by these cautionary statements.

EXECUTIVE LEVEL OVERVIEW

The Company reported net income of $6.8 million and $13.9 million for the three and nine month periods ending September 30, 2009 compared to $8.8 million and $20.9 million for the same periods in 2008, respectively. The decrease in net income from the prior year is primarily due to merger and acquisition expenses associated with the Benjamin Franklin Bancorp. Inc. (Ben Franklin) acquisition, a special FDIC deposit insurance premium fee incurred during the second quarter of 2009, OTTI charges, and a higher level of provision for loan losses consistent with current economic conditions and a higher level of loan losses. The provision for loan loss has increased by $2.4 million and $7.6 million for the three and nine months ended September 30, 2009 as compared to the same periods in 2008, respectively. Also, in early 2009 the Company issued preferred stock related to the Company s participation in the United States Treasury Department s Capital Purchase program (CPP), which decreased net income available to common shareholders by the preferred dividends declared,

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causing a decline of $0.30 per diluted share, year-to-date. On a diluted earnings per share basis the Company reported earnings of $0.33 and earnings of $0.43 for the three and nine month periods ending September 30, 2009, respectively, compared to earnings of $0.54 and $1.34 for the comparative 2008 periods.

When management assesses the Company s financial performance for purposes of making day-to-day and strategic decisions it does so based upon the performance of its core banking business, which is primarily derived from the combination of net interest income and non-interest or fee income, reduced by operating expenses, the provision for loan losses, and the impact of income taxes. The Company s financial performance as determined in accordance with Generally Accepted Accounting Principles (GAAP), however, sometimes includes gain or loss due to items that management does not believe are related to its core banking business, such as gains or losses on the sales of securities, merger & acquisition expenses, and other items. Management, therefore, also computes the Company s non-GAAP operating earnings, which excludes these items, to measure the strength of the Company s core banking business and to identify trends that may to some extent be obscured by gains or losses which management deems not to be core to the Company s operations. Management believes that the financial impact of the items excluded when computing non-GAAP operating earnings will disappear or become immaterial within a near-term finite period.

Management s computation of the Company s non-GAAP operating earnings are set forth below because management believes it may be useful for investors to have access to the same analytical tool used by management to evaluate the Company s core operational performance so that investors may assess the Company s overall financial health and identify business and performance trends that may be more difficult to identify and evaluate when non-core items are included. Management also believes that the computation of non-GAAP operating earnings may facilitate the comparison of the Company to other companies in the financial services industry.

Non-GAAP operating earnings should not be considered a substitute for GAAP operating results. An item which management deems to be non-core and excludes when computing non-GAAP operating earnings can be of substantial importance to the Company s results for any particular quarter or year. The Company s non-GAAP operating earnings set forth below are not necessarily comparable to non-GAAP information which may be presented by other companies.

The following table summarizes management s computation of non-GAAP operating earnings for the time periods indicated:

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	Quarter to Date Ending September 30,			
	Net Income Available to Common Shareholders		Diluted Earnings Per Share	
	2009	2008	2009	2008
AS REPORTED (GAAP)				
Net Income	$ 6,841	$ 8,815	$ 0.33	$ 0.54
Preferred Stock Dividend				
Net Income Available to Common Shareholders	$ 6,841	$ 8,815	$ 0.33	$ 0.54
Non-Interest Income Components, net of tax				
Net Loss on Sale of Securities				
Gain Resulting from Early Termination of Hedging Relationship				
Non-Interest Expense Components, net of tax				
Litigation Recovery		(488)		(0.03)
Merger & Acquisition Expenses	27		0.00	
Deemed Preferred Stock Dividend				
TOTAL IMPACT OF NON-CORE ITEMS	27	(488)	0.00	(0.03)
AS ADJUSTED (NON-GAAP)	$ 6,868	$ 8,327	$ 0.33	$ 0.51

	Year to Date Ending September 30,			
	Net Income Available to Common Shareholders		Diluted Earnings Per Share	
	2009	2008	2009	2008
AS REPORTED (GAAP)				
Net Income	$ 13,888	$ 20,943	$ 0.72	$ 1.34
Preferred Stock Dividend	5,698		0.30	
Net Income Available to Common Shareholders	$ 8,190	$ 20,943	$ 0.43	$ 1.34
Non-Interest Income Components, net of tax				
Net (Gain)/Loss on Sale of Securities	(880)	396	(0.05)	0.03
Gain Resulting from Early Termination of Hedging Relationship	(2,456)		(0.13)	
Non-Interest Expense Components, net of tax				
WorldCom Bond Loss Recovery		(272)		(0.02)
Litigation Reserve/Recovery		488		0.03
Merger & Acquisition Expenses	9,706	728	0.50	0.05
Deemed Preferred Stock Dividend	4,384		0.24	
TOTAL IMPACT OF NON-CORE ITEMS	10,754	1,340	0.56	0.09

AS ADJUSTED (NON-GAAP)	$ 18,944	$ 22,283	$ 0.98	$ 1.43

As indicated above, the Company s results included certain items which management considers non-core. Excluding certain non-core items, net operating earnings were $6.8 million, or $0.33 per diluted common share and $18.9 million, or $0.98 per diluted common share for the three and nine months ended September 30, 2009, respectively, down 17.5% and 15.0%, respectively, from the comparable 2008 periods.

Not reflected in the table above are additional large items impacting the Company s results. For the three months ended September 30, 2009 and 2008 securities impairment charges, net of tax, were $3.3 million, or $0.16 per share and $468,000, or $0.03 per share, respectively. For the nine months ended September 30, 2009 and 2008 securities impairment charges, net of tax, were $4.4 million, or $0.23 per share and $1.7 million, or $0.11 per share, respectively. In addition, the Company incurred a special FDIC deposit insurance premium fee, net of tax, of $1.4 million, or $0.07 per share, during the second quarter of 2009.

While the Company s results reflect certain items that negatively impacted reported earnings, there were many positive aspects of the current quarter reflective of the Company s strong core performance:

The Company s net interest margin improved to 4.05% in the third quarter, up from the 3.88% reported in the second quarter of 2009. The increase is primarily driven by the active management of deposit costs.

Capital strengthened in the third quarter as the Company s tangible equity ratio increased to 6.12% at the end of the third quarter as compared to 5.86% at the end of the second quarter. In the same periods, the non-GAAP measurement of these ratios, which includes the tax deductibility of certain goodwill and other intangibles, were 6.58% and 6.33%, respectively.

Nonperforming loans as a percentage of loans increased to 109 basis points in the third quarter from 94 basis points at the end of the second quarter of 2009. Net charge-offs were $3.2 million in the third quarter of 2009, or 37 basis points on an annualized basis, compared to $1.9 million, or 23 basis points on an annualized basis, in the second quarter. The provision for loan losses was $4.4 million and $4.5 million for the quarters ended September 30, 2009 and June 30, 2009, respectively.

Loan delinquency decreased to 1.58% at the end of the third quarter of 2009 as compared to 1.72% at the end of the second quarter. The Company continued to generate solid growth in the commercial and home equity loan portfolios with annualized third quarter growth of 11.7% and 7.7%, respectively. This was offset by the ongoing decline in the residential real estate and consumer categories.

The Company experienced steady deposit growth in the core deposit categories which represents 71.4% of total deposits at September 30, 2009. This growth was partially mitigated by reductions in the municipal category and time deposits.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that the Company s most critical accounting policies are those which the Company s financial condition depends upon, and which involve the most complex or subjective decisions or assessments.

There have been no material changes in critical accounting policies during 2009. Please refer to the 2008 Form 10-K for a complete listing of critical accounting policies.

FINANCIAL POSITION

Loan Portfolio Total loans increased by $735.0 million, or 27.7%, for the period ended September 30, 2009 as compared to the amount of total loans at December 31, 2008. Loan growth achieved was concentrated in the commercial real estate and residential real estate categories while the automobile lending category was reduced significantly. Total commercial

loans (including small business loans) now represent 65.0% of the total loan portfolio. The acquisition of Ben Franklin added $687.4 million in growth, as shown in the table below:

Table 1 Effect of Benjamin Franklin Bancorp. Acquisition on Loans

	September 30, 2009	December 31, 2008	Benjamin Franklin Acquisition *	Organic Growth/Loss
	(Unaudited - Dollars in Thousands)			
Loans				
Commercial & Commercial Real Estate Loans	$ 2,118,494	$ 1,569,082	$ 402,947	$ 146,465
Small Business	84,135	86,670		(2,535)
Residential Real Estate	591,358	423,974	241,239	(73,855)
Consumer Home Equity	467,213	406,240	41,125	19,848
Consumer Other	126,339	166,570	2,133	(42,364)
Total Loans	$ 3,387,539	$ 2,652,536	$ 687,444	$ 47,559

* Balances are as of acquisition date of April 10, 2009 and do not include paydowns or amortization.

Loans obtained in connection with the Ben Franklin acquisition have been recorded at fair value in accordance with the Business Combinations Topic of the FASB ASC, which prohibits the carry-over of the allowance for credit losses. The Company s evaluation of loans with evidence of loan deterioration as of the acquisition date resulted in a nonaccretable difference of $806,000, representing the loans contractually required payments receivable in excess of the amounts of its cash flows expected to be collected. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans. Estimated credit losses on all acquired loans were considered in the determination of fair value as of the acquisition date. As of September 30, 2009 this amount had decreased to $343,000 due to write-downs.

The Bank s commercial real estate portfolio, the Bank s largest portfolio, is diversified with loans secured by a variety of property types, such as owner-occupied and non-owner-occupied commercial, retail, office, industrial, and warehouse facilities as well as other special purpose properties, such as hotels, motels, restaurants, golf courses, and healthcare-related properties. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and, to a lesser extent, condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of September 30, 2009.

The Bank considers a concentration of credit to a particular industry to exist when the aggregate credit exposure to a borrower, an affiliated group of borrowers or a non-affiliated group of borrowers engaged in one industry exceeds 10% of the Bank s loan portfolio which includes direct, indirect or contingent obligations. As of September 30, 2009, loans made by the Company to the industry concentration of lessors of non-residential buildings constituted 14.3% of the Company s total loan portfolio.

The Bank does not originate sub-prime real-estate loans as a line of business.

Asset Quality The Bank actively manages all delinquent loans in accordance with formally documented policies and established procedures. In addition, the Company s Board of Directors reviews delinquency statistics, by loan type, on a monthly basis. Inclusive in the discussion below are the loans acquired from Ben Franklin.

Delinquency The Bank s philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Bank seeks to make arrangements to resolve any delinquent or default situations over the shortest possible time frame. Generally, the Bank requires that delinquency notices be mailed to borrowers upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices and telephone calls may be issued prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of delinquent notices, the Bank s personnel charged with managing its loan portfolios, contacts the borrowers to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower s needs are considered as much as reasonably possible without jeopardizing the Bank s position. A late charge is usually assessed on loans upon expiration of the grace period.

On loans secured by one-to-four family, owner-occupied properties, the Bank attempts to work out an alternative payment schedule with the borrower in order to avoid foreclosure action. Any loans that are modified are reviewed by the Bank to identify if a troubled debt restructuring has occurred. A troubled debt restructuring is when, for economic or legal reasons related to a borrower s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider based upon current market rates. The restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. As of September 30, 2009 and December 31, 2008, troubled debt restructured loans amounted to $6.4 million and $1.1 million, which was comprised of 82 and 16 loans, respectively. If such efforts by the Bank do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may and will terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan. On loans secured by commercial real estate or other business assets, the Bank similarly seeks to reach a satisfactory payment plan so as to avoid foreclosure or liquidation.

The following table sets forth a summary of certain delinquency information as of the dates indicated:

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Table 2 - Summary of Delinquency Information

	At September 30, 2009				At December 31, 2008			
	60-89 days		90 days or more		60-89 days		90 days or more	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Unaudited - Dollars in Thousands)							
Commercial and Industrial	8	$ 3,906	19	$ 3,513	8	$ 1,672	9	$ 1,790
Commercial Real Estate	7	4,586	38	13,491	8	2,649	9	3,051
Commercial Construction							6	2,313
Small Business	11	273	31	644	12	303	32	1,025
Residential Real Estate	12	2,301	29	6,449	8	3,076	26	5,767
Residential Construction								
Consumer Home Equity	4	286	12	722	9	1,221	11	749
Consumer Auto	61	495	56	462	94	869	75	552
Consumer Other	34	262	30	164	44	256	42	205
Total	137	$ 12,109	215	$ 25,445	183	$ 10,046	210	$ 15,452

Nonaccrual Loans As permitted by banking regulations, certain consumer loans which are 90 days or more past due continue to accrue interest. In addition, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loan is well secured and in the process of collection. As a general rule, commercial and real estate categories, as well as home equity loans more than 90 days past due with respect to principal or interest, are classified as a nonaccrual loan. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to three months), when the loan is liquidated, or when the loan is determined to be uncollectible and it is charged-off against the allowance for loan losses.

Nonperforming Assets Nonperforming assets are comprised of nonperforming loans, nonperforming securities, Other Real Estate Owned (OREO) and other assets. Nonperforming loans consist of loans that are more than 90 days past due but still accruing interest and nonaccrual loans. Nonperforming securities consist of securities that are on nonaccrual status. OREO includes properties held by the Bank as a result of foreclosure or by acceptance of a deed in lieu of foreclosure. As of September 30, 2009, nonperforming assets totaled $44.8 million, an increase of $14.9 million from December 31, 2008. The increase in nonperforming assets is attributable mainly to increases in nonperforming loans in the commercial real estate categories and OREO, which is in part due to the impact of the Ben Franklin acquisition. Nonperforming assets represented 1.01% of total assets at September 30, 2009, as compared to 0.82% at December 31, 2008. The Bank had eighteen and seven properties totaling $6.5 million and $1.8 million held as OREO as of September 30, 2009 and December 31, 2008, respectively.

Repossessed automobile loan balances continue to be classified as nonperforming loans and not as other assets, because the borrower has the potential to satisfy the obligation within twenty days from the date of repossession (before the Bank can schedule disposal of the collateral). The borrower can redeem the property by payment in full at any time prior to the property s disposal by the Bank. Repossessed automobile loan balances amounted to $425,000 as

of September 30, 2009, $642,000 at December 31, 2008 and $524,000 at September 30, 2008.

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The following table sets forth information regarding nonperforming assets held by the Company at the dates indicated:

Table 3 Nonperforming Assets / Loans
(Unaudited Dollars in Thousands)

	As of September 30, 2009	As of December 31, 2008	As of September 30, 2008
Loans past due 90 days or more but still accruing			
Consumer Auto	$ 80	$ 170	$ 247
Consumer Other	223	105	137
Total	$ 303	$ 275	$ 384
Loans accounted for on a nonaccrual basis (1)			
Commercial and Industrial	$ 3,744	$ 1,942	$ 1,481
Small Business	969	1,111	773
Commercial Real Estate	18,511	12,370	5,478
Residential Real Estate	11,625	9,394	6,725
Consumer Home Equity	1,237	1,090	1,107
Consumer Auto	425	642	524
Consumer Other	123	109	172
Total	$ 36,634	$ 26,658	$ 16,260
Total nonperforming loans	$ 36,937	$ 26,933	$ 16,644
Nonaccrual securities	1,134	910	
Other assets in possession	255	231	
Other real estate owned	$ 6,491	$ 1,809	$ 1,239
Total nonperforming assets	$ 44,817	$ 29,883	$ 17,883
Nonperforming loans as a percent of gross loans	1.09%	1.02%	0.65%
Nonperforming assets as a percent of total assets	1.01%	0.82%	0.51%
Restructured Loans	$ 6,378	$ 1,063	$ 666

(1) There were
$3.7 million and

$74,000
restructured,
nonaccruing
loans at
September 30,
2009 and
December 31,
2008,
respectively,
and there were
no restructured
nonaccruing
loans at
September 30,
2008.

In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain commercial and real estate loans. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. It is the Bank s policy to have any restructured loans which are on nonaccrual status prior to being modified, remain on nonaccrual status for approximately six months before management considers its return to accrual status. If the restructured loan is not on nonaccrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status.

Potential problem commercial loans are those which are not included in nonaccrual or nonperforming loans and which are not considered troubled debt restructures, but where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. At both September 30, 2009 and December 31, 2008, the Bank had eighty-four and

forty-five potential problem commercial loan relationships, respectively, which are not included in nonperforming loans, with an aggregate outstanding balance of $115.8 million and $78.7 million, respectively. At September 30, 2009 and December 31, 2008, these potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

See the table below for interest income that was recognized or collected on the nonaccrual loans as of the dates indicated:

Table 4 Interest Income Recognized/Collected on Nonaccrual / Troubled Debt Restructured Loans

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in Thousands)			
Interest income that would have been recognized, if nonaccruing loans at their respective dates had been performing	$ 321	$ 171	$ 2,018	$ 532
Interest income recognized on troubled debt restructured accruing loans at their respective dates (1)	$ 126	n/a	$ 244	n/a
Interest collected on these nonaccrual and restructured loans and included in interest income (1)	$ 149	$ 44	$ 260	$ 175

(1) There were no restructured loans at September 30, 2008.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial, commercial real estate, and construction categories by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

At September 30, 2009, impaired loans included all commercial real estate loans and commercial and industrial loans on nonaccrual status, troubled debt restructures, and other loans that have been categorized as impaired. Total impaired loans at September 30, 2009 and December 31, 2008 were $29.3 million and $15.6 million, respectively. Impaired loans exclude those loans acquired from Ben Franklin, which had evidence of deterioration of credit quality at the time of acquisition.

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Real estate acquired by the Bank through foreclosure proceedings or the acceptance of a deed in lieu of foreclosure is classified as OREO. When property is acquired, it is recorded at the lesser of the loan s remaining principal balance or the estimated fair value of the property acquired, less estimated costs to sell. Any loan balance in excess of the estimated fair value less estimated cost to sell on the date of transfer is charged to the allowance for loan losses on that date. All costs incurred thereafter in maintaining the property, as well as subsequent declines in fair value are charged to non-interest expense.

The Company holds six collateralized debt obligation securities (CDOs) comprised of pools of trust preferred securities issued by banks and insurance companies, which are currently deferring interest payments on certain tranches within the bonds structure, including the tranches held by the Company. The bonds are anticipated to continue to defer interest until cash flows are sufficient to satisfy certain collateralization levels designed to protect the more senior tranches. As a result, the Company has placed the six securities on nonaccrual status and has reversed any previously accrued income related to these securities.

Allowance For Loan Losses The allowance for loan losses is maintained at a level that management considers adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and is reduced by loans charged-off.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on increases in nonperforming loans, changes in economic conditions, or for other reasons. Additionally, various regulatory agencies, as an integral part of the Bank s examination process, periodically assess the adequacy of the allowance for loan losses.

As of September 30, 2009, the allowance for loan losses totaled $41.4 million, or 1.22% of total loans as compared to $37.0 million, or 1.39% of total loans, at December 31, 2008. The increase in allowance was due to a combination of factors including changes in asset quality and organic loan growth. The decrease in the ratio of allowance to total loans was the result of the inability to carry over an allowance for loan losses associated with the Ben Franklin acquisition in accordance with the Business Combinations Topic of the FASB ASC. Loans obtained in connection with the acquisition have been recorded at fair value. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans. Estimated credit losses on all acquired loans were considered in the determination of fair value as of the acquisition date. Based on management s analysis, management believes that the level of the allowance for loan losses at September 30, 2009 is adequate.

The following table summarizes changes in the allowance for loan losses and other selected loan data for the periods presented:

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Table 5 -Summary of Changes in the Allowance for Loan Losses

	Quarter to Date				
	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008
	(Unaudited - Dollars in Thousands)				
Average loans	$ 3,375,581	$ 3,300,169	$ 2,667,073	$ 2,617,938	$ 2,578,373
Allowance for loan losses, beginning of period	$ 40,068	$ 37,488	$ 37,049	$ 33,287	$ 33,231
Charged-off loans:					
Commercial and Industrial	1,243	31	20	64	21
Small Business	821	532	306	293	527
Commercial Real Estate		72			
Residential Real Estate	379	207	94	362	
Commercial Construction			2,059		
Residential Construction					
Consumer Home Equity	301	611	254	220	819
Consumer Auto	431	353	795	653	507
Consumer Other	299	386	363	522	423
Total charged-off loans	3,474	2,192	3,891	2,114	2,297
Recoveries on loans previously charged-off:					
Commercial and Industrial	2	5	2	118	26
Small Business	59	57	26	2	91
Commercial Real Estate					
Residential Real Estate			104		
Commercial Construction					
Residential Construction					
Consumer Home Equity	3	3	3	3	3
Consumer Auto	203	196	130	137	115
Consumer Other	53	43	65	41	50
Total recoveries	320	304	330	301	285
Net loans charged-off	3,154	1,888	3,561	1,813	2,012
Provision for loan losses	4,443	4,468	4,000	5,575	2,068
Allowance related to business combinations					
Total allowance for loan losses, end of period	$ 41,357	$ 40,068	$ 37,488	$ 37,049	$ 33,287
Net loans charged-off as a percent of average total loans	0.37%	0.23%	0.53%	0.28%	0.31%

(annualized)					
Total allowance for loan losses as a percent of total loans	1.22%	1.19%	1.40%	1.39%	1.29%
Total allowance for loan losses as a percent of nonperforming loans	111.97%	127.24%	129.45%	137.56%	199.99%
Net loans charged-off as a percent of allowance for loan losses (annualized)	30.51%	18.85%	38.00%	19.57%	24.18%
Recoveries as a percent of charge-offs (annualized)	9.21%	13.87%	8.48%	14.24%	12.41%

The allowance for loan losses is allocated to various loan categories as part of the Bank s process of evaluating the adequacy of the allowance for loan losses. During the third quarter, allocated allowance amounts increased by approximately $1.3 million to $41.4 million at September 30, 2009.

The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated. The allocation is made to each loan category using the analytical techniques and estimation methods described herein. While these amounts

represent management s best estimate of the distribution of expected losses at the evaluation dates, they are not necessarily indicative of either the categories in which actual losses may occur or the extent of such actual losses that may be recognized within each category. The total allowance is available to absorb losses from any segment of the loan portfolio:

Table 6-Summary of Allocation of the Allowance for Loan Losses
(Unaudited Dollars In Thousands)

	AT SEPTEMBER 30, 2009		AT DECEMBER 31, 2008	
	Allowance Amount*	Percent of Loans In Category To Total Loans	Allowance Amount	Percent of Loans In Category To Total Loans
Allocated Allowances:				
Commercial and Industrial	$ 7,059	11.0%	$ 5,532	10.2%
Small Business	3,669	2.5%	2,170	3.3%
Commercial Real Estate	17,818	51.6%	15,942	42.3%
Real Estate Construction	3,192	0.4%	4,203	6.9%
Real Estate Residential	2,957	17.0%	2,447	15.8%
Consumer Home Equity	3,755	13.8%	3,091	15.2%
Consumer Auto	1,603	2.7%	2,122	4.8%
Consumer Other	1,304	1.0%	1,542	1.5%
Total Allowance for Loan Losses	$ 41,357	100.0%	$ 37,049	100.0%

* Does not include acquired loans with deteriorated credit quality which are excluded from the allowance for loan loss.

The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach has been updated, with greater emphasis on loss factors derived from actual historical portfolio loss rates which are combined with an assessment of certain qualitative factors for allocating allowance amounts to the various loan categories.

Management has identified certain qualitative risk factors which impact the inherent risk of loss within the portfolio represented by historic measures. These include: (a) market risk factors, such as the effects of economic variability on the entire portfolio, and (b) unique portfolio risk factors that are inherent characteristics of the Bank s loan portfolio. Market risk factors consist of changes to general economic and business conditions that impact the Bank s loan portfolio customer base in terms of ability to repay and that may result in changes in value of underlying collateral. Unique portfolio risk factors may include industry concentration or covariant industry concentrations, geographic concentrations or trends that impact the inherent risk of loss in the loan portfolio resulting from economic events which the Bank may not be able to fully diversify out of its portfolios.

The formula-based approach evaluates groups of loans with common characteristics, which consist of similar loan types with similar terms and conditions, to determine the allocation appropriate within each portfolio section. This approach incorporates qualitative adjustments based upon management s assessment of various market and portfolio specific risk factors into its formula-based estimate.

The allowance for loan loss also includes a component as an addition to the amount of allowance determined to be required using the formula-based estimation techniques described

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herein. This component is maintained as a margin for imprecision to account for the inherent subjectivity and imprecise nature of the analytical processes employed. Due to the imprecise nature of the loan loss estimation process and ever changing conditions, the qualitative risk attributes may not adequately capture amounts of incurred loss in the formula-based loan loss components used to determine allocations in the Bank s analysis of the adequacy of the allowance for loan losses. As noted above, this component is allocated to the various loan types.

It is management s objective to strive to minimize the amount of allowance attributable to the margin for imprecision , as the quantitative and qualitative factors, together with the results of its analysis of individual impaired loans, are the primary drivers in estimating the required allowance and the testing of its adequacy.

Amounts of allowance may also be assigned to individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when management believes it is probable that the Bank will not collect all of the contractual interest and principal payments as scheduled in the loan agreement. Under this method, loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification, loan modifications meeting the definition of a troubled debt restructure, or nonaccrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of a probable loss is able to be estimated on the basis of: (a) the present value of anticipated future cash flows or on the loan s observable fair market value, or (b) the fair value of collateral, if the loan is collateral dependent. Loans evaluated individually for impairment and the amount of specific allowance assigned to such loans totaled $29.3 million and $1.7 million, respectively, at September 30, 2009 and $15.6 million and $2.1 million respectively, at December 31, 2008. Impaired loans at September 30, 2009 exclude those loans acquired from Ben Franklin which were recorded at fair value at the date of acquisition, and for which impairment amounts were recorded based upon an estimate of cash flows to be collected over the life of the loan.

Goodwill and Identifiable Intangible Assets Goodwill and Identifiable Intangible Assets were $144.2 million and $125.7 million at September 30, 2009 and December 31, 2008, respectively. The increase is due to the Ben Franklin acquisition.

Trading Assets Trading Assets increased by $20.4 million at September 30, 2009 as compared to December 31, 2008. Of the increase $18.2 is due to the deferral of certain compensation and benefit payouts related to the Ben Franklin Acquisition which are being held in a Rabbi Trust pending distribution in October 2009. The Company maintains an offsetting liability that will be extinguished upon disbursement of the funds.

Securities Securities increased by $16.5 million, or 2.6%, at September 30, 2009 as compared to December 31, 2008. The ratio of securities to total assets as of September 30, 2009 was 15%, compared to 18% at December 31, 2008.

The Company continually reviews investment securities for the presence of OTTI. Further analysis of the Company s OTTI can be found in Note 4 Securities within *Condensed Notes to Unaudited Consolidated Financial Statements*.

Federal Home Loan Bank Stock The Company held an investment in Federal Home Loan Bank Boston (FHLBB) of $36.4 million and $24.6 million at September 30, 2009 and December 31, 2008, respectively. The FHLBB is a cooperative that provides services to its member banking institutions. The primary reason for joining the FHLBB was to obtain funding from the FHLBB. The purchase of stock in the FHLBB is a requirement for a member to gain access to funding. The Company purchases FHLBB stock proportional to the volume of funding received and views the purchases as a necessary long-term investment for the purposes of balance sheet liquidity and not for investment return.

In February 2009 the FHLBB announced that it has indefinitely suspended its dividend payment beginning in the first quarter of 2009, and will continue the moratorium, put into effect during the fourth quarter of 2008, on all excess stock repurchases in an effort to help preserve capital. In addition, the FHLBB reported a net loss for the year ended December 31, 2008 and for the six months ended June 30, 2009. These factors were considered by the Company s management when determining if an OTTI exists with respect to the Company s investment in FHLBB. The Company also reviewed recent public filings, rating agency s analysis which showed high ratings, capital position which exceeds all required capital levels, and other factors. As a result of the Company s review for OTTI, management deemed the investment in the FHLBB stock not to be OTTI as of September 30, 2009 and it will continue to be monitored closely. There can be no assurance as to the outcome of management s future evaluation of the Company s investment in the FHLBB.

Bank Owned Life Insurance Bank Owned Life Insurance (BOLI) increased by $13.4 million, or 20.6% to $78.4 million at September 30, 2009, compared to $65.0 million at December 31, 2008. Revenue recognized related to these policies was $713,000 and $2.1 million for the three and nine month periods ended September 30, 2009, respectively, an increase of $54,000 and $310,000, respectively, compared to the year ago periods. The increase in both balance and revenue is primarily due to insurance policies assumed as part of the Ben Franklin acquisition. The Company uses these tax exempt insurance contracts as a vehicle to defray the cost of employee benefits. The Company performs pre-purchase and ongoing risk assessments as part of its BOLI program and presents such an assessment to the Board of Directors no less than annually.

Deposits Total deposits of $3.3 billion increased 27.2% at September 30, 2009 compared to $2.6 billion at December 31, 2008. The Company acquired deposits of $701.4 million as a result of the Ben Franklin acquisition. The Company continued its focus on core deposits, which increased $610.1 million, or 35.2%, since December 31, 2008, representing 71.4% of total deposits at September 30, 2009. Management is focused on improving deposit mix and in controlling the cost of deposits as reflected in the strong net interest margin:

Table 7 Effect of Benjamin Franklin Bancorp. Acquisition on Deposits

	September 30, 2009	December 31, 2008	Benjamin Franklin Acquisition	Organic Growth/Loss
	(Dollars in Thousands)			
Deposits				
Demand Deposits	$ 702,159	$ 519,326	$ 122,391	$ 60,442
Savings and Interest Checking	965,694	725,313	172,263	68,118
Money Market	675,269	488,345	164,369	22,555
Time Certificates of Deposit	937,854	846,096	242,384	(150,626)
Total Deposits	$ 3,280,976	$ 2,579,080	$ 701,407	$ 489

Borrowings Total borrowings decreased $16.1 million, or 2.3%, from December 31, 2008 to $679.2 million at September 30, 2009, primarily due to decreases in the Federal Home Loan advances offset by increases in customer repurchase agreements.

Stockholders Equity Stockholders equity as of September 30, 2009 totaled $406.6 million, as compared to $305.3 million at December 31, 2008. The increase in equity is

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primarily due to the Ben Franklin acquisition, which increased the Company s outstanding shares by 4,624,948 shares.

RESULTS OF OPERATIONS

Summary of Results of Operations The Company s results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans, short term investments, and securities and the interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, mortgage banking, and wealth management activities, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes, and the relative levels of interest rates and economic activity.

The Company reported net income of $6.8 million, a $2.0 million, or a 22.4% decrease, for the third quarter of 2009 as compared to the third quarter of 2008. On a diluted earnings per share basis the Company reported earnings of $0.33 for the three months ended September 30, 2009, compared to earnings of $0.54 for the three months ended September 30, 2008. The Company reported net income of $13.9 million, a $7.1 million, or a 33.7% decrease, for the nine months ended September 30, 2009 as compared to the same period in 2008. Net income available to the common shareholder, which includes the effect of preferred stock dividends, was $8.2 million, for the nine months ended September 30, 2009. Diluted earnings per share were $0.43 for the nine months ended September 30, 2009, compared to $1.34 for the nine months ended September 30, 2008.

The fluctuations in the Company s results were due to the following:

- Merger and acquisition expenses associated with the Ben Franklin acquisition.
- A special FDIC deposit insurance premium fee incurred during the second quarter of 2009.
- OTTI charges on investment securities.
- Gain resulting from an early termination of an interest rate swap agreement.
- The higher level of provision for loan losses, consistent with current economic conditions and higher levels of loan losses.
- The issuance and subsequent repayment of preferred stock related to the Company s participation in the United States Treasury Department s Capital Purchase program, which decreased the net income available to common shareholders by the preferred dividends declared.

Net Interest Income The amount of net interest income is affected by changes in interest rates and by the volume and mix of interest earning assets and interest bearing liabilities.

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On a fully tax equivalent basis, net interest income for the third quarter of 2009 increased $9.9 million, or 31.7%, to $41.1 million, as compared to the third quarter of 2008. The Company s net interest margin was 4.05% for the quarter ended September 30, 2009 as compared to 4.09% for the quarter ended September 30, 2008. The Company s interest rate spread (the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities) was 3.75% and 3.67% for the third quarter of 2009 and 2008, respectively.

The yield on earning assets was 5.30% for the quarter ending September 30, 2009, compared with 5.95% in the same quarter ending in 2008. The average balance of securities has increased by $191.1 million, or 40.5%, as compared with the prior year, while the yield on securities has decreased 42 basis points to 4.68%. The average balance of loans increased by $801.8 million, or 31.2%, and the yield on loans decreased by 66 basis points to 5.44% for the third quarter of 2009 compared to 6.10% for the third quarter in 2008. The primary reason for these changes is the Ben Franklin asset portfolio.

For the three months ending September 30, 2009, the cost of funds decreased 58 basis points to 1.28% as compared to the same period in 2008 and the average balance of interest-bearing liabilities increased by $790.1 million, or 31.9%. The average cost of these interest bearing liabilities decreased to 1.55% for the quarter ending September 30, 2009 as compared to 2.28% in the same period in 2008. The primary reason for these decreases is the active management of deposit costs.

The following tables present the Company s daily average balances, net interest income, interest rate spread, and net interest margin for the three and nine months ending September 30, 2009 and September 30, 2008. For purposes of the table and the following discussion, income from interest-earning assets and net interest income are presented on a fully-taxable equivalent basis by adjusting income and yields earned on tax-exempt interest received on securities and loans, to make them equivalent to income and yields on fully-taxable earning assets. The fully-taxable equivalent was calculated assuming a federal income tax rate of 35%:

Table 8 Average Balance, Interest Earned/Paid & Average Yields
(Unaudited Dollars in Thousands)

FOR THE THREE MONTHS ENDED SEPTEMBER 30,	AVERAGE BALANCE 2009	INTEREST EARNED/ PAID 2009	AVERAGE YIELD/RATE 2009	AVERAGE BALANCE 2008	INTEREST EARNED/ PAID 2008	AVERAGE YIELD/RATE 2008
Interest-Earning Assets:						
Federal Funds Sold and Short Term Investments	$ 4,060	$ 4	0.39%	$ 2,162	$ 62	11.47%
Securities:						
Trading Assets	22,941	109	1.90%	3,179	30	3.77%
Taxable Investment Securities (1)	620,183	7,317	4.72%	430,342	5,426	5.04%
Non-taxable Investment Securities (1)(2)	20,373	336	6.60%	38,854	563	5.80%
Total Securities:	663,497	7,762	4.68%	472,375	6,019	5.10%
Loans (2)	3,375,581	45,890	5.44%	2,573,808	39,262	6.10%
Loans Held for Sale	15,831	169	4.27%	4,565	58	5.08%
Total Interest-Earning Assets	$ 4,058,969	$ 53,825	5.30%	$ 3,052,910	$ 45,401	5.95%
Cash and Due from Banks	67,156			69,587		
Federal Home Loan Bank Stock	36,357			24,603		
Other Assets	280,147			233,978		
Total Assets	$ 4,442,629			$ 3,381,078		
Interest-Bearing Liabilities:						
Deposits:						
Savings and Interest Checking Accounts	$ 969,676	$ 1,246	0.51%	$ 711,818	$ 1,578	0.89%
Money Market	677,851	1,597	0.94%	473,685	2,203	1.86%
Time Deposits	948,596	4,603	1.94%	754,969	5,297	2.81%
Total Interest-Bearing Deposits:	2,596,123	7,446	1.15%	1,940,472	9,078	1.87%
Borrowings:						
Federal Home Loan Bank Borrowings	$ 395,878	$ 2,901	2.93%	$ 299,631	$ 2,781	3.71%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	184,181	857	1.86%	165,852	1,249	3.01%
Junior Subordinated Debentures	61,857	931	6.02%	61,857	842	5.44%
Subordinated Debentures	30,000	547	7.29%	11,413	204	7.15%
Other Borrowings	2,108		0.00%	834	3	1.44%
Total Borrowings:	674,024	5,236	3.11%	539,587	5,079	3.77%
Total Interest-Bearing Liabilities	$ 3,270,147	$ 12,682	1.55%	$ 2,480,059	$ 14,157	2.28%
Demand Deposits	702,071			561,542		

Other Liabilities	63,821			34,754		
Total Liabilities	4,036,039			3,076,355		
Stockholders Equity	406,590			304,723		
Total Liabilities and Stockholders Equity	$ 4,442,629			$ 3,381,078		
Net Interest Income		$ 41,143			$ 31,244	
Interest Rate Spread (3)			3.75%			3.67%
Net Interest Margin (3)			4.05%			4.09%
Supplemental Information:						
Total Deposits, including Demand Deposits	$ 3,298,194	$ 7,446		$ 2,502,014	$ 9,078	
Cost of Total Deposits			0.90%			1.45%
Total Funding Liabilities, including Demand Deposits	$ 3,972,218	$ 12,682		$ 3,041,601	$ 14,157	
Cost of Total Funding Liabilities			1.28%			1.86%

(1) Available for sale investment securities are at average fair value.

(2) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $235 and $316 for the three months ended September 30, 2009 and 2008, respectively. Also, non-accrual loans have been included in the average loan category; however, unpaid interest on

non-accrual loans has not been included for purposes of determining interest income.

(3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. Net interest margin represents annualized net interest income as a percent of average interest-earning assets.

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Table 9 Average Balance, Interest Earned/Paid & Average Yields

(Unaudited Dollars in Thousands)

FOR THE NINE MONTHS ENDED SEPTEMBER 30,	AVERAGE BALANCE 2009	INTEREST EARNED/PAID 2009	AVERAGE YIELD/RATE 2009	AVERAGE BALANCE 2008	INTEREST EARNED/PAID 2008	AVERAGE YIELD/RATE 2008
Interest-Earning Assets:						
Federal Funds Sold and Short Term Investments	$ 70,349	$ 272	0.52%	$ 1,184	$ 96	10.81%
Securities:						
Trading Assets	13,278	178	1.79%	3,068	95	4.13%
Taxable Investment Securities (1)	606,388	21,624	4.75%	418,332	15,576	4.96%
Non-taxable Investment Securities (1)(2)	23,792	1,145	6.42%	42,124	2,029	6.42%
Total Securities:	643,458	22,947	4.75%	463,524	17,700	5.09%
Loans (2)	3,106,752	126,856	5.44%	2,438,462	113,078	6.18%
Loans Held for Sale	15,453	497	4.29%	7,283	293	5.36%
Total Interest-Earning Assets	$ 3,836,012	$ 150,572	5.23%	$ 2,910,453	$ 131,167	6.01%
Cash and Due from Banks	68,192			66,066		
Federal Home Loan Bank Stock	32,051			22,896		
Other Assets	276,960			211,037		
Total Assets	$ 4,213,215			$ 3,210,452		
Interest-Bearing Liabilities:						
Deposits:						
Savings and Interest Checking Accounts	$ 892,383	$ 3,567	0.53%	$ 677,470	$ 4,740	0.93%
Money Market	621,424	5,006	1.07%	463,074	6,827	1.97%
Time Deposits	918,510	15,720	2.28%	700,784	17,366	3.30%
Total Interest-Bearing Deposits:	2,432,317	24,293	1.33%	1,841,328	28,933	2.10%
Borrowings:						
Federal Home Loan Bank Borrowings	$ 418,386	$ 8,548	2.72%	$ 313,390	$ 8,743	3.72%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	177,061	2,525	1.90%	149,772	3,519	3.13%
Junior Subordinated Debentures	61,857	2,819	6.08%	59,599	2,483	5.55%
Subordinated Debentures	30,000	1,625	7.22%	3,832	204	7.10%
Other Borrowings	1,996		0.00%	2,262	57	3.36%
Total Borrowings:	689,300	15,517	3.00%	528,855	15,006	3.78%
Total Interest-Bearing Liabilities	$ 3,121,617	$ 39,810	1.70%	$ 2,370,183	$ 43,939	2.47%
Demand Deposits	635,943			527,993		

Other Liabilities	56,015			25,480		
Total Liabilities	3,813,575			2,923,656		
Stockholders Equity	399,640			286,796		
Total Liabilities and Stockholders Equity	$ 4,213,215			$ 3,210,452		
Net Interest Income		$ 110,762			$ 87,228	
Interest Rate Spread (3)			3.53%			3.54%
Net Interest Margin (3)			3.85%			4.00%
Supplemental Information:						
Total Deposits, including Demand Deposits	$ 3,068,260	$ 24,293		$ 2,369,321	$ 28,933	
Cost of Total Deposits			1.06%			1.63%
Total Funding Liabilities, including Demand Deposits	$ 3,757,560	$ 39,810		$ 2,898,176	$ 43,939	
Cost of Total Funding Liabilities			1.41%			2.02%

(1) Available for sale investment securities are at average fair value.

(2) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $766 and $1,056 for the nine months ended September 30, 2009 and 2008, respectively. Also, non-accrual loans have been included in the average loan category; however, unpaid interest on

non-accrual loans has not been included for purposes of determining interest income.

(3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. Net interest margin represents annualized net interest income as a percent of average interest-earning assets.

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The following table presents certain information on a fully tax-equivalent basis regarding changes in the Company s interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to: (1) changes in rate (change in rate multiplied by old volume), (2) changes in volume (change in volume multiplied by old rate), and (3) changes in volume/rate (change in volume multiplied by change in rate) which is allocated to the change due to rate column:

Table 10 Volume Rate Analysis

	Three Months Ended September 30, 2009 Compared to 2008			**Nine Months Ended September 30, 2009 Compared to 2008**		
	Change Due to Rate (1)	**Change Due to Volume**	**Total Change**	**Change Due to Rate**	**Change Due to Volume**	**Total Change**
	(Unaudited - Dollars in Thousands)					
Income on Interest-Earning Assets:						
Federal Funds Sold	$ (113)	$ 55	$ (58)	$ (5,432)	$ 5,608	$ 176
Securities:						
Taxable Securities	(503)	2,394	1,891	(954)	7,002	6,048
Non-Taxable Securities (2)	41	(268)	(227)	(1)	(883)	(884)
Trading Assets	(108)	187	79	(233)	316	83
Total Securities:	(570)	2,313	1,743	(1,188)	6,435	5,247
Loans (2) (3)	(5,603)	12,231	6,628	(17,213)	30,991	13,778
Loans Held for Sale	(32)	143	111	(125)	329	204
Total	$ (6,318)	$ 14,742	$ 8,424	$ (23,958)	$ 43,363	$ 19,405
Expense of Interest-Bearing Liabilities:						
Deposits:						
Savings and Interest Checking Accounts	$ (904)	$ 572	$ (332)	$ (2,677)	$ 1,504	$ (1,173)
Money Market	(1,556)	950	(606)	(4,156)	2,335	(1,821)
Time Deposits	(2,053)	1,359	(694)	(7,041)	5,395	(1,646)
Total Interest-Bearing Deposits:	(4,513)	2,881	(1,632)	(13,874)	9,234	(4,640)
Borrowings:						
Federal Home Loan Bank Borrowings	$ (773)	$ 893	$ 120	$ (3,124)	$ 2,929	$ (195)
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	(530)	138	(392)	(1,635)	641	(994)
Junior Subordinated Debentures	89		89	242	94	336
Subordinated Debentures	11	332	343	28	1,393	1,421
Other Borrowings	(8)	5	(3)	(50)	(7)	(57)

Total Borrowings:	(1,211)	1,368	157	(4,539)	5,050	511
Total	$ (5,724)	$ 4,249	$ (1,475)	$ (18,413)	$ 14,284	$ (4,129)
Change in Net Interest Income	$ (594)	$ 10,493	$ 9,899	$ (5,545)	$ 29,079	$ 23,534

(1) The changes for each category of interest income and expense are divided between the portion of change attributable to the variance in volume and the portion of the change attributable to the variances in rate for that category. The unallocated change in rate or volume variance has been allocated to the rate variances.

(2) The total amount of the adjustment to present income and yield on a fully tax-equivalent basis is $235 and $316 for the three months ended September 30, 2009 and 2008, respectively and $766 and $1,056 for the nine months ended September 30, 2009 and 2008

respectively.

(3) Loans include portfolio loans, loans held for sale and nonperforming loans; however unpaid interest on nonaccrual loans has not been included for purposes of determining interest income.

Provision For Loan Losses The provision for loan losses represents the charge to expense that is required to maintain an adequate level of allowance for loan losses. Management s periodic evaluation of the adequacy of the allowance considers past loan loss experience, known and inherent risks in the loan portfolio, adverse situations which may affect the borrowers ability to repay, the estimated value of the underlying collateral, if any, and current economic conditions. Substantial portions of the Bank s loans are secured by real estate in Massachusetts. Accordingly, the ultimate collectability of a substantial portion of the Bank s loan portfolio is susceptible to changes in property values within the state.

The provision for loan losses increased to $4.4 million and $12.9 million for the three and nine months ended September 30, 2009, respectively, compared with $2.1 million and $5.3 million reported in the comparable year-ago periods. The ratio of the allowance for loan losses to total loans was 1.22%, at September 30, 2009 compared to 1.39%, at December 31, 2008 and 1.29% at September 30, 2008, the decrease from prior year periods is primarily

driven by the Ben Franklin acquisition and the inability to carryover the allowance for loan losses as part of the acquisition.

Loans obtained in connection with the acquisition have been recorded at fair value in accordance with the Business Combinations Topic of the FASB ASC, which prohibits the carryover of the allowance for credit losses. The Company s evaluation of loans with evidence of loan deterioration as of the acquisition date resulted in a nonaccretable difference of $806,000 which represented the loans contractually required payments receivable in excess of the amounts of its cash flows expected to be collected as of the acquisition date. Determining the fair value of the acquired loans required estimating cash flows expected to be collected on the loans. Estimated credit losses on all acquired loans were considered in the determination of fair value as of the acquisition date.

The increase in the amount of the provision for loan losses is the result of a combination of factors including: shifting growth rates among various components of the Bank s loan portfolio with differing facets of risk; higher levels of net loan charge-offs in early 2009; and changing expectations with respect to the economic environment, increases in specific allocations for impaired loans, and the level of loan delinquencies and nonperforming loans. While the total loan portfolio increased by 31.3% for the period ending September 30, 2009, as compared to the same period in 2008, growth among the commercial components of the loan portfolio outpaced growth among those consumer components, which exhibit different credit risk characteristics.

Regional and local general economic conditions continued to deteriorate during the first nine months of 2009, as measured in terms of employment levels, statewide economic activity, and current and leading indicators of economic confidence. Additionally, continued weakening market fundamentals were observed in residential real estate markets. These observations, when combined with financial market fallout from the subprime mortgage crisis, have raised concern that general economic conditions may remain weak through the remainder of 2009.

Management s periodic evaluation of the adequacy of the allowance for loan losses considers past loan loss experience, known and inherent risks in the loan portfolio, adverse situations which may affect the borrowers ability to repay, the estimated value of the underlying collateral, if any, and current and prospective economic conditions. Substantial portions of the Bank s loans are secured by real estate in Massachusetts. Accordingly, the ultimate collectability of a substantial portion of the Bank s loan portfolio is susceptible to changes in property values within the state.

Non-Interest Income Non-interest income decreased by $4.3 million, or 48.8%, and increased $2.9 million, or 11.6%, during the three and nine months ended September 30, 2009, respectively, as compared to the same periods in the prior year. The change in non-interest income is attributable to the following.

Service charges on deposit accounts increased by $530,000, or 13.0%, and $837,000, or 7.2%, during the three and nine months ended September 30, 2009, respectively.

Wealth management revenue decreased by $486,000, or 17.6%, and $1.2 million, or 14.5%. Assets under management at September 30, 2009 were $1.2 billion, a decrease of $22.9 million, or 1.8% as compared to the same period a year ago. The decrease is due to the

general declines in the stock market in these comparable periods, offset by positive net new client asset flows.

Mortgage banking income decreased by $76,000, or 15.2%, during the three months ended September 30, 2009 and increased $1.0 million, or 39.0%, during the nine months ended September 30, 2009, as a result of increased sales activity and increased originations due to low interest rates. The balance of the loans serviced amounted to $366.6 million as of September 30, 2009, as compared to a $254.5 million at September 30, 2008. The Company accounts for the mortgage servicing asset at fair value with changes in fair value recorded in the earnings as a component of mortgage banking income. Changes in the mortgage servicing asset were as follows:

Table 11 Mortgage Servicing Asset
(Dollars in thousands)

	2009	2008
Balance as of June 30,	$ 2,672	$ 1,954
Additions	23	17
Amortization	(1,067)	(68)
Change in Valuation Allowance	537	(16)
Balance as of September 30,	$ 2,165	$ 1,887
Balance as of December 31,	$ 1,498	$ 2,073
Additions	1,332	59
Amortization	(329)	(243)
Change in Valuation Allowance	(336)	(2)
Balance as of September 30,	$ 2,165	$ 1,887

There were no gains or losses on the sale of securities recorded during the three months ended September 30, 2009 and a gain of $1.4 million on the sale of securities, during the nine months ended September 30, 2009. There was loss of $609,000 on the sale of securities during the nine months ended September 30, 2008.

The Company recorded a $3.8 million gain resulting from the termination of an interest rate swap, during the second quarter of 2009, mainly due to the repayment of certain borrowings and the unwinding of their associated hedge positions as a result of strong balance sheet liquidity. There were no terminations of interest rate swaps during the quarter ended September 30, 2009 or 2008.

The Company deemed certain pooled trust preferred securities and one private mortgage-backed security to be OTTI during the third quarter of 2009. The Company recorded a total impairment charge of $5.1 million and $7.4 million for the three and nine months ended September 30, 2009, respectively, of which, $590,000 was determined to be non-credit related and recorded through OCI.

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Other non-interest income increased by $146,000, or 10.2% and $504,000, or 13.3%, for the three and nine months ended September 30, 2009, as compared to the same period in 2008. The nine month increase is mainly due to the unrealized gain on trading assets.

Non-Interest Expense Non-interest expense increased by $6.8 million, or 26.9% and $29.6 million, or 38.2%, for the three and nine months ended September 30, 2009, as compared to the same period in 2008. The change in non-interest income is attributable to the following.

Salaries and employee benefits increased by $3.0 million, or 20.4% and $5.9 million, or 13.5%. The increase in salaries and benefits is attributable to the Ben Franklin acquisition, annual salary increases, commissions, incentive programs, and medical insurance increases.

Occupancy and equipment expense increased by $785,000, or 24.5% and $2.5 million, or 26.6%. The increase is mainly due to an increase in rent and maintenance expense relating to the Ben Franklin acquisition.

Data processing and facilities management expense increased by $115,000, or 7.9% and $430,000, or 10.3%.

The Company recorded merger and acquisition expenses of $41,000 and $12.4 million, associated with the acquisition of Ben Franklin.

The FDIC Insurance assessment increased by $548,000 and $4.8 million, which includes the special assessment of $2.1 million imposed to replenish the deposit insurance fund during the second quarter of 2009.

Other non-interest expense increased by $2.3 million, or 43.8% and $4.2 million, or 22.7%. The increases are primarily attributable to increases in fees and expenses related to collection costs associated with legal and foreclosure expenses. Also, intangible amortization costs have increased due to intangible assets associated with Ben Franklin acquisition.

Income Taxes For the quarters ending September 30, 2009 and September 30, 2008, the Company recorded combined federal and state income tax provisions of $1.8 million and $4.2 million, respectively. The effective tax rate is positively impacted by the Company s New Market Tax Credit allocation, a schedule showing the expected tax credit recognition by year is shown in the table below:

Table 12 New Markets Tax Credit Recognition Schedule
(Unaudited Dollars in Thousands)

Investment		2004 - 2008	2009	2010	2011	2012	2013	2014	Total Credits
2004	**$ 15 M**	$ 4,050	$ 900	$ 900	$	$	$	$	$ 5,850
2005	**15 M**	3,150	900	900	900				5,850
2007	**38.2 M**	3,820	1,910	2,292	2,292	2,292	2,292		14,898
2008	**6.8 M**	340	340	340	408	408	408	408	2,652
Total	**$ 75 M**	$ 11,360	$ 4,050	$ 4,432	$ 3,600	$ 2,700	$ 2,700	$ 408	$ 29,250

On May 27, 2009 the United States Secretary of the Treasury announced that

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Rockland Trust Community Development Corporation, a wholly-owned, second-tier subsidiary of the Company, was awarded $50 million in tax credit allocation authority under the federal New Markets Tax Credit Program. The Company will be eligible to receive tax credits over a seven year period totaling 39% of its award, or $19.5 million, as it begins to invest capital into the subsidiary which will lend to qualifying businesses in low income communities. The Company anticipates investing capital during the fourth quarter of 2009.

Return on Average Assets and Equity The annualized consolidated returns on average common equity and average assets for the three and nine months ended September 30, 2009 and 2008 were as follows:

Table 13 -Return on Average Equity and Assets

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Return on Average Equity	6.73%	11.57%	2.73%	9.74%
Return on Average Assets	0.62%	1.04%	0.26%	0.87%

Asset/Liability Management

The Bank s asset/liability management process monitors and manages, among other things, the interest rate sensitivity of the balance sheet, the composition of the securities portfolio, funding needs and sources, and the liquidity position of the Company. All of these factors, as well as projected asset growth, current and potential pricing actions, competitive influences, national monetary and fiscal policy, and the regional economic environment are considered in the asset/liability management process.

The Asset/Liability Management Committee (ALCO), whose members are comprised of the Bank s senior management, develops procedures consistent with policies established by the Board of Directors, which monitor and coordinate the Bank s interest rate sensitivity and the sources, uses, and pricing of funds. Interest rate sensitivity refers to the Bank s exposure to fluctuations in interest rates and its effect on earnings. If assets and liabilities do not re-price simultaneously and in equal volume, the potential for interest rate exposure exists. It is management s objective to maintain stability in the growth of net interest income through the maintenance of an appropriate mix of interest-earning assets and interest-bearing liabilities and, when necessary, within prudent limits, through the use of off-balance sheet hedging instruments such as interest rate swaps, floors and caps. The Committee employs simulation analyses in an attempt to quantify, evaluate, and manage the impact of changes in interest rates on the Bank s net interest income. In addition, the Bank engages an independent consultant to render advice with respect to asset and liability management strategy.

The Bank is careful to increase deposits without adversely impacting the weighted average cost of those funds. Accordingly, management has implemented funding strategies that include FHLBB advances and repurchase agreement lines. These non-deposit funds are

also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to leverage the balance sheet.

The Bank may choose to utilize interest rate swap agreements and interest rates caps and floors to mitigate interest rate risk. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party if certain market interest rate thresholds are realized. The amounts relating to the notional principal amount are not actually exchanged. For additional information regarding the Company s *Derivative Financial Instruments, see Note 12 in Item 1* hereof.

Market Risk Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices and other market-driven rates or prices. The Company has no trading operations, with the exception of accounts managed by the Company s investment management group within a trust to fund non-qualified executive retirement obligations. Additionally, the Company has a $3.2 million equities portfolio at September 30, 2009, of which $1.2 million was acquired as part of the Slades transaction and $2.0 was acquired as part of the Ben Franklin transaction. The equity positions are comprised of a closed-end management investment fund whose objective is to invest in geographically specific private placement debt securities designed to support underlying economic activities such as community development and affordable housing.

Interest-rate risk is the most significant non-credit risk to which the Company is exposed. Interest-rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company s primary source of revenue. Interest-rate risk arises directly from the Company s core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated, the timing of cash flows on loans and securities and the fair value of securities and derivatives as well as other affects.

The primary goal of interest-rate risk management is to manage this risk within limits approved by the Board. These limits reflect the Company s tolerance for interest-rate risk over both short-term and long-term horizons. The Company attempts to mitigate interest-rate risk by identifying, quantifying and, where appropriate, hedging its exposure. The Company manages its interest-rate exposure using a combination of on and off-balance sheet instruments, primarily fixed rate portfolio securities, and interest rate swaps.

The Company quantifies its interest-rate exposures using net interest income simulation models, as well as simpler gap analysis, and Economic Value of Equity analysis. Key assumptions in these simulation analyses relate to behavior of interest rates and behavior of the Company s deposit and loan customers. The most material assumptions relate to the prepayment of mortgage assets (including mortgage loans and mortgage-backed securities) and the life and sensitivity of non-maturity deposits (e.g. DDA, NOW, savings and money market). The risk of prepayment tends to increase when interest rates fall. Since future

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prepayment behavior of loan customers is uncertain, the resulting interest rate sensitivity of loan assets cannot be determined exactly.

To mitigate these uncertainties, the Company gives careful attention to its assumptions. In the case of prepayment of mortgage assets, assumptions are derived from published dealer median prepayment estimates for comparable mortgage loans.

The Company manages the interest-rate risk inherent in its mortgage banking operations by entering into forward sales contracts. An increase in market interest rates between the time the Company commits to terms on a loan and the time the Company ultimately sells the loan in the secondary market will have the effect of reducing the gain (or increasing the loss) the Company records on the sale. The Company attempts to mitigate this risk by entering into forward sales commitments in amounts sufficient to cover all closed loans and a majority of rate-locked loan commitments.

The Company s policy on interest-rate risk simulation specifies that if interest rates were to shift gradually up or down 200 basis points, estimated net interest income for the subsequent 12 months should decline by less than 6.0%. Given the unusually low rate environment at September 30, 2009 the Company assumed a 100 basis point decline in interest rates, for certain points of the yield curve, in addition to the normal 200 basis point increase in rates. The Company was well within policy limits at September 30, 2009 and 2008.

The following table sets forth the estimated effects on the Company s net interest income over a 12-month period following the indicated dates in the event of the indicated increases or decreases in market interest rates:

Table 14 Interest Rate Sensitivity

	200 Basis Point Rate Increase	100 Basis Point Rate Decrease
September 30, 2009	(2.9%)	0.2%
September 30, 2008	(2.3%)	0.1%

The results implied in the above table indicate estimated changes in simulated net interest income for the subsequent 12 months assuming a gradual shift up in market rates of 200 basis points or down in market rates of 100 basis points across the entire yield curve. It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities quicker than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company s net interest income during the third quarter of 2009 were (i) the shape of the U.S. Government

securities and interest rate swap yield curve, (ii) the level of U.S. prime interest rate and LIBOR rates, and (iii) the level of rates paid on deposit accounts.

The Company s earnings are not directly and materially impacted by movements in foreign currency rates or commodity prices. Movements in equity prices may have an indirect but modest impact on earnings by affecting the volume of activity or the amount of fees from investment-related business lines, and directly by affecting the value at the Company s trading portfolio. Also, declines in the value of certain debt securities may have an impact on earnings if the decline is determined to be other-than-temporary and the security is considered impaired.

Liquidity Liquidity, as it pertains to the Company, is the ability to generate adequate amounts of cash in the most economical way for the institution to meet its ongoing obligations to pay deposit withdrawals and to fund loan commitments. The Company s primary sources of funds are deposits, unused borrowings, and the amortization, prepayment and maturities of loans and securities.

The Bank utilizes its extensive branch network to access retail customers who provide a stable base of in-market core deposits. These funds are principally comprised of demand deposits, interest checking accounts, savings accounts, and money market accounts. Deposit levels are greatly influenced by interest rates, economic conditions, and competitive factors. The Bank has also established repurchase agreements with major brokerage firms as potential sources of liquidity.

The parent of the Company, as a separately incorporated bank holding company, has no significant operations other than serving as the sole stockholder of the Bank. Its commitments and debt service requirement at September 30, 2009 consist of $61.9 million in junior subordinated debentures, including accrued interest.

The Company actively manages its liquidity position under the direction of the Asset/Liability Management Committee. Periodic review under prescribed policies and procedures is intended to ensure that the Company will maintain adequate levels of available funds. At September 30, 2009, the Company s liquidity position was above policy guidelines. Management believes that the Bank has adequate liquidity available to respond to current and anticipated liquidity demands.

Capital Resources and Dividends The Federal Reserve Board, the Federal Deposit Insurance Corporation, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated.

The Company s and the Bank s actual capital amounts and ratios are also presented in the following table:

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Table 15 Company and Bank s Capital Amounts and Ratios

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of September 30, 2009:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of September 30, 2009:			*(Dollars in Thousands)*			
Company: (Consolidated)						
Total capital (to risk weighted assets)	$404,674	11.70%	276,723≥	8.0%	N/A	N/A
Tier 1 capital (to risk weighted assets)	333,317	9.64	138,362≥	4.0	N/A	N/A
Tier 1 capital (to average assets)	333,317	7.74	172,268≥	4.0	N/A	N/A
Bank:						
Total capital (to risk weighted assets)	$391,366	11.28%	$ 277,631≥	8.0%	$ 347,039≥	10.0%
Tier 1 capital (to risk weighted assets)	320,009	9.22	$ 138,816≥	4.0	$ 208,223≥	6.0
Tier 1 capital (to average assets)	320,009	7.43	172,363≥	4.0	215,453≥	5.0
As of December 31, 2008:						
Company: (Consolidated)						
Total capital (to risk weighted assets)	$324,469	11.85%	$ 219,110≥	8.0%	N/A	N/A
Tier 1 capital (to risk weighted assets)	260,198	9.50	109,555≥	4.0	N/A	N/A
Tier 1 capital (to average assets)	260,198	7.55	109,555≥	4.0	N/A	N/A
Bank:						
Total capital (to risk weighted assets)	$324,891	11.83%	$ 219,679≥	8.0%	$274,599≥	10.0%
Tier 1 capital (to risk weighted assets)	260,533	9.49	109,840≥	4.0	164,759≥	6.0
Tier 1 capital (to average assets)	260,533	7.56	137,902≥	4.0	172,378≥	5.0

On January 9, 2009, the Company raised approximately $78.2 million through the issuance of preferred stock and warrants related to its participation in the U.S. Treasury s Capital Purchase Program. All of the proceeds from this issuance were treated as Tier 1 capital for regulatory purposes. The related preferred dividend in the second quarter amounted to $4.5 million.

Subsequent to the decision to participate in the Capital Purchase Program, management and the Board of Directors repaid, with regulatory approval, the capital to the U.S. Treasury on April 22, 2009. The Company and the Bank remain well capitalized following this event. The Company also repurchased a common stock warrant issued to the Treasury for $2.2 million, the cost of which was recorded as a reduction in capital, in accordance with U.S. GAAP.

During the second quarter of 2009, the Company issued 4,624,948 shares related to the Company s acquisition of Ben Franklin. See, *Note 9 Acquisition, in Item 1* hereof.

On September 17, 2009 the Company s Board of Directors declared a cash dividend of $0.18 per share, to stockholders of record as of the close of business on September 28, 2009. This dividend was paid on October 9, 2009. On an annualized basis, the dividend payout ratio amounted to 135.3%, based on net income available to the common shareholder of the trailing four quarters earnings.

Off-Balance Sheet Arrangements There have been no material changes in off-balance sheet financial instruments during the third quarter of 2009. Please refer to the 2008 Form 10-K for a complete table of contractual obligations, commitments, contingencies and off-balance sheet financial instruments.

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Contractual Obligations, Commitments, and Contingencies There have been no material changes in contractual obligations, commitments, or contingencies during the third quarter of 2009. Please refer to the 2008 Form 10-K for a complete table of contractual obligations, commitments, contingencies, and off-balance sheet financial instruments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information required by this Item 3 is included in Item 2 of Part I of this Form 10-Q, entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer along with the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, the Company s Chief Executive Officer along with the Company s Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Controls over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the third quarter of 2009 that have materially affected or are reasonably likely to materially affect the Company s internal controls over financial reporting.

Item 4T. Controls and Procedures N/A

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Management believes that those routine legal proceedings involve, in the aggregate, amounts that are immaterial to the Company s financial condition and results of operations.

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Item 1A. Risk Factors

As of the date of this report, there have been no material changes with regard to the Risk Factors disclosed in Item 1A of our 2008 Annual Report on Form 10-K, which are incorporated herein by reference.

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

(a) (c) Not applicable.

Item 3. Defaults Upon Senior Securities None

Item 4. Submission of Matters to a Vote of Security Holders None

Item 5. Other Information None

Item 6. Exhibits

Exhibits Index

No.	Exhibit
3.(i)	Restated Articles of Organization, as amended as of February 10, 2005, incorporated by reference to Form 8-K filed on May 18, 2005. Articles of Amendment with attached Certificate of Designations for Series C Preferred Stock incorporated by reference to Form 8-K filed on January 12, 2009.
3.(ii)	Amended and Restated Bylaws of the Company, as amended as of February 10, 2005, incorporated by reference to Form 8-K filed on May 18, 2005.
4.1	Form of Specimen Stock Certificate for Series C Preferred Stock and Warrant, incorporated by reference to Form 8-K filed on January 12, 2009.
4.2	Specimen Common Stock Certificate, incorporated by reference to Form 10-K for the year ended December 31, 1992.
4.3	Specimen preferred Stock Purchase Rights Certificate, incorporated by reference to Form 8-A Registration Statement filed on November 5, 2001.
4.4	Indenture of Registrant relating the Junior Subordinated Debt Securities issued to Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.5	Form of Certificate of Junior Subordinated Debt Security for Independent

Capital Trust V (included as Exhibit A to Exhibit 4.9)

4.6	Amended and Restated Declaration of Trust for Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.7	Form of Capital Security Certificate for Independent Capital Trust V (included as Exhibit A-1 to Exhibit 4.9).
4.8	Guarantee Agreement relating to Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.9	Forms of Capital Securities Purchase Agreements for Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.10	Subordinated Debt Purchase Agreement between USB Capital Resources and Rockland Trust Company dated as of August 27, 2008 is incorporated by reference to Form 8-K filed on September 2, 2008.
10.1	Independent Bank Corp. 1996 Non-Employee Directors Stock Option Plan incorporated by reference to Definitive Proxy Statement for the 1996 Annual Meeting of Stockholders filed on March 19, 1996.
10.2	Independent Bank Corp. 1997 Employee Stock Option Plan incorporated by reference to the Definitive Proxy Statement for the 1997 Annual Meeting of Stockholders filed on March 20, 1997.
10.3	Independent Bank Corp. 2005 Employee Stock Plan incorporated by reference to Form S-8 filed on July 28, 2005.
10.4	Renewal Rights Agreement dated as of September 14, 2000 by and between the Company and Rockland Trust, as Rights Agent, is incorporated by reference to Form 8-K filed on October 23, 2000.
10.5	Independent Bank Corp. Deferred Compensation Program for Directors (restated as amended as of December 1, 2000) is incorporated by reference to Form 10-K for the year ended December 31, 2000.
10.6	Master Securities Repurchase Agreement, incorporated by reference to Form S-1 Registration Statement filed on September 18, 1992.
10.7	Revised employment agreements between Christopher Oddleifson, Raymond G. Fuerschbach, Edward F. Jankowski, Jane L. Lundquist, Gerard F. Nadeau, Edward H. Seksay, and Denis K. Sheahan and the Company and/or Rockland Trust and a Rockland Trust Company amended and restated Supplemental Executive Retirement Plan dated November 20, 2008 are incorporated by reference to Form 8-K filed on November 21, 2008.
10.8	Specimen forms of stock option agreements for the Company s Chief Executive and other executive officers are incorporated by reference to Form 8-K filed on December 20, 2005.

10.9	On-Site Outsourcing Agreement by and between Fidelity Information Services, Inc. and Independent Bank Corp., effective as of November 1, 2004 is incorporated by reference to Form 10-K for the year ended December 31, 2004 filed on March 4, 2005. Amendment to On-Site Outsourcing Agreement incorporated by reference to Form 8-K filed on May 7, 2008.
10.10	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of September 22, 2004 is incorporated by reference to Form 8-K filed on October 14, 2004.
10.11	Independent Bank Corp. 2006 Non-Employee Director Stock Plan incorporated by reference to Form S-8 filed on April 17, 2006.
10.12	Independent Bank Corp. Stock Option Agreement for Non-Employee Director is incorporated by reference to Form 10-Q filed on May 9, 2006.
10.13	Independent Bank Corp. Restricted Stock Agreement for Non-Employee Director is incorporated by reference to Form 10-Q filed on May 9, 2006.
10.14	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of January 9, 2007 is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
10.15	Independent Bank Corp. and Rockland Trust Company 2008 Executive Officer Performance Incentive Plan is incorporated by reference to Form 8-K filed on February 21, 2008.
10.16	Agreement and Plan of Merger dated November 8, 2008 with Benjamin Franklin Bancorp, Inc. is incorporated by reference to Form 8-K filed on November 10, 2008.
10.17	Letter Agreement with United States Treasury for Series C Preferred Stock incorporated by reference to Form 8-K filed on January 12, 2009.
10.18	Purchase and Sale Agreement with American Realty Capital LLC incorporated by reference to Form 8-K filed April 25, 2008.
10.19	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of June 18, 2009 is incorporated by reference to this Form 10-Q as exhibit 99.1.
31.1	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
31.2	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
32.1	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
32.2	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+

* Filed herewith

\+ Furnished herewith

SIGNATURES

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

INDEPENDENT BANK CORP.
(registrant)

Date: November 4, 2009

/s/ Christopher Oddleifson
Christopher Oddleifson
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 4, 2009

/s/ Denis K. Sheahan
Denis K. Sheahan
Chief Financial Officer
(Principal Financial Officer)

INDEPENDENT BANK CORP.
(registrant)