INDEPENDENT BANK CORP /MI/
Form 10-Q
May 09, 2012

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2012

Commission file number 0-7818

INDEPENDENT BANK CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-2032782
(State or jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

230 West Main Street, P.O. Box 491, Ionia, Michigan 48846
(Address of principal executive offices)

(616) 527-5820
(Registrant's telephone number, including area code)

NONE
Former name, address and fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or smaller reporting company.
Large accelerated filer o Accelerated filer o Non-accelerated filer o 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 o NO x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, no par value	8,575,471
Class	Outstanding at May 9, 2012

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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Discussions and statements in this report that are not statements of historical fact, including, without limitation, statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “proje “likely,” “optimistic” and “plan,” and statements about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions and other statements that are not historical facts, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; predictions as to our Bank’s ability to maintain certain regulatory capital standards; our expectation that we will have sufficient cash on hand to meet expected obligations during 2012; and descriptions of steps we may take to improve our capital position. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals and, by their nature, are subject to assumptions, risks, and uncertainties. Although we believe that the expectations, forecasts, and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including, among others:

- our ability to successfully raise new equity capital, effect a conversion of our outstanding preferred stock held by the U.S. Treasury into our common stock, and otherwise implement our capital restoration plan;
- the failure of assumptions underlying the establishment of and provisions made to our allowance for loan losses;
- the timing and pace of an economic recovery in Michigan and the United States in general, including regional and local real estate markets;
- the ability of our Bank to remain well-capitalized;
- the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle

service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;

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- further adverse developments in the vehicle service contract industry;
- potential limitations on our ability to access and rely on wholesale funding sources;
- the risk that sales of our common stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes;
- the continued services of our management team, particularly as we work through our asset quality issues and the implementation of our capital restoration plan;
- implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act or other new legislation, which may have significant effects on us and the financial services industry, the exact nature and extent of which cannot be determined at this time; and
- the risk that our common stock may be delisted from the Nasdaq Global Select Market.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all inclusive. The risk factors disclosed in Part I – Item A of our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks that our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us, that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

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Part I - Item 1. INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

	March 31, 2012	December 31, 2011
	(unaudited)	
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$ 53,690	$ 62,777
Interest bearing deposits	299,159	278,331
Cash and Cash Equivalents	352,849	341,108
Trading securities	69	77
Securities available for sale	303,658	157,444
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,828	20,828
Loans held for sale, carried at fair value	40,321	44,801
Loans		
Commercial	649,552	651,155
Mortgage	571,251	590,876
Installment	210,360	219,559
Payment plan receivables	103,544	115,018
Total Loans	1,534,707	1,576,608
Allowance for loan losses	(56,006)	(58,884)
Net Loans	1,478,701	1,517,724
Other real estate and repossessed assets	30,918	34,042
Property and equipment, net	63,417	62,548
Bank-owned life insurance	49,695	49,271
Other intangibles	7,337	7,609
Capitalized mortgage loan servicing rights	11,795	11,229
Prepaid FDIC deposit insurance assessment	11,788	12,609
Vehicle service contract counterparty receivables, net	28,925	29,298
Accrued income and other assets	18,977	18,818
Total Assets	$ 2,419,278	$ 2,307,406
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$ 519,819	$ 497,718
Savings and interest-bearing checking	1,093,799	1,019,603
Retail time	524,694	526,525
Brokered time	46,000	42,279
Total Deposits	2,184,312	2,086,125
Other borrowings	33,039	33,387
Subordinated debentures	50,175	50,175
Vehicle service contract counterparty payables	6,813	6,633
Accrued expenses and other liabilities	39,907	28,459
Total Liabilities	2,314,246	2,204,779
Shareholders' Equity		
Convertible preferred stock, no par value, 200,000 shares authorized; 74,426 shares issued and outstanding at March 31, 2012 and December 31, 2011; liquidation preference: $82,024 at March 31, 2012 and $81,023 at December 31, 2011	80,913	79,857

Common stock, no par value, 500,000,000 shares authorized; issued and outstanding: 8,546,342 shares at March 31, 2012 and 8,491,526 shares at December 31, 2011	248,995	248,950
Accumulated deficit	(211,811)	(214,259)
Accumulated other comprehensive loss	(13,065)	(11,921)
Total Shareholders' Equity	105,032	102,627
Total Liabilities and Shareholders' Equity	$ 2,419,278	$ 2,307,406

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

Recently Adopted Accounting Pronouncements

On December 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). This Statement requires enhanced disclosures for derivative instruments and hedging activities about (i) how and why a company uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) and its related interpretations; and (iii) how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. The Company s adoption of SFAS 161 did not have a material impact on its Consolidated Financial Statements. For additional information, see Note 9 (Derivative Financial Instruments) to these Consolidated Financial Statements.

On September 1, 2008, the Company adopted the provisions of SFAS 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. In accordance with FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* the Company elected to defer the adoption of the provisions of SFAS 157 for its non-financial assets and non-financial liabilities. Such assets and liabilities, which include the Company s Deferred contract costs, Property and equipment, net and Goodwill, will be subject to the provisions of SFAS 157 on September 1, 2009. The Company is currently assessing the potential impact that the adoption of SFAS 157 for its non-financial assets may have on its Consolidated Financial Statements. For additional information, see Note 10 (Fair Value Measurements) to these Consolidated Financial Statements.

Effective September 1, 2008, the Company adopted the year-end measurement date provision of SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 106, and*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
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132(R), using an approach generally known as the one measurement approach. The adoption of the provision had the following impact on the Company s Consolidated Balance Sheet: decreased Retained earnings by $5,302; decreased Accumulated other comprehensive (loss) income by $286; decreased Other non-current assets by $2,736; and increased Retirement obligation by $2,852.

2. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated as follows:

Basic earnings per share

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2009	2008	2009	2008
Net income available for Class A common shareholders	$ 443,969	$ 469,089	$ 1,335,271	$ 1,256,931
Basic weighted average Class A common shares	623,649,189	606,513,399	622,108,212	608,888,487
Basic earnings per share	$ 0.71	$ 0.77	$ 2.15	$ 2.06

Net income available for Class A common shareholders	$ 443,969	$ 469,089	$ 1,335,271	$ 1,256,931
Minority interest in Accenture SCA and Accenture Canada Holdings Inc. (1)	87,858	133,930	283,326	377,593
Net income per share calculation	$ 531,827	$ 603,019	$ 1,618,597	$ 1,634,524
Basic weighted average Class A common shares	623,649,189	606,513,399	622,108,212	608,888,487
Class A common shares issuable upon redemption/exchange of minority interest (1)	123,382,539	173,199,431	131,730,635	183,555,248
Diluted effect of employee compensation related to Class A common shares (2)	35,726,619	37,577,235	33,780,716	35,543,746
Diluted effect of employee share purchase plan related to Class A common shares	56,475	21,280	84,351	20,293
Weighted average Class A common shares	782,814,822	817,311,345	787,703,914	828,007,774
Diluted earnings per share (2)	$ 0.68	$ 0.74	$ 2.05	$ 1.97

(1)

Diluted earnings per share assumes the redemption and exchange of all Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares, respectively, for Accenture Ltd Class A common shares, on a one-for-one basis. The income effect does not take into account Minority interest other, since those shares are not redeemable or exchangeable for Accenture Ltd Class A common shares.

(2) Fiscal 2008 diluted weighted average Accenture Ltd Class A common shares and earnings per share amounts have been restated to reflect the impact of the issuance of an immaterial number of additional restricted share units to holders of restricted

share units in connection with the payment of cash dividends.

3. INCOME TAXES

Effective Tax Rate

The Company s effective tax rates for the three months ended May 31, 2009 and 2008 were 28.2% and 30.8%, respectively. The Company s effective tax rates for the nine months ended May 31, 2009 and 2008 were 27.6% and 28.4%, respectively. The effective tax rate for the three months ended May 31, 2009 is lower than the effective tax rate for the three months ended May 31, 2008 primarily as a result of higher benefits related to final determinations of prior-year tax liabilities recorded during the third quarter of fiscal 2009. The effective tax rate for the nine months ended May 31, 2009 is lower than the effective tax rate for the nine months ended May 31, 2008 primarily as a result of lower expenses related to tax rate changes and other adjustments to prior-year tax liabilities recorded in the nine months ended May 31, 2009 compared with the nine months ended May 31, 2008.

4. REORGANIZATION (BENEFITS) COSTS

In fiscal 2001, the Company accrued reorganization liabilities in connection with its transition to a corporate structure. These liabilities included certain non-income tax liabilities, such as stamp taxes, as well as liabilities for certain individual income tax exposures related to the transfer of interests in certain entities to the Company as part of the reorganization. These primarily represent unusual and disproportionate individual income tax exposures assumed by certain, but not all, of the Company s shareholders and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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partners in certain tax jurisdictions specifically related to the transfer of their partnership interests in certain entities to the Company as part of the reorganization. The Company identified certain shareholders and partners who may incur such unusual and disproportionate financial damage in certain jurisdictions. These include shareholders and partners who were subject to tax in their jurisdiction on items of income arising from the reorganization transaction that were not taxable for most other shareholders and partners. In addition, certain other shareholders and partners were subject to a different rate or amount of tax than other shareholders or partners in the same jurisdiction. When additional taxes are assessed on these shareholders or partners in connection with these transfers, the Company has made and intends to make payments to reimburse certain costs associated with the assessment either to the shareholder or partner, or to the taxing authority. The Company has recorded reorganization expense and the related liability where such liabilities are probable. Interest accruals are made to cover reimbursement of interest on such tax assessments. The Company s reorganization activity is as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2009	**2008**	**2009**	**2008**
Reorganization liability, beginning of period	$ 258,354	$ 309,704	$ 308,694	$ 401,228
Final determinations (1)		(1,093)	(23,479)	(83,204)
Changes in estimates		1,093	7,297	83,204
Benefit recorded			(16,182)	
Interest expense accrued	3,176	4,355	9,454	18,489
Payments				(143,184)
Foreign currency translation adjustments	25,167	6,130	(15,269)	43,656
Reorganization liability, end of period	$ 286,697	$ 320,189	$ 286,697	$ 320,189

(1) Includes final agreements with tax authorities and expirations of statutes of limitations.

As of May 31, 2009, reorganization liabilities of $277,054 were included in Other accrued liabilities because expirations of statutes of limitations or other final determinations could occur within 12 months, and reorganization liabilities of $9,643 were included in Other non-current liabilities. Timing of the resolution of tax audits or the initiation of additional litigation and/or criminal tax proceedings may delay final resolution. Final resolution, through settlement, conclusion of legal proceedings or a tax authority s decision not to pursue a claim, will result in payment by the Company of amounts in settlement or judgment of these matters and/or recording of a reorganization benefit or cost in the Company s Consolidated Income Statement. It is possible the aggregate amount of such payments in connection with a resolution of all such proceedings could exceed the currently recorded amounts. As of May 31, 2009, only a small number of jurisdictions remain that have active audits/investigations or open statutes of limitations, and only one is significant. In that jurisdiction, current and former partners are engaged in a dispute with tax authorities in connection with the corporate reorganization in 2001. These individuals and the Company intend to vigorously defend their positions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
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5. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of Accumulated other comprehensive (loss) income are as follows:

	May 31, 2009	August 31, 2008
Net unrealized (losses) gains on cash flow hedges, net of tax of $(3,566) and $4,959, respectively	$ (2,103)	$ 11,381
Net unrealized losses on marketable securities	(545)	(689)
Foreign currency translation adjustments, net of tax of $2,412 and $1,883, respectively	(126,643)	34,860
Pension and postretirement plans, net of tax of $(27,244) and $(25,324), respectively	(40,749)	(39,424)
Accumulated other comprehensive (loss) income	$ (170,040)	$ 6,128

The activity related to the change in net unrealized (losses) gains on cash flow hedges, net of tax, is as follows:

	May 31, 2009
Net unrealized gains on cash flow hedges, net of tax, beginning of period	$ 11,381
Change in fair value, net of tax of $(17,156)	(24,114)
Reclassification adjustments into earnings, net of tax of $8,631	10,630
Net unrealized losses on cash flow hedges, net of tax, end of period	$ (2,103)

Comprehensive income was as follows:

	May 31, 2009	May 31, 2008
Three months ended	$ 650,936	$ 475,054
Nine months ended	1,159,389	1,318,721

6. BUSINESS COMBINATIONS AND GOODWILL

The changes in the carrying amount of goodwill by reportable operating segment are as follows:

	August 31, 2008	Additions/ Adjustments	Foreign Currency Translation Adjustments	May 31, 2009
Communications & High Tech	$ 163,386	$ (2,676)	$ (9,424)	$ 151,286
Financial Services	143,380	47	(4,955)	138,472
Products	329,332	402	(10,898)	318,836
Public Service	134,895	70	(3,033)	131,932
Resources	68,964	737	(6,479)	63,222

Total	$ 839,957	$ (1,420)	$ (34,789)	$ 803,748

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
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7. RETIREMENT PLANS

In the United States and certain other countries, the Company maintains and administers retirement plans and postretirement medical plans for certain current, retired and resigned employees. The components of net periodic pension and postretirement benefits expense are as follows:

	Pension Benefits Three Months Ended May 31,			
	2009		2008	
Components of pension benefits expense	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$ 4,569	$ 9,930	$ 8,327	$ 11,244
Interest cost	15,595	7,668	14,989	8,276
Expected return on plan assets	(15,761)	(6,869)	(17,638)	(9,017)
Amortization of loss (gain)	393	(290)	479	(390)
Amortization of prior service cost (credits)	52	(134)	68	423
Curtailment loss (gain)		501		(496)
Special termination benefits charge				657
Total	$ 4,848	$ 10,806	$ 6,225	$ 10,697

	Pension Benefits Nine Months Ended May 31,			
	2009		2008	
Components of pension benefits expense	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$ 13,709	$ 31,726	$ 24,977	$ 35,576
Interest cost	46,783	24,042	44,965	24,866
Expected return on plan assets	(47,281)	(22,044)	(52,914)	(26,959)
Amortization of loss (gain)	1,181	(890)	1,439	(1,111)
Amortization of prior service cost (credits)	158	(411)	208	653
Curtailment loss (gain)		501	(13,898)	(496)
Special termination benefits charge				657
Total	$ 14,550	$ 32,924	$ 4,777	$ 33,186

	Postretirement Benefits Three Months Ended May 31,			
	2009		2008	
Components of postretirement benefits expense	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$ 1,892	$ 185	$ 1,744	$ 358
Interest cost	1,869	393	1,653	458
Expected return on plan assets	(371)		(409)	

Amortization of transitional obligation	20		20	
Amortization of (gain) loss		(62)		18
Amortization of prior service credits	(201)	(171)	(199)	(212)
Curtailment gain		(231)		
Total	$ 3,209	$ 114	$ 2,809	$ 622

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
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	Postretirement Benefits Nine Months Ended May 31,			
	2009		2008	
Components of postretirement benefits expense	**U.S. Plans**	**Non-U.S. Plans**	**U.S. Plans**	**Non-U.S. Plans**
Service cost	$ 5,676	$ 640	$ 5,232	$ 1,083
Interest cost	5,607	1,220	4,959	1,381
Expected return on plan assets	(1,113)		(1,227)	
Amortization of transitional obligation	60		60	
Amortization of (gain) loss		(83)		57
Amortization of prior service credits	(601)	(536)	(601)	(633)
Curtailment gain		(231)		
Total	$ 9,629	$ 1,010	$ 8,423	$ 1,888

8. MATERIAL TRANSACTIONS AFFECTING SHAREHOLDERS EQUITY

Share Purchase and Redemption Activity

The Board of Directors of Accenture Ltd has authorized funding for the Company s publicly announced open-market share purchase program for acquiring Accenture Ltd Class A common shares and for purchases and redemptions of Accenture Ltd Class A common shares, Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares held by the Company s current and former senior executives and their permitted transferees.

The Company s share purchase activity during the nine months ended May 31, 2009 was as follows:

	Accenture Ltd Class A Common Shares		Accenture SCA Class I Common Shares and Accenture Canada Holdings Inc. Exchangeable Shares		Total	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Open-Market Share Purchases (1)	18,128,004	$ 544,484		$	18,128,004	$ 544,484
Other Share Purchase Programs			22,179,369	698,160	22,179,369	698,160
Other purchases (2)	2,471,116	87,611			2,471,116	87,611
Total	20,599,120	$ 632,095	22,179,369	$ 698,160	42,778,489	$ 1,330,255

(1) The Company conducts a publicly announced,

open-market share purchase program for Accenture Ltd Class A common shares. These shares are held as treasury shares by one or more subsidiaries of Accenture Ltd and may be utilized to provide for select employee benefits, such as equity awards to the Company s employees.

(2) During the nine months ended May 31, 2009, as authorized under the Company s various employee equity share plans, the Company acquired Accenture Ltd Class A common shares primarily via share withholding for payroll tax obligations due from employees and former employees in connection with the delivery of Accenture Ltd Class A common shares under those plans.

As of May 31, 2009, the Company s aggregate available authorization was $1,260,314 for its publicly announced open-market share purchase program and the other share purchase programs.

Other Share Redemptions

During the nine months ended May 31, 2009, the Company issued 1,125,645 Accenture Ltd Class A common shares upon redemptions of an equivalent number of Accenture SCA Class I common shares pursuant to its registration statement on Form S-3 (the registration statement) filed on May 15, 2007. The registration statement allows the Company, at its option, to issue freely tradable Accenture Ltd Class A common shares in lieu of cash upon redemptions of Accenture SCA Class I common shares held by the Company s senior executives, former executives and their permitted transferees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
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Dividend

On November 17, 2008, a cash dividend of $0.50 per share was paid on Accenture Ltd Class A common shares to shareholders of record at the close of business on October 10, 2008, resulting in a cash outlay of $307,701. On November 17, 2008, a cash dividend of $0.50 per share was also paid on Accenture SCA Class I common shares and on Accenture Canada Holdings Inc. exchangeable shares, in each case to shareholders of record at the close of business on October 7, 2008, resulting in cash outlays of $69,480 and $1,265, respectively. The payment of the cash dividends also resulted in the issuance of an immaterial number of additional restricted share units to holders of restricted share units. Diluted weighted average Accenture Ltd Class A common share amounts have been restated for all periods presented to reflect this issuance.

9. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses derivative financial instruments to manage foreign currency exchange rate risk. Derivative transactions are governed by a uniform set of policies and procedures covering areas such as authorization, counterparty exposure and hedging practices. Positions are monitored using techniques such as market value and sensitivity analyses. The Company does not enter into derivative transactions for trading purposes.

Certain derivatives also give rise to credit risks from the possible non-performance by counterparties. Credit risk is generally limited to the fair value of those contracts that are favorable to the Company, and the maximum amount of loss due to credit risk, based on the gross fair value of all of the Company s derivative financial instruments, was approximately $37,021 as of May 31, 2009. The Company has limited its credit risk by entering into derivative transactions only with highly-rated global financial institutions, limiting the amount of credit exposure with any one financial institution and conducting ongoing evaluation of the creditworthiness of the financial institutions with which it does business.

The Company also utilizes standard counterparty master agreements containing provisions for the netting of certain foreign currency transaction obligations and for set-off of certain obligations in the event of an insolvency of one of the parties to the transaction. These provisions may reduce the Company s potential overall loss resulting from the insolvency of a counterparty and reduce a counterparty s potential overall loss resulting from the insolvency of the Company. Additionally, these agreements contain early termination provisions triggered by adverse changes in a counterparty s credit rating, thereby enabling the Company to accelerate settlement of a transaction prior to its contractual maturity and potentially decrease the Company s realized loss on an open transaction. Similarly, a decrement in the Company s credit rating could trigger a counterparty s early termination rights, thereby enabling a counterparty to accelerate settlement of a transaction prior to its contractual maturity and potentially increase the Company s realized loss on an open transaction. The aggregate fair value of the Company s derivative instruments with credit-risk-related contingent features that are in a liability position as of May 31, 2009 was $22,657.

The Company classifies cash flows from its derivative programs as cash flows from operating activities in the Consolidated Cash Flows Statement. The notional and fair values of all derivative instruments were as follows:

	May 31, 2009		August 31, 2008	
	Notional Value	Fair Value	Notional Value	Fair Value
Foreign currency forward contracts:				
To sell	$ 271,773	$ 262	$ 211,230	$ (163)
To buy	1,734,767	14,102	1,632,742	15,604

Cash Flow Hedges

Certain of the Company s subsidiaries are exposed to currency risk through their use of resources supplied by the Company s Global Delivery Network. To mitigate this risk, the Company uses foreign currency forward exchange contracts to hedge the foreign exchange risk of the forecasted intercompany expenses denominated in foreign currencies for up to three years in the future. The Company has designated these derivatives as cash flow hedges in accordance with SFAS 133. As of May 31, 2009, the Company held no derivatives that were designated as fair value or net investment hedges.

In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a fair value, cash flow or net investment hedge by documenting the relationship between the derivative and the hedged item. The documentation should include a description of the hedging instrument, the hedge item, the risk being hedged, the Company s risk management objective and strategy

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
(Unaudited)

for undertaking the hedge, the method for assessing the effectiveness of the hedge and the method for measuring hedge ineffectiveness. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both inception of the hedge and on an ongoing basis. The Company assesses the ongoing effectiveness of its hedges in accordance with the Hypothetical Derivative Method as described in Derivative Implementation Group Issue No. G-7, *Cash Flow Hedges: Measuring the Ineffectiveness of a Cash Flow Hedge under Paragraph 30(b) When the Shortcut Method Is Not Applied,* and measures and records hedge ineffectiveness at the end of each fiscal quarter.

For a cash flow hedge, the effective portion of the change in estimated fair value of a hedging instrument is recorded in Accumulated other comprehensive (loss) income as a separate component of Shareholders Equity and is reclassified into Cost of services in the Consolidated Income Statement during the period in which the hedged transaction is recognized. Amounts reclassified into Cost of services for the three and nine months ended May 31, 2009 were $3,446 and $10,630, respectively, net of taxes. The ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in Other income (expense), net in the Consolidated Income Statement and for the three and nine months ended May 31, 2009 was not material. As of May 31, 2009, amounts related to derivatives designated as cash flow hedges and recorded in Accumulated other comprehensive (loss) income totaled $(2,103), net of taxes, of which $(2,160) is expected to be reclassified into earnings in the next 12 months. In addition, the Company did not discontinue any cash flow hedges during the nine months ended May 31, 2009.

The fair values of derivative instruments designated as cash flow hedges are recorded in the Consolidated Balance Sheet as follows:

	May 31, 2009
Assets	
Other current assets	$ 8,132
Other non-current assets	6,117
Total	$ 14,249
Liabilities	
Other accrued liabilities	$ 13,965
Other non-current liabilities	5,953
Total	$ 19,918

Other Derivatives

The Company also uses foreign currency forward exchange contracts, which have not been designated as hedges under SFAS 133, to hedge balance sheet exposures, such as intercompany loans. These instruments are generally short-term in nature, with typical maturities of less than one year, and are subject to fluctuations in foreign exchange rates. Realized gains or losses and changes in the estimated fair value of these derivatives are recorded in Other income (expense), net in the Consolidated Income Statement and were $61,497 and $19,916 for the three and nine months ended May 31, 2009, respectively.

The fair values of other derivative instruments are recorded in the Consolidated Balance Sheet as follows:

	May 31, 2009

Other current assets	$22,772
Other accrued liabilities	2,739

For additional information related to derivative financial instruments, see Note 5 (Accumulated Other Comprehensive (Loss) Income) and Note 10 (Fair Value Measurements) to these Consolidated Financial Statements.

ACCENTURE LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
(Unaudited)

10. FAIR VALUE MEASUREMENTS

SFAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the Company s own credit risk.

SFAS 157 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. The fair-value hierarchy requires the use of observable market data when available and consists of the following levels:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

Short-term Investments and Investments

The Company s Short-term investments and Investments consist primarily of corporate notes. Fair values for corporate notes are based on prices obtained from independent third-party pricing services and are classified as Level 2. The third-party pricing services fair values are model-derived valuations in which all significant inputs are observable in active markets. Inputs include recent sales, risk-free yield curves and prices of similarly rated bonds.

Derivative Financial Instruments

The Company s derivative financial instruments consist of deliverable and non-deliverable foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on prices computed using third-party valuation models and are classified as Level 2. All of the significant inputs to the third-party valuation models are observable in active markets. Inputs include current market-based parameters such as forward rates, yield curves and credit default swap pricing.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company s financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2009 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments	$	$ 9,459	$	$ 9,459
Investments		9,168		9,168
Derivative financial instruments		37,021		37,021
Total	$	$ 55,648	$	$ 55,648
Liabilities				
Derivative financial instruments	$	$ 22,657	$	$ 22,657

ACCENTURE LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
(Unaudited)

11. COMMITMENTS AND CONTINGENCIES

Commitments and Guarantees

The Company has the right to purchase substantially all of the remaining outstanding shares of its Avanade Inc. subsidiary (Avanade) not owned by the Company at fair value if certain events occur. The Company may also be required to purchase substantially all of the remaining outstanding shares of Avanade at fair value if certain events occur.

Holders of Avanade common stock and options to purchase the stock have put rights that, under certain circumstances and conditions, require Avanade to redeem shares of its stock at fair value. Had the Company reflected the fair value of Avanade s redeemable common stock and the intrinsic value of the options on redeemable common stock (the Values) as of May 31, 2009 and August 31, 2008, the Company s Minority interest would have been $703,282 and $768,741, respectively. On September 1, 2009, upon adoption of SFAS 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51,* the Company will be required to report any noncontrolling interests (previously referred to as minority interests) as a separate component of Consolidated Shareholders Equity and record the Values within noncontrolling interests.

The Company has various agreements in which it may be obligated to indemnify other parties with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business under which the Company customarily agrees to hold the indemnified party harmless against losses arising from a breach of representations related to such matters as title to assets sold, licensed or certain intellectual property rights and other matters. Payments by the Company under such indemnification clauses are generally conditioned on the other party making a claim. Such claims are typically subject to challenge by the Company and to dispute resolution procedures specified in the particular contract. Further, the Company s obligations under these agreements may be limited in terms of time and/or amount and, in some instances, the Company may have recourse against third parties for certain payments made by the Company. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of the Company s obligations and the unique facts of each particular agreement. Historically, the Company has not made any payments under these agreements that have been material individually or in the aggregate. As of May 31, 2009, management was not aware of any obligations arising under such indemnification contracts that would require material payments.

From time to time, the Company enters into contracts with clients whereby it has joint and several liability with other participants and/or third parties providing related services and products to clients. Under these arrangements, the Company and other parties may assume some responsibility to the client or a third party for the performance of others under the terms and conditions of the contract with or for the benefit of the client or in relation to the performance of certain contractual obligations. In some arrangements, the extent of the Company s obligations for the performance of others is not expressly specified. As of May 31, 2009, the Company estimates that it had assumed an aggregate potential liability of approximately $1,416,000 to its clients for the performance of others under arrangements described in this paragraph. These contracts typically provide recourse provisions that would allow the Company to recover from the other parties all but approximately $17,000 if the Company is obligated to make payments to the clients that are the consequence of a performance default by the other parties. The Company has assessed the current status of performance/payment risk related with certain contractual obligations and believes that any potential payments would be immaterial to the Consolidated Financial Statements, as a whole. To date, the Company has not been required to make any significant payments under any of the contracts described in this paragraph.

Legal Contingencies

As of May 31, 2009, the Company or its present personnel had been named as a defendant in various litigation matters. The Company and/or its personnel also from time to time are involved in investigations by various regulatory or legal authorities concerning matters arising in the course of its business around the world. Based on the present status of these matters, management believes these matters will not ultimately have a material effect on the Company s results of operations or financial condition.

ACCENTURE LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of U.S. dollars, except share and per share amounts or as otherwise disclosed)
(Unaudited)

12. SEGMENT REPORTING

The Company s reportable operating segments are the five operating groups, which are Communications & High Tech, Financial Services, Products, Public Service and Resources. Information regarding the Company s reportable operating segments is as follows:

	Three Months Ended May 31,			
	2009		2008	
	Net Revenues	Operating Income	Net Revenues	Operating Income
Communications & High Tech	$ 1,155,599	$ 173,178	$ 1,387,790	$ 161,332
Financial Services	1,026,946	134,384	1,302,942	189,690
Products	1,307,684	188,870	1,611,009	253,070
Public Service	744,534	98,560	756,348	98,536
Resources	904,699	137,048	1,037,785	159,526
Other	5,631		6,185	
Total	$ 5,145,093	$ 732,040	$ 6,102,059	$ 862,154

	Nine Months Ended May 31,			
	2009		2008	
	Net Revenues	Operating Income	Net Revenues	Operating Income
Communications & High Tech	$ 3,713,073	$ 504,486	$ 4,038,933	$ 474,290
Financial Services	3,305,729	387,791	3,756,135	512,006
Products	4,244,205	593,845	4,522,867	634,001
Public Service	2,207,986	289,986	2,139,830	189,357
Resources	2,937,194	448,171	2,912,342	416,956
Other	22,727		17,179	
Total	$ 16,430,914	$ 2,224,279	$ 17,387,286	$ 2,226,610

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended August 31, 2008, and with the information under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended August 31, 2008.

We use the terms Accenture, we, our Company, our and us in this report to refer to Accenture Ltd and its subsidiaries. All references to years, unless otherwise noted, refer to our fiscal year, which ends on August 31. For example, a reference to fiscal 2008 means the 12-month period that ended on August 31, 2008. All references to quarters, unless otherwise noted, refer to the quarters of our fiscal year.

Disclosure Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act) relating to our operations, results of operations and other matters that are based on our current expectations, estimates, assumptions and projections. Words such as may, will, should, likely, anticipates, expects, intends, plans, projects, estimates and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecast in these forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include, but are not limited to:

- Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our clients businesses and levels of business activity.

- Our results of operations could be negatively affected if we cannot expand and develop our services and solutions in response to changes in technology and client demand.

- The consulting, systems integration and technology, and outsourcing markets are highly competitive, and we might not be able to compete effectively.

- Our work with government clients exposes us to additional risks inherent in the government contracting environment.

- Our business could be adversely affected if our clients are not satisfied with our services.

- We could be subject to liabilities if our subcontractors or the third parties with whom we partner cannot deliver their project contributions on time or at all.

- Our results of operations could be adversely affected if our clients terminate their contracts with us on short notice.

- Outsourcing services are a significant part of our business and subject us to operational and financial risk.

- Our results of operations may be affected by the rate of growth in the use of technology in business and the type and level of technology spending by our clients.

- Our profitability could suffer if we are not able to maintain favorable pricing rates.

Our profitability could suffer if we are not able to maintain favorable utilization rates.

Our business could be negatively affected if we incur legal liability in connection with providing our solutions and services.

If our pricing structures do not accurately anticipate the cost and complexity of performing our work, then our contracts could be unprofitable.

Many of our contracts utilize performance pricing that links some of our fees to the attainment of various performance or business targets. This could increase the variability of our revenues and margins.

Our alliance relationships may not be successful.

Our global operations are subject to complex risks, some of which might be beyond our control.

Our profitability could suffer if we are not able to control our costs.

If we are unable to attract, retain and motivate employees or efficiently utilize their skills, we might not be able to compete effectively and will not be able to grow our business.

If we are unable to collect our receivables or unbilled services, our results of operations and cash flows could be adversely affected.

Our services or solutions could infringe upon the intellectual property rights of others or we might lose our ability to utilize the intellectual property of others.

We have only a limited ability to protect our intellectual property rights, which are important to our success.

New tax legislation or interpretations could lead to an increase in our tax burden.

Negative publicity related to Bermuda companies could affect our relationships with our clients.

If we are unable to manage the organizational challenges associated with our size and expansion, we might be unable to achieve our business objectives.

We may not be successful at identifying, acquiring or integrating other businesses or technologies.

Consolidation in the industries that we serve could adversely affect our business.

Our ability to attract and retain business may depend on our reputation in the marketplace.

The share price of Accenture Ltd Class A common shares could be adversely affected from time to time by sales, or the anticipation of future sales, of Class A common shares held by our employees and former employees.

Our share price has fluctuated in the past and could continue to fluctuate, including in response to variability in revenues, operating results and profitability, and as a result our share price could be difficult to predict.

Our share price could be adversely affected if we are unable to maintain effective internal controls.

We are registered in Bermuda and a significant portion of our assets are located outside the United States. As a result, it might not be possible for shareholders to enforce civil liability provisions of the federal or state securities laws of the United States.

Bermuda law differs from the laws in effect in the United States and might afford less protection to shareholders.

- We might be unable to access additional capital on favorable terms or at all. If we raise equity capital, it may dilute our shareholders ownership interest in us.

For a more detailed discussion of these factors, see the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended August 31, 2008 and Item 1A, Risk Factors in this Form 10-Q. We undertake no obligation to update or revise any forward-looking statements.

Overview

Our results of operations are affected by economic conditions, including macroeconomic conditions, credit market conditions and levels of business confidence. Revenues are driven by the ability of our executives to secure new contracts and to deliver solutions and services that add value relevant to our clients current needs and challenges. We add value to clients and drive revenues based on our ability to deliver market-leading service offerings and to deploy skilled teams of professionals quickly and on a global basis.

The current global economic downturn continues to be widespread and has led to economic contraction in many industries and geographies where we operate. It is also impacting the needs of our clients and the revenues in our consulting and outsourcing businesses. These changing demand patterns have had and will likely continue to have an adverse effect on our new contract bookings and revenues.

Revenues before reimbursements (net revenues) for the three months ended May 31, 2009 and 2008 were $5.15 billion and $6.10 billion, respectively, a decrease of 16% in U.S. dollars and 4% in local currency. Net revenues for the nine months ended May 31, 2009 and 2008 were $16.43 billion and $17.39 billion, respectively, a decrease of 6% in U.S. dollars and an increase of 3% in local currency.

In our consulting business, net revenues for the three months ended May 31, 2009 and 2008 were $2.95 billion and $3.70 billion, respectively, a decrease of 20% in U.S. dollars and 9% in local currency. Consulting net revenues for the nine months ended May 31, 2009 and 2008 were $9.64 billion and $10.51 billion, respectively, a decrease of 8% in U.S. dollars and flat in local currency. Since January 2009, the global economic downturn has led to lower current demand for new consulting services. Many clients are focused on initiatives designed to deliver near- and medium-term cost savings and performance improvement and we are focused on helping them to drive programs to support these objectives. Some clients are exercising caution and seeking flexibility in launching new large consulting commitments and instead shifting to a more phased approach to contracting work. Certain clients are slowing the pace of on-going projects and/or deferring decisions to expand scope beyond current commitments. In addition, we are experiencing pricing pressures from some clients and in response are shifting to lower cost resources at reduced price levels.

In our outsourcing business, net revenues for the three months ended May 31, 2009 and 2008 were $2.19 billion and $2.40 billion, respectively, a decrease of 9% in U.S. dollars and an increase of 3% in local currency. Outsourcing net revenues for the nine months ended May 31, 2009 and 2008 were $6.79 billion and $6.88 billion, respectively, a decrease of 1% in U.S. dollars and an increase of 7% in local currency. In response to client requests for price concessions and more favorable contract terms, we are shifting to lower cost resources at a reduced price level, while protecting and/or improving our gross margin. In addition, we are experiencing a lower volume of scope expansions on existing contracts. Client consolidations and strategy changes have also resulted in more contract terminations and restructuring, primarily in the financial services industry. Despite these factors, which are impacting new bookings and revenue growth, overall outsourcing new bookings continue to be solid, as clients seek to reduce operating costs and achieve sustained operational improvement.

As we are a global company, our revenues are denominated in multiple currencies and may be significantly affected by currency exchange-rate fluctuations. During the majority of fiscal 2008, the U.S. dollar weakened against many currencies, resulting in favorable currency translation and greater reported U.S. dollar revenues. However, beginning in the fourth quarter of fiscal 2008, the U.S. dollar began to strengthen against many currencies. This trend has continued during the first three quarters of fiscal 2009 and resulted in an unfavorable currency translation and U.S. dollar revenue growth that was approximately 12% and 9% lower than our growth in local currency for the three and nine months ended May 31, 2009, respectively. Assuming that exchange rates stay within recent ranges for the remainder of fiscal 2009, we estimate the foreign-exchange impact on our full fiscal 2009 revenue growth will be approximately 8% lower growth in U.S. dollars, compared with our growth in local currency. In the future, if the U.S. dollar weakens against other currencies, our revenue growth in U.S. dollars may be higher.

The primary categories of operating expenses include cost of services, sales and marketing and general and administrative costs. Cost of services is primarily driven by the cost of client-service personnel, which consists mainly of compensation, sub-contractor and other personnel costs, and non-payroll outsourcing costs. Cost of services as a percentage of revenues is driven by the prices we obtain for our solutions and services, the utilization of our client-service personnel and the level of non-payroll costs associated with the growth of new outsourcing contracts. Utilization represents the percentage of our professionals time spent on billable consulting work. Utilization for the third quarter of fiscal 2009 was approximately 83%, flat with the second quarter of fiscal 2009 and in the range we expect. Utilization for the third quarter of fiscal 2008 was approximately 85%. Sales and marketing expense is driven primarily by compensation costs for business-development activities, the development of new service offerings and client-targeting, image-development and brand-recognition activities. General and administrative costs primarily include costs for non-client-facing personnel, information systems and office space, which we seek to manage, as a percentage of revenues, at levels consistent with or lower than levels in prior-year periods. Operating expenses also may include reorganization costs and benefits, which may vary substantially from year to year.

Gross margin (Net revenues less Cost of services before reimbursable expenses as a percentage of Net revenues) for the three months ended May 31, 2009 and 2008 was 32.5% and 31.5%, respectively. Gross margin for the nine months ended May 31, 2009 and 2008 was 31.5% and 30.4%, respectively. The increase for both periods was driven by improved overall outsourcing contract profitability.

Our cost-management strategies include anticipating changes in demand for our services and executing cost-management initiatives. Particularly in light of the current economic environment, we continue to monitor and manage our costs closely. We aggressively plan and manage our payroll costs and take actions as needed to address changes in the anticipated demand for our services, given that payroll costs are the most significant portion of our operating expenses.

We monitor our current and projected future demand and have reduced our headcount to approximately 177,000 as of May 31, 2009, compared with more than 186,000 as of August 31, 2008. Annualized attrition, excluding involuntary terminations, for the third quarter of fiscal 2009 was 8%, compared to 16% in the third quarter of fiscal 2008. In addition, we evaluate voluntary attrition and have used increased involuntary terminations and reduced levels of new hiring as means to keep our supply of skills and resources in balance with client demand. Our margins could be adversely affected if we are unable to manage headcount, attrition and severance costs, recover increases in compensation and/or effectively assimilate and utilize new employees.

Sales and marketing and general and administrative costs as a percentage of net revenues for the three months ended May 31, 2009 and 2008 were 18.2% and 17.3%, respectively. Sales and marketing and general and administrative costs as a percentage of net revenues for the nine months ended May 31, 2009 and 2008 were 18.0% and 17.5%, respectively. The increase as a percentage of net revenues for the nine months ended May 31, 2009 was primarily due to an increase in the bad debt provision of $75 million, or 0.5% of net revenues, of which $72 million was recorded during the three months ended November 30, 2008. This reflects our best estimate of collectibility risks on outstanding receivables, in light of the current global economic downturn, particularly from clients in high risk industries or with potential liquidity issues. The increase for the three months ended May 31, 2009 was due to higher selling costs as a percentage of net revenues and general and administrative costs declining at a rate lower than that of our net revenues. We continue to review our cost structure and capabilities to position the Company for the future.

Operating income for the three months ended May 31, 2009 and 2008 was $732 million and $862 million, respectively. Operating margin (Operating income as a percentage of Net revenues) for the three months ended May 31, 2009 and 2008 was 14.2% and 14.1%, respectively. Operating income for the nine months ended May 31, 2009 and 2008 was $2,224 million and $2,227 million, respectively. Operating margin for the nine months ended May 31, 2009 and 2008 was 13.5% and 12.8%, respectively.

Our Operating income and Earnings per share are also affected by currency exchange-rate fluctuations on revenues and costs. Due to the significant strengthening of the U.S. dollar against many other currencies, this impact was unfavorable during the nine months ended May 31, 2009. Most of our costs are incurred in the same currency as the related revenues. Where practical, we also seek to manage foreign currency exposure for costs not incurred in the same currency as the related net revenues, by using currency protection provisions in our customer contracts and through our hedging programs. We estimate that the aggregate percentage impact of foreign exchange rates on our operating expenses is similar to that disclosed for Net revenues. For more information on our hedging programs, see Note 9 (Derivative Financial Instruments) to our Consolidated Financial Statements under Item 1, Financial Statements.

Bookings and Backlog

New contract bookings for the three months ended May 31, 2009 were $6.57 billion, with consulting bookings of $3.21 billion and outsourcing bookings of $3.36 billion. New contract bookings for the nine months ended May 31, 2009 were $18.36 billion, with consulting bookings of $9.91 billion and outsourcing bookings of $8.45 billion. As a percentage of our outsourcing bookings, we have recorded an increase in new contract bookings that include contract extensions, which will primarily result in revenues beyond fiscal 2010.

We provide information regarding our new contract bookings because we believe doing so provides useful trend information regarding changes in the volume of our new business over time. However, new bookings can vary significantly quarter to quarter depending particularly on the timing of the signing of a small number of large outsourcing contracts. Current consulting bookings reflect a trend of shorter contracts with more focused scope. Information regarding our new bookings is not comparable to, nor should it be substituted for, an analysis of our revenues over time. There are no third-party standards or requirements governing the calculation of bookings. New contract bookings involve estimates and judgments regarding new contracts as well as renewals, extensions and additions to existing contracts. Subsequent terminations, extensions and other matters may affect the amount of bookings previously reported. New contract bookings are recorded using then existing currency exchange rates and are not subsequently adjusted for currency fluctuations.

The majority of our contracts are terminable by the client on short notice or without notice. Accordingly, we do not believe it is appropriate to characterize bookings attributable to these contracts as backlog. Normally, if a client terminates a project, the client remains obligated to pay for commitments we have made to third parties in connection with the project, services performed and reimbursable expenses incurred by us through the date of termination.

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the year ended August 31, 2008.

Revenues by Segment/Operating Group

Our five reportable operating segments are our operating groups, which are Communications & High Tech, Financial Services, Products, Public Service and Resources. Operating groups are managed on the basis of net revenues because our management believes net revenues are a better indicator of operating group performance than revenues. In addition to reporting net revenues by operating group, we also report net revenues by two types of work: consulting and outsourcing, which represent the services sold by our operating groups. Consulting net revenues, which include management and technology consulting and systems integration, reflect a finite, distinct project or set of projects with a defined outcome and typically a defined set of specific deliverables. Outsourcing net revenues typically reflect ongoing, repeatable services or capabilities provided to transition, run and/or manage operations of client systems or business functions.

From time to time, our operating groups work together to sell and implement certain contracts. The resulting revenues and costs from these contracts may be apportioned among the participating operating groups. Generally, operating expenses for each operating group have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on the industries served by our operating groups affect revenues and operating expenses within our operating groups to differing degrees. The mix between consulting and outsourcing is not uniform among our operating groups. Local currency fluctuations also tend to affect our operating groups differently, depending on the geographic concentrations and locations of their businesses.

While we provide discussion about our results of operations below, we cannot measure how much of our revenue growth in a particular period is attributable to changes in price or volume. Management does not track standard measures of unit or rate volume. Instead, our measures of volume and price are extremely complex, as each of our services contracts is unique, reflecting a customized mix of specific services that does not fit into standard comparability measurements. Pricing for our services is a function of the nature of each service to be provided, the skills required and outcome sought, as well as estimated cost, risk, contract terms and other factors.

Results of Operations for the Three Months Ended May 31, 2009 Compared to the Three Months Ended May 31, 2008

Net revenues (by operating group, geographic region and type of work) and reimbursements were as follows:

	Three Months Ended May 31, 2009	Three Months Ended May 31, 2008	Percent Decrease US$	Percent Increase (Decrease) Local Currency	Percent of Total Net Revenues for the Three Months Ended May 31, 2009	Percent of Total Net Revenues for the Three Months Ended May 31, 2008
	(in millions)					
OPERATING GROUPS						
Communications & High Tech	$ 1,156	$ 1,388	(17)%	(5)%	22%	23%
Financial Services	1,027	1,303	(21)	(9)	20	21
Products	1,308	1,611	(19)	(8)	25	27
Public Service	745	756	(2)	8	15	12
Resources	905	1,038	(13)	1	18	17
Other	6	6	n/m	n/m		
TOTAL NET REVENUES (1)	5,145	6,102	(16)%	(4)%	100%	100%
Reimbursements	392	491	(20)			
TOTAL REVENUES	$ 5,537	$ 6,593	(16)%			
GEOGRAPHIC REGIONS						
Americas	$ 2,265	$ 2,527	(10)%	(6)%	44%	41%
EMEA (2)	2,342	3,032	(23)	(5)	46	50
Asia Pacific	539	543	(1)	10	10	9
TOTAL NET REVENUES (1)	$ 5,145	$ 6,102	(16)%	(4)%	100%	100%
TYPE OF WORK						
Consulting	$ 2,955	$ 3,701	(20)%	(9)%	57%	61%
Outsourcing	2,190	2,401	(9)	3	43	39
TOTAL NET REVENUES	$ 5,145	$ 6,102	(16)%	(4)%	100%	100%

n/m = not meaningful

(1)

May not total due to rounding.

(2) EMEA includes Europe, the Middle East and Africa.

Net Revenues

Our business has been affected by the continuing global economic downturn, as many clients continue to delay new large consulting commitments, slow the pace of on-going projects and reduce requests for incremental projects. As a result, all of our operating groups experienced either a decline in or lower growth in consulting revenues in local currency, and most of our operating groups experienced lower growth in outsourcing revenues in local currency during the three months ended May 31, 2009, compared with the three months ended May 31, 2008.

The following net revenues by operating group commentary discusses local currency net revenues changes for the three months ended May 31, 2009 compared to the three months ended May 31, 2008:

Communications & High Tech net revenues decreased 5% in local currency. Consulting revenues declined 15% in local currency, primarily due to substantial declines across all industry groups in the Americas region and in Electronics & High Tech and Media & Entertainment in the EMEA region, while the Asia Pacific region was relatively flat in the quarter. Outsourcing revenues increased 7% in local currency, primarily driven by growth across all industry groups in the Americas and Asia Pacific regions and in Electronics & High Tech in the EMEA region. This growth was partially offset by an outsourcing decline in Communications in the EMEA region.

Financial Services net revenues decreased 9% in local currency. Consulting revenues declined 13% in local currency, primarily due to declines in Banking in the EMEA region and, to a lesser extent, in Insurance and Capital Markets in the Americas region. These declines were partially offset by consulting growth in Banking in the Americas region. Outsourcing revenues declined 2% in local currency, primarily due to declines in Capital Markets in the Americas region and in Insurance in the EMEA region. These declines were partially offset by outsourcing growth in Insurance in the Americas and Asia Pacific regions. Client consolidations and strategy changes in the financial services industry have resulted in some outsourcing contract terminations, which have had a negative impact on our revenues.

Products net revenues decreased 8% in local currency. Consulting revenues declined 16% in local currency, primarily due to significant declines in the Americas region across all industry groups except Consumer Goods & Services and in the EMEA region across all industry groups except Retail. Outsourcing revenues increased 5% in local currency, primarily driven by growth in Consumer Goods & Services across all geographic regions and in Retail in the EMEA region, partially offset by a decline in Retail in the Americas region.

Public Service net revenues increased 8% in local currency. Consulting revenues increased 12% in local currency, primarily driven by growth in the Americas region, partially offset by a decline in the EMEA region. Outsourcing revenues increased 2% in local currency, primarily driven by growth in the EMEA region, partially offset by a decline in the Americas region.

Resources net revenues increased 1% in local currency. Consulting revenues decreased 1% in local currency, primarily due to declines in Utilities in the Americas region, in Chemicals, Energy and Natural Resources in the EMEA region and in Energy in the Asia Pacific region. These declines were largely offset by consulting growth in Utilities in the EMEA region, in Natural Resources and Utilities in the Asia Pacific region and in Energy in the Americas region. Outsourcing revenues increased 4% in local currency, driven by growth in Utilities in the EMEA region.

In the Americas region, we recorded net revenues of $2,265 million for the three months ended May 31, 2009, compared with $2,527 million for the three months ended May 31, 2008, a decrease of 10% in U.S. dollars and 6% in local currency. We experienced declines in local currency in the United States and Canada, partially offset by strong growth in Brazil.

In the EMEA region, we recorded net revenues of $2,342 million for the three months ended May 31, 2009, compared with $3,032 million for the three months ended May 31, 2008, a decrease of 23% in U.S. dollars and 5% in local currency. In general, we experienced declines in local currency across much of the EMEA region, particularly in the United Kingdom, Spain, Switzerland and Sweden. These declines were offset by strong growth in Germany and the Netherlands.

In the Asia Pacific region, we recorded net revenues of $539 million for the three months ended May 31, 2009, compared with $543 million for the three months ended May 31, 2008, a decrease of 1% in U.S. dollars and an increase of 10% in local currency. Growth in local currency was principally driven by our business in Singapore, Australia and Japan.

Operating Expenses

Operating expenses for the three months ended May 31, 2009 were $4,805 million, a decrease of $926 million, or 16%, from the three months ended May 31, 2008, and decreased as a percentage of revenues to 86.8% from 86.9% during this period. Operating expenses before reimbursable expenses for the three months ended May 31, 2009 were $4,413 million, a decrease of $827 million, or 16%, from the three months ended May 31, 2008, and decreased as a percentage of net revenues to 85.8% from 85.9% during this period.

Cost of Services

Cost of services for the three months ended May 31, 2009 was $3,867 million, a decrease of $804 million, or 17%, from the three months ended May 31, 2008, and decreased as a percentage of revenues to 69.8% from 70.8% during this period. Cost of services before reimbursable expenses for the three months ended May 31, 2009 was $3,474 million, a decrease of $705 million, or 17%, from the three months ended May 31, 2008, and decreased as a percentage of net revenues to 67.5% from 68.5% during this period. Gross margin for the three months ended May 31, 2009 increased to 32.5% from 31.5% over this period. The increase in gross margin was driven by improved outsourcing contract profitability.

Sales and Marketing

Sales and marketing expense for the three months ended May 31, 2009 was $525 million, a decrease of $81 million, or 13%, from the three months ended May 31, 2008, and increased as a percentage of net revenues to

10.2% from 9.9% over this period. This slight increase was primarily due to higher selling costs as a percentage of net revenues.

General and Administrative Costs

General and administrative costs for the three months ended May 31, 2009 were $411 million, a decrease of $40 million, or 9%, from the three months ended May 31, 2008, and increased as a percentage of net revenues to 8.0% from 7.4% over this period. This increase was primarily due to these costs declining at a rate lower than that of our net revenues.

Operating Income and Operating Margin

Operating income for the three months ended May 31, 2009 was $732 million, a decrease of $130 million, or 15%, from the three months ended May 31, 2008, and increased as percentage of net revenues to 14.2% from 14.1% over this period. Operating income and operating margin for each of the operating groups was as follows:

	Three Months Ended May 31,				
	2009		2008		
	Operating Income	Operating Margin	Operating Income (in millions)	Operating Margin	Increase (Decrease)
Communications & High Tech	$ 173	15%	$ 161	12%	$ 12
Financial Services	134	13	190	15	(56)
Products	189	14	253	16	(64)
Public Service	99	13	99	13	
Resources	137	15	159	15	(22)
Total	$ 732	14.2%	$ 862	14.1%	$ (130)

While we have seen our net revenues contract, due to both the current global economic downturn and significant foreign-exchange rate fluctuations, we have improved our gross margins by focusing on contract profitability, particularly in our outsourcing business. This improvement was partially offset by higher selling costs as a percentage of net revenues and also general and administrative costs, which declined at a rate lower than that of our net revenues. During the three months ended May 31, 2009, we estimate that the aggregate percentage impact of foreign exchange rates on our operating income is similar to that disclosed for net revenues. The operating group commentary below provides additional insight into operating group performance and operating margin for the three months ended May 31, 2009, compared to the three months ended May 31, 2008, exclusive of foreign-exchange rate impact.

Communications & High Tech operating income increased due to improved outsourcing and consulting contract margins and lower year-over-year impacts related to delivery inefficiencies on a consulting contract, partially offset by consulting revenue declines.

Financial Services operating income decreased, primarily due to consulting and outsourcing revenue declines and a lower proportion of high-margin consulting work, partially offset by improved outsourcing and consulting contract margins.

Products operating income decreased due to consulting revenue declines and higher selling costs as a percentage of net revenues, partially offset by improved outsourcing contract margins.

Public Service operating income was flat compared with fiscal 2008 and there were no significant drivers impacting operating income, other than foreign-exchange impact.

Resources operating income was flat compared with fiscal 2008 as improved outsourcing contract margins were offset by higher selling costs as a percentage of net revenues.

Interest Income

Interest income for the three months ended May 31, 2009 was $9 million, a decrease of $15 million, or 64%, from the three months ended May 31, 2008. The decrease was primarily due to lower interest rates.

Other Income, net

Other income, net for the three months ended May 31, 2009 was $11 million, an increase of $14 million over the three months ended May 31, 2008. The increase was primarily driven by an increase in net foreign currency exchange gains.

Provision for Income Taxes

The effective tax rates for the three months ended May 31, 2009 and 2008 were 28.2% and 30.8%, respectively. The effective tax rate for the three months ended May 31, 2009 is lower than the effective tax rate for the three months ended May 31, 2008 primarily as a result of higher benefits related to final determinations of prior-year tax liabilities recorded during the third quarter of fiscal 2009.

Our provision for income taxes is based on many factors and subject to volatility year to year. We expect the fiscal 2009 annual effective tax rate to be in the range of 27% to 29%. The fiscal 2008 annual effective tax rate was 29.3%.

Minority Interest

Minority interest for the three months ended May 31, 2009 was $93 million, a decrease of $46 million, or 33%, from the three months ended May 31, 2008. The decrease was due to a reduction in the Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares average minority ownership interest to 17% for the three months ended May 31, 2009 from 22% for the three months ended May 31, 2008 and a decrease in Income before minority interest of $71 million.

Earnings Per Share

Diluted earnings per share were $0.68 for the three months ended May 31, 2009, compared with $0.74 for the three months ended May 31, 2008. The $0.06 decline in our earnings per share was driven by the following: Decreases of $0.09 from unfavorable foreign currency exchange rates and $0.02 from declines in revenues and operating income in local currency. These decreases were partially offset by $0.03 from lower weighted average shares outstanding and $0.02 from a lower effective tax rate, compared with the three months ended May 31, 2008. For information regarding our earnings per share calculations, see Note 2 (Earnings Per Share) to our Consolidated Financial Statements under Item 1, Financial Statements.

Results of Operations for the Nine Months Ended May 31, 2009 Compared to the Nine Months Ended May 31, 2008

Net revenues (by operating group, geographic region and type of work) and reimbursements were as follows:

	Nine Months Ended May 31, 2009	Nine Months Ended May 31, 2008	Percent Increase (Decrease) US$	Percent Increase (Decrease) Local Currency	Percent of Total Net Revenues for the Nine Months Ended May 31, 2009	Percent of Total Net Revenues for the Nine Months Ended May 31, 2008
	(in millions)					
OPERATING GROUPS						
Communications & High Tech	$ 3,713	$ 4,039	(8)%	(1)%	23%	23%
Financial Services	3,306	3,756	(12)	(4)	20	22
Products	4,244	4,523	(6)	2	26	26
Public Service	2,208	2,140	3	10	13	12
Resources	2,937	2,912	1	11	18	17
Other	23	17	n/m	n/m		
TOTAL NET REVENUES	16,431	17,387	(6)%	3%	100%	100%
Reimbursements	1,235	1,366	(10)			
TOTAL REVENUES	$ 17,666	$ 18,753	(6)%			
GEOGRAPHIC REGIONS						
Americas	$ 7,139	$ 7,169		3%	44%	41%
EMEA	7,629	8,706	(12)		46	50
Asia Pacific	1,662	1,512	10	15	10	9
TOTAL NET REVENUES (1)	$ 16,431	$ 17,387	(6)%	3%	100%	100%
TYPE OF WORK						
Consulting	$ 9,642	$ 10,511	(8)%		59%	60%
Outsourcing	6,789	6,876	(1)	7	41	40
TOTAL NET REVENUES	$ 16,431	$ 17,387	(6)%	3%	100%	100%

n/m = not meaningful

(1) May not total due to rounding.

Net Revenues

Since January 2009, our business has been affected by the continuing global economic downturn, as many clients continue to delay new large consulting commitments, slow the pace of on-going projects and reduce requests for incremental projects. As a result, most of our operating groups experienced either a decline in or lower growth in consulting revenues in local currency and most of our operating groups experienced lower growth in outsourcing revenues in local currency during the nine months ended May 31, 2009, compared with the nine months ended May 31, 2008.

The following net revenues by operating group commentary discusses local currency net revenues changes for the nine months ended May 31, 2009 compared to the nine months ended May 31, 2008:

Communications & High Tech net revenues decreased 1% in local currency. Consulting revenues declined 6% in local currency due to declines across all industry groups in the Americas and EMEA regions. These declines were partially offset by consulting growth across all industry groups in the Asia Pacific region. Outsourcing revenues increased 6% in local currency, primarily driven by growth across all industry groups in the Asia Pacific region and in Electronics & High Tech and Media & Entertainment in the EMEA region.

Financial Services net revenues decreased 4% in local currency. Consulting revenues declined 10% in local currency, primarily due to declines in Banking in the EMEA region and, to a lesser extent, in Insurance and Capital Markets in the Americas region. These declines were partially offset by consulting growth in Banking in the Americas region and in Capital Markets in the EMEA region. Outsourcing revenues increased 6% in local currency, primarily driven by growth in Banking in the EMEA region and in Insurance in the Americas and Asia Pacific regions, partially offset by declines in Capital Markets in the Americas region. Client consolidations and strategy changes in the financial services industry have resulted in a number of

outsourcing contract terminations, which have had a negative impact on our revenues.
Products net revenues increased 2% in local currency. Consulting revenues declined 4% in local currency, primarily due to declines in Retail in the Americas and Asia Pacific regions and in the EMEA region in Consumer Goods & Services, Automotive and Transportation & Travel Services. These declines were partially offset by consulting growth in Consumer Goods & Services and Health & Life Sciences in the Americas and Asia Pacific regions and in Retail in the EMEA region. Outsourcing revenues increased 11% in local currency, primarily driven by growth in Consumer Goods & Services and Health & Life Sciences across all geographic regions and in Transportation & Travel Services in the EMEA region.

Public Service net revenues increased 10% in local currency. Consulting revenues increased 14% in local currency, primarily driven by growth in the Americas region. Outsourcing revenues increased 3% in local currency, primarily driven by growth in the EMEA region, partially offset by a decline in the Americas region.

Resources net revenues increased 11% in local currency. Consulting revenues increased 12% in local currency, primarily driven by growth in Utilities in the EMEA region, in Natural Resources across all geographic regions and in Energy and Chemicals in the Americas region, partially offset by a decline in Chemicals in the EMEA region. Outsourcing revenues increased 9% in local currency, primarily driven by growth in Utilities in the EMEA and Americas regions.

In the Americas region, we recorded net revenues of $7,139 million for the nine months ended May 31, 2009, compared with $7,169 million for the nine months ended May 31, 2008, flat in U.S. dollars and an increase of 3% in local currency. Growth in local currency was driven by strong growth in Brazil and a moderate increase in the United States, partially offset by a decline in Canada.

In the EMEA region, we recorded net revenues of $7,629 million for the nine months ended May 31, 2009, compared with $8,706 million for the nine months ended May 31, 2008, a decrease of 12% in U.S. dollars and flat in local currency. In general, growth moderated across the EMEA region, driven by declines in local currency in the United Kingdom, Switzerland, Ireland, Spain and Sweden. These declines were offset by strong growth in local currency in the Netherlands, Denmark, Norway and South Africa and solid growth in Germany.

In the Asia Pacific region, we recorded net revenues of $1,662 million for the nine months ended May 31, 2009, compared with $1,512 million for the nine months ended May 31, 2008, an increase of 10% in U.S. dollars and 15% in local currency. Growth in local currency was principally driven by our business in Australia, Japan and Singapore.

Operating Expenses

Operating expenses for the nine months ended May 31, 2009 were $15,441 million, a decrease of $1,085 million, or 7%, from the nine months ended May 31, 2008, and decreased as a percentage of revenues to 87.4% from 88.1% during this period. Operating expenses before reimbursable expenses for the nine months ended May 31, 2009 were $14,207 million, a decrease of $954 million, or 6%, from the nine months ended May 31, 2008, and decreased as a percentage of net revenues to 86.5% from 87.2% during this period.

Cost of Services

Cost of services for the nine months ended May 31, 2009 was $12,485 million, a decrease of $987 million, or 7%, from the nine months ended May 31, 2008, and decreased as a percentage of revenues to 70.7% from 71.8% during this period. Cost of services before reimbursable expenses for the nine months ended May 31, 2009 was $11,250 million, a decrease of $856 million, or 7%, from the nine months ended May 31, 2008, and decreased as a percentage of Net revenues to 68.5% from 69.6% during this period. Gross margin for the nine months ended May 31, 2009 increased to 31.5% from 30.4% over this period. The increase in gross margin was driven by improved overall contract profitability, particularly in outsourcing, including absorption of annual compensation increases that were effective September 1, 2008.

Sales and Marketing

Sales and marketing expense for the nine months ended May 31, 2009 was $1,607 million, a decrease of $58 million, or 3%, from the nine months ended May 31, 2008, and increased as a percentage of net revenues to 9.8% from 9.6% over this period.

General and Administrative Costs

General and administrative costs for the nine months ended May 31, 2009 were $1,356 million, a decrease of $15 million, or 1%, from the nine months ended May 31, 2008, and increased as a percentage of net revenues to 8.2% from 7.9% over this period. The increase as a percentage of net revenues was primarily due to an increase in the bad debt provision of $75 million, or 0.5% of net revenues, reflecting our best estimate of collectibility risks on outstanding receivables, in light of the current global economic downturn.

Operating Income and Operating Margin

Operating income for the nine months ended May 31, 2009 was $2,224 million, a decrease of $2 million, or flat compared with the nine months ended May 31, 2008, and increased as percentage of net revenues to 13.5% from 12.8% over this period. Operating income and operating margin for each of the operating groups was as follows:

	Nine Months Ended May 31,				
	2009		**2008**		
	Operating Income	**Operating Margin**	**Operating Income**	**Operating Margin**	**Increase (Decrease) (1)**
			(in millions)		
Communications & High Tech	$ 504	14%	$ 474	12%	$ 30
Financial Services	388	12	512	14	(124)
Products	594	14	634	14	(40)
Public Service	290	13	190	9	100
Resources	448	15	417	14	31
Total (1)	$ 2,224	13.5%	$ 2,227	12.8%	$ (2)

(1) May not total due to rounding.

While we have seen our net revenues contract, due to both the current global economic downturn and significant foreign-exchange rate fluctuations, we have improved our gross margins by focusing on contract profitability, particularly in our outsourcing business. This improvement was partially offset by higher selling costs as a percentage of net revenues. In addition, each operating group recorded a portion of the $75 million bad debt provision. See General and Administrative Costs. During the nine months ended May 31, 2009, we estimate that the aggregate percentage impact of foreign-exchange rates on our operating income is similar to that disclosed for net revenues. The operating group commentary below provides additional insight into operating group performance and operating margin for the nine months ended May 31, 2009, compared to the nine months ended May 31, 2008, exclusive of foreign-exchange rate and bad debt provision impacts.

Communications & High Tech operating income increased due to improved outsourcing contract margins. In addition, the nine months ended May 31, 2008 reflected the impact of delivery inefficiencies on a small number of consulting contracts.

Financial Services operating income decreased, primarily due to consulting revenue declines, a lower proportion of high-margin consulting work and higher selling costs as a percentage of net revenues, partially offset by improved outsourcing and consulting contract margins.

Products operating income was flat compared to fiscal 2008, as consulting revenue declines were offset by improved outsourcing contract margins.

Public Service operating income increased due to resolution of a contract termination and improved delivery efficiencies compared with the nine months ended May 31, 2008 and consulting revenue growth.

Resources operating income increased due to strong revenue growth and improved outsourcing and consulting contract margins.

Interest Income

Interest income for the nine months ended May 31, 2009 was $42 million, a decrease of $44 million, or 51%, from the nine months ended May 31, 2008. The decrease was primarily due to lower interest rates.

Other Expense, net

Other expense, net for the nine months ended May 31, 2009 was $2 million, an increase of $2 million over the nine months ended May 31, 2008.

Provision for Income Taxes

The effective tax rates for the nine months ended May 31, 2009 and 2008 were 27.6% and 28.4%, respectively. The effective tax rate for the nine months ended May 31, 2009 is lower than the effective tax rate for the nine months ended May 31, 2008 primarily as a result of lower expenses related to tax rate changes and other adjustments to prior-year tax liabilities recorded in the nine months ended May 31, 2009 as compared with the nine months ended May 31, 2008.

Our provision for income taxes is based on many factors and subject to volatility year to year. We expect the fiscal 2009 annual effective tax rate to be in the range of 27% to 29%. The fiscal 2008 annual effective tax rate was 29.3%.

Minority Interest

Minority interest for the nine months ended May 31, 2009 was $297 million, a decrease of $93 million, or 24%, from the nine months ended May 31, 2008. The decrease was primarily due to a reduction in the Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares average minority ownership interest to 17% for the nine months ended May 31, 2009 from 23% for the nine months ended May 31, 2008.

Earnings Per Share

Diluted earnings per share were $2.05 for the nine months ended May 31, 2009, compared with $1.97 for the nine months ended May 31, 2008. The $0.08 increase in our earnings per share was primarily the result of the following: Increases of $0.15 from growth in revenues and operating income in local currency, $0.10 from lower weighted average shares outstanding and $0.02 from a lower effective tax rate. These increases were partially offset by $0.16 from unfavorable foreign currency exchange rates, compared with the nine months ended May 31, 2008, and $0.03 from other items, including reorganization benefits and non operating items. For information regarding our earnings per share calculations, see Note 2 (Earnings Per Share) to our Consolidated Financial Statements under Item 1, Financial Statements.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations, debt capacity available under various credit facilities and available cash reserves. We may also be able to raise additional funds through public or private debt or equity financings in order to:

take advantage of opportunities, including more rapid expansion;

acquire other businesses or technologies;

develop new services and solutions;

respond to competitive pressures; or

facilitate purchases, redemptions and exchanges of Accenture shares.

As of May 31, 2009, cash and cash equivalents of $4 billion combined with $5 million of liquid fixed-income securities that are classified as investments on our Consolidated Balance Sheet totaled $4 billion, compared with $3.6 billion as of August 31, 2008, an increase of approximately $400 million.

Cash flows from operating, investing and financing activities, as reflected in the Consolidated Cash Flows Statements, are summarized in the following table:

	Nine Months Ended May 31, 2009	2008 (in millions)	Change
Net cash provided by (used in):			
Operating activities (1)	$ 2,113	$ 1,773	$ 341
Investing activities (1)	(150)	(198)	49
Financing activities (1)	(1,387)	(1,637)	250
Effect of exchange rate changes on cash and cash equivalents	(177)	75	(252)
Net increase in cash and cash equivalents (1)	$ 400	$ 12	$ 388

(1) May not total due to rounding.

Operating Activities. The $341 million increase in cash provided by operating activities was primarily due to higher net income, a decrease in net client balances (receivables from clients, current and non-current unbilled services and deferred revenues) compared with the same period in fiscal 2008 and other changes in operating assets and liabilities. Cash used in operating activities for the nine months ended May 31, 2008 also reflected a payment of $143 million to settle tax audits related to reorganization liabilities.

Investing Activities. The $49 million decrease in cash used was primarily due to a decrease in spending on business acquisitions and lower spending on property and equipment, partially offset by a decrease in net proceeds from maturities and sales of available-for-sale investments.

Financing Activities. The $250 million decrease in cash used was primarily due to a decrease in net purchases of common shares, partially offset by an increase in cash dividends paid. For additional information, see Note 8 (Material Transactions Affecting Shareholders Equity) to our Consolidated Financial Statements under Item 1, Financial Statements.

We believe that our available cash balances and the cash flows expected to be generated from operations will be sufficient to satisfy our current and planned working capital and investment needs for the next twelve months. We also believe that our longer-term working capital and other general corporate funding requirements will be satisfied through cash flows from operations and, to the extent necessary, from our borrowing facilities and future financial market activities.

Borrowing Facilities

As of May 31, 2009, we had the following borrowing facilities and related borrowings, including the issuance of letters of credit, for general working capital purposes:

	Facility Amount	Borrowings Under Facilities
	(in millions)	
Syndicated loan facility	$ 1,200	$
Separate bilateral, uncommitted, unsecured multicurrency revolving credit facilities	350	
Local guaranteed and non-guaranteed lines of credit	162	
Total	$ 1,712	$

Under the borrowing facilities described above, we had an aggregate of $166 million of letters of credit outstanding as of May 31, 2009. In addition, we had total outstanding debt of $2 million as of May 31, 2009.

Share Purchases and Redemptions

The Board of Directors of Accenture Ltd has authorized funding for our publicly announced open-market share purchase program for acquiring Accenture Ltd Class A common shares and for purchases and redemptions of Accenture Ltd Class A common shares, Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares held by our current and former senior executives and their permitted transferees.

Our share purchase activity during the nine months ended May 31, 2009 was as follows:

	Accenture Ltd Class A Common Shares		Accenture SCA Class I Common Shares and Accenture Canada Holdings Inc. Exchangeable Shares		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
	(in millions, except share amounts)					
Open-Market Share Purchases (1)	18,128,004	$ 544		$	18,128,004	$ 544
Other Share Purchase Programs			22,179,369	698	22,179,369	698
Other purchases (2)	2,471,116	88			2,471,116	88
Total	20,599,120	$ 632	22,179,369	$ 698	42,778,489	$ 1,330

(1) We conduct a publicly announced, open-market share purchase program for Accenture Ltd Class A

common shares. These shares are held as treasury shares by one or more subsidiaries of Accenture Ltd and may be utilized to provide for select employee benefits, such as equity awards to our employees.

(2) During the nine months ended May 31, 2009, as authorized under our various employee equity share plans, we acquired Accenture Ltd Class A common shares primarily via share withholding for payroll tax obligations due from employees and former employees in connection with the delivery of Accenture Ltd Class A common shares under those plans.

As of May 31, 2009, our aggregate available authorization was $1,260 million for our publicly announced open-market share purchase program and the other share purchase programs.

Other Share Redemptions

During the nine months ended May 31, 2009, we issued 1,125,645 Accenture Ltd Class A common shares upon redemptions of an equivalent number of Accenture SCA Class I common shares pursuant to our registration statement on Form S-3 (the registration statement) filed on May 15, 2007. The registration statement allows us, at our option, to issue freely tradable Accenture Ltd Class A common shares in lieu of cash upon redemptions of Accenture SCA Class I common shares held by our senior executives, former executives and their permitted transferees.

For a complete description of all share purchase and redemption activity for the third quarter of fiscal 2009, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds.

Waiver of Certain Transfer Restrictions

Accenture Ltd and Accenture SCA have enacted various waivers of certain transfer restrictions applicable to current and former senior executives (covered persons) who hold Accenture Ltd Class A common shares or Accenture SCA Class I common shares received at the time of the initial public offering of Accenture Ltd Class A common shares in July 2001 (covered shares). As a result, covered shares that would otherwise not have become available for transfer until July 24, 2009 have become transferable by the holders on an accelerated basis.

The following table shows the total number of covered shares held by active employees and their permitted transferees that are scheduled to be released from transfer restrictions during the fourth quarter of fiscal 2009. This table reflects all waivers granted to date and further assumes that any covered persons who are active employees as of May 31, 2009 remain actively employed through June 1, 2009.

	Total number of Accenture Ltd Class A common shares, Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares that are scheduled to become available for transfer after giving effect to waivers (millions of shares)
4th Quarter Fiscal 2009	4.0

The following table shows the total number of covered shares held by former employees and their permitted transferees that are scheduled to be released from transfer restrictions during the fourth quarter of fiscal 2009. This table reflects all waivers granted to date and further assumes that no covered persons who are active employees as of May 31, 2009 retire or resign through June 1, 2009.

	Total number of Accenture Ltd Class A common shares, Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares that are scheduled to become available for transfer after giving effect to waivers (millions of shares)
4th Quarter Fiscal 2009	14.9

Off-Balance Sheet Arrangements

We have various agreements by which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business under which we customarily agree to hold the indemnified party harmless against losses arising from a breach of representations related to such matters as title to assets sold, licensed or certain intellectual property rights and other matters. Payments by us under such indemnification clauses are generally conditioned on the other party making a claim. Such claims are generally subject to challenge by us and dispute resolution procedures specified in the particular contract. Furthermore, our obligations under these arrangements may be limited in terms of time and/or amount and, in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, we have not made any payments under these agreements that have been material individually or in the aggregate. As of May 31, 2009, we were not aware of any obligations under such indemnification agreements that would require material payments.

From time to time, we enter into contracts with clients whereby we have joint and several liability with other participants and/or third parties providing related services and products to clients. Under these arrangements, we and other parties may assume some responsibility to the client or a third party for the performance of others under the terms and conditions of the contract with or for the benefit of the client or in relation to the performance of certain contractual obligations. To date, we have not been required to make any significant payments under any of the contracts described in this paragraph. For further discussion of these transactions, see Note 11 (Commitments and Contingencies) to our Consolidated Financial Statements under Item 1, Financial Statements.

Recently Adopted Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). This Statement requires enhanced disclosures for derivative instruments and hedging activities about (i) how and why a company uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* and its related interpretations, and (iii) how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. On December 1, 2008, we adopted the provisions of SFAS 161 and it did not have a material impact on our Consolidated Financial Statements. For additional information, see Note 9 (Derivative Financial Instruments) to our Consolidated Financial Statements under Item 1, Financial Statements.

On September 1, 2008, we adopted the provisions of SFAS 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. In accordance with FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157,* we elected to defer the adoption of the provisions of SFAS 157 for our non-financial assets and non-financial liabilities. Such assets and liabilities, which include our Deferred contract costs, Property and equipment, net and Goodwill, will be subject to the provisions of SFAS 157 on September 1, 2009. We are currently assessing the potential impact the adoption of SFAS 157 for non-financial assets may have on our Consolidated Financial Statements. For additional information, see Note 10 (Fair Value Measurements) to our Consolidated Financial Statements under Item 1, Financial Statements.

Effective September 1, 2008, we adopted the year-end measurement date provision of SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 106, and 132(R),* using an approach generally known as the one measurement approach. The adoption of the provision had the following impact on our Consolidated Balance Sheet: decreased Retained earnings by $5.3 million, decreased Accumulated other comprehensive (loss) income by $0.3 million, decreased Other non-current assets by $2.7 million and increased Retirement obligation by $2.9 million.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (SFAS 141R), which is a revision of SFAS 141, *Business Combinations.* SFAS 141R establishes principles and requirements for: recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; recognizing and measuring the goodwill acquired in the business combination or a gain from a bargain purchase; expensing acquisition related costs as incurred; and determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We will adopt the provisions of SFAS 141R for acquisitions that occur on or after September 1, 2009. The impact of SFAS 141R on our Consolidated Financial Statements will depend on the size and nature of any acquisitions on or after September 1, 2009.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). Upon adoption of SFAS 160 on September 1, 2009, we will be required to report any noncontrolling interests as a separate component of Consolidated Shareholders Equity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the nine months ended May 31, 2009, there were no material changes in our market risk exposure. For a discussion of our market risk associated with foreign currency risk, interest rate risk and equity price risk as of August 31, 2008, see Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, of our Annual Report on Form 10-K for the year ended August 31, 2008.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)

under the Exchange Act) as of the end of the period covered by this report.

Based on that evaluation, the chief executive officer and the chief financial officer of Accenture Ltd have concluded that, as of the end of the period covered by this report, Accenture Ltd s disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There has been no change in Accenture Ltd s internal control over financial reporting that occurred during the third quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, Accenture Ltd s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in a number of judicial and arbitration proceedings concerning matters arising in the ordinary course of our business. We and/or our personnel also from time to time are involved in investigations by various regulatory or legal authorities concerning matters arising in the course of our business around the world. We do not expect that any of these matters, individually or in the aggregate, will have a material impact on our results of operations or financial condition.

As previously reported, in September 2007, the State of Connecticut filed an action in State Superior Court in Hartford against Accenture arising out of an alleged data security breach. The action arose in connection with work we undertook for the State of Connecticut s Office of the Comptroller (the Core-CT Project), during which Accenture properly came into the possession of confidential information, including personally identifiable information, concerning Connecticut citizens. The complaint alleges that some of the information was subsequently placed on a server maintained by the State of Ohio by Accenture employees who were transferred from the Core-CT Project to a similar project for the State of Ohio, and that a back-up tape from the Ohio server containing some of the information was stolen in June 2007 from an Ohio state employee. The State of Connecticut claims that Accenture breached its contract with the Connecticut Comptroller s office and also asserts negligence and the unauthorized taking of information by Accenture. The complaint seeks injunctive relief and damages, including restitution of some unspecified portion of the amount paid to Accenture pursuant to the Core-CT Project contract. During the investigation of this matter, it was discovered that confidential information belonging to several other Accenture clients appeared on the Ohio server, and Accenture has notified the affected clients. Although these events represent a breach of Accenture s internal policies on data security, we have no evidence that any individual has been harmed as a result. Accenture is committed to maintaining the security of its clients data and has conducted an internal investigation to ensure the integrity of all confidential data, including personally identifiable information, in its possession. Accenture is continuing to take proactive remedial measures to reinforce adherence to its data protection policies. In addition to the Connecticut suit, it is possible that other affected parties could bring similar lawsuits or proceedings. We do not believe these matters will have a material impact on our results of operations or financial condition.

As previously reported, in April 2007, the U.S. Department of Justice (the DOJ) intervened in a civil qui tam action previously filed under seal by two private individuals in the U.S. District Court for the Eastern District of Arkansas against Accenture and several of its indirect subsidiaries. The complaint as amended alleges that, in connection with work we undertook for the U.S. federal government, we received payments, resale revenue or other benefits as a result of, or otherwise acted improperly in connection with, alliance agreements we maintain with technology vendors and others in violation of our contracts with the U.S. government and/or applicable law or regulations. Similar suits were brought against other companies in our industry. The suit alleges that these amounts and relationships were not disclosed to the government in violation of the Federal False Claims Act and the Anti-Kickback Act, among other statutes. The DOJ complaint seeks various remedies including treble damages, statutory penalties and disgorgement of profits. While the complaint does not allege damages with specificity, the amount sought by the DOJ will depend on the theories it pursues, and could be significant. The suit could lead to other related proceedings and actions by various agencies of the U.S. government, including potential suspension or debarment, or criminal, proceedings. The DOJ is currently conducting an additional investigation regarding certain of the alleged conduct and relationships at issue in the suit and we are cooperating with the DOJ in that investigation. We intend to defend such matters vigorously and do not believe they will have a material impact on our results of operations or financial condition.

As previously reported in July 2003, we became aware of an incident of possible noncompliance with the Foreign Corrupt Practices Act and/or with Accenture s internal controls in connection with certain of our operations in the Middle East. In 2003, we voluntarily reported the incident to the appropriate authorities in the United States promptly after its discovery. Shortly thereafter, the

SEC advised us it would be undertaking an informal investigation of this incident, and the DOJ indicated it would also conduct a review. Since that time, there have been no further developments. We do not believe that this incident will have any material impact on our results of operations or financial condition.

We currently maintain the types and amounts of insurance customary in the industries and countries in which we operate, including coverage for professional liability, general liability and management liability. We consider our insurance coverage to be adequate both as to the risks and amounts for the businesses we conduct.

ITEM 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended August 31, 2008 and Item 1A, Risk Factors in our Form 10-Q for the quarterly period ended November 30, 2008. Other than as noted in our Form 10-Q for the quarterly period ended November 30, 2008, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended August 31, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases and redemptions of Accenture Ltd Class A common shares and Class X common shares

The following table provides information relating to our purchases of Accenture Ltd Class A common shares and redemptions of Accenture Ltd Class X common shares during the third quarter of fiscal 2009.

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs (3) (in millions)
March 1, 2009 March 31, 2009				
Class A common shares	226,397	$ 27.79	200,000	$ 1,529
Class X common shares	495,295	$ 0.0000225		
April 1, 2009 April 30, 2009				
Class A common shares	3,919,600	$ 27.47	3,912,204	$ 1,369
Class X common shares	1,614,317	$ 0.0000225		
May 1, 2009 May 31, 2009				
Class A common shares	176,274	$ 29.62	3,600	$ 1,260
Class X common shares	3,423,667	$ 0.0000225		
Total				
Class A common shares (2)(4)	4,322,271	$ 27.57	4,115,804	
Class X common shares (5)	5,533,279	$ 0.0000225		

(1) Average price per share reflects the total cash outlay for the period, divided by the number of shares acquired, including those acquired by purchase and any acquired by means of employee share forfeiture.

(2) Since August 2001, the Board of Directors of

Accenture Ltd has authorized and periodically confirmed a publicly announced open-market share purchase program for acquiring Accenture Ltd Class A common shares. During the third quarter of fiscal 2009, we repurchased 4,115,804 Accenture Ltd Class A common shares under this program for an aggregate purchase price of $113 million. The open-market purchase program does not have an expiration date.

(3) As of May 31, 2009, our aggregate available authorization for share purchases and redemptions was $1,260 million, which management has the discretion to use for either our publicly announced open-market share purchase program or the

other share purchase programs. To date, the Board of Directors of Accenture Ltd has authorized an aggregate of $11.1 billion for purchases and redemptions of Accenture Ltd Class A common shares, Accenture SCA Class I common shares or Accenture Canada Holdings Inc. exchangeable shares.

(4) During the third quarter of fiscal 2009, we acquired 206,467 Accenture Ltd Class A common shares in transactions unrelated to publicly announced share plans or programs. These transactions consisted of acquisitions of Accenture Ltd Class A common shares via share withholding for payroll tax obligations due from employees and former employees in connection with

the delivery of Accenture Ltd Class A common shares under our various employee equity share plans, as well as any outstanding shares forfeited by employees or former employees during the quarter.

(5) During the third quarter of fiscal 2009, we redeemed 5,533,279 Accenture Ltd Class X common shares pursuant to our bye-laws. Accenture Ltd Class X common shares are redeemable at their par value of $0.0000225 per share.

Purchases and redemptions of Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares

The following table provides additional information relating to our purchases and redemptions of Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares during the third quarter of fiscal 2009. We believe that the following table and footnotes provide useful information regarding the share purchase and redemption activity of Accenture. Generally, purchases and redemptions of Accenture SCA Class I common shares and Accenture Canada Holdings Inc. exchangeable shares reduce shares outstanding for purposes of computing diluted earnings per share.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs
Accenture SCA				
March 1, 2009 March 31, 2009				
Class I common shares	110,422	$ 27.69		
April 1, 2009 April 30, 2009				
Class I common shares	1,813,970	$ 28.16		
May 1, 2009 May 31, 2009				
Class I common shares	3,657,215	$ 29.67		
Total				
Class I common shares (3)	5,581,607	$ 29.14		
Accenture Canada Holdings Inc.				
March 1, 2009 March 31, 2009				
Exchangeable shares		$		
April 1, 2009 April 30, 2009				
Exchangeable shares	48,186	$ 27.98		
May 1, 2009 May 31, 2009				
Exchangeable shares	10,864	$ 29.60		
Total				
Exchangeable shares (3)	59,050	$ 28.28		

(1) During the third quarter of fiscal 2009, we acquired a total of 5,581,607 Accenture SCA Class I common shares and 59,050 Accenture

Canada Holdings Inc. exchangeable shares from current and former senior executives and their permitted transferees. This includes acquisitions by means of redemption or purchase, or employee share forfeiture, as applicable.

(2) Average price per share reflects the total cash outlay for the period, divided by the number of shares acquired, including those acquired by purchase and any acquired by means of employee share forfeiture.

(3) As of May 31, 2009, our aggregate available authorization for share purchases and redemptions was $1,260 million, which management has the discretion to use for either our publicly announced open-market share purchase

program or the other share purchase programs. To date, the Board of Directors of Accenture Ltd has authorized an aggregate of $11.1 billion for purchases and redemptions of Accenture Ltd Class A common shares, Accenture SCA Class I common shares or Accenture Canada Holdings Inc. exchangeable shares.

Purchases and redemptions of Accenture SCA Class II and Class III common shares

Transactions involving Accenture SCA Class II and Class III common shares consist exclusively of inter-company transactions undertaken to facilitate other corporate purposes. These inter-company transactions do not affect shares outstanding for purposes of computing earnings per share reflected in our Consolidated Financial Statements under Item 1, Financial Statements.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

(a) None.

(b) None.

ITEM 6. EXHIBITS

Exhibit Index:

Exhibit Number	Exhibit
3.1	Form of Bye-laws of the Registrant, effective as of February 7, 2008 (incorporated by reference to Exhibit 3.1 to the February 29, 2008 10-Q)
10.1	Form of Articles of Association of Accenture SCA, updated as of November 17, 2008 (incorporated by reference to Exhibit 10.1 to the November 30, 2008 10-Q)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

Date: June 26, 2009

ACCENTURE LTD

By: /s/ Pamela J. Craig

Name: Pamela J. Craig
Title: Chief Financial Officer

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="DISPLAY: inline; FONT-FAMILY: Times New Roman; FONT-SIZE: 10pt">At March 31, 2012 three below investment grade private label residential mortgage-backed securities with fair values of $3.6 million, $1.7 million and $0.1 million, respectively and unrealized losses of $1.2 million, $0.3 million and $0.03 million, respectively (amortized cost of $4.8 million, $2.0 million and $0.1 million, respectively) had losses that were considered other than temporary.

The underlying loans in the first transaction are 30 year fixed rate jumbos with an average FICO of 744 and an average loan-to-value ratio of 72%. The loans backing this transaction were originated in 2007 and this is our only security backed by 2007 vintage loans. We believe that this vintage is a key differentiating factor between this security and the others in our portfolio that do not have unrealized losses that are considered OTTI. The bond is a senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated $0.560 million of credit related OTTI as of March 31, 2012 and was recognized in our Condensed Consolidated Statements of Operations ($0.085 million and $0.052 million of this amount was recognized in our Condensed Consolidated Statements of Operations during the three months ended March 31, 2012 and 2011, respectively while the balance was recognized in other periods). The remaining unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The underlying loans in the second transaction are 30 year hybrid ARM Alt-A with an average FICO of 717 and an average loan-to-value ratio of 78%. The loans backing this transaction were originated in 2005. The bond is a super senior security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated $0.457 million of credit related OTTI as of March 31, 2012 and was recognized in our Condensed Consolidated Statements of Operations ($0.032 million and zero of this amount was recognized in our Condensed Consolidated Statements of Operations during the three months ended March 31, 2012 and 2011, respectively while the balance was recognized in other periods). The remaining unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

The underlying loans in the third transaction are 30 year hybrid ARM jumbos with an average FICO of 738 and an average loan-to-value ratio of 57%. The loans backing this transaction were originated in 2005. The bond is a senior support security that is receiving principal and interest payments similar to principal reductions in the underlying collateral. The cash flow analysis described above calculated credit related OTTI of $0.380 million as of March 31, 2012 and was recognized in our Condensed Consolidated Statements of Operations ($0.060 million and $0.090 million of this amount was recognized in our Condensed Consolidated Statements of Operations during the three months ended March 31, 2012 and 2011, respectively while the balance was recognized in other periods). The remaining unrealized loss was attributed to other factors and is reflected in other comprehensive income (loss) during those same periods.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Obligations of states and political subdivisions — at March 31, 2012 we had 11 municipal securities whose fair value is less than amortized cost. The unrealized losses are largely attributed to increases in interest rates and widening of market spreads. Eight of the impaired securities are rated by a major rating agency as investment grade. The non rated securities have a periodic internal credit review according to established procedures. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Trust preferred securities — at March 31, 2012 we had four securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities over the past several years has suffered from significant credit spread widening fueled by uncertainty regarding potential losses of financial companies, the absence of a liquid functioning secondary market and potential supply concerns from financial companies issuing new debt to recapitalize themselves.

One of the four securities is rated by two major rating agencies as investment grade, while one is split rated (this security is rated as investment grade by one major rating agency and below investment grade by another) and the other two are non-rated. The non-rated issues are relatively small banks and were never rated. The issuers of these non-rated trust preferred securities, which had a total amortized cost of $2.8 million and total fair value of $1.5 million as of March 31, 2012, continue to have satisfactory credit metrics and one continues to make interest payments. The other non-rated issue began deferring dividend payments in the third quarter of 2011 apparently due to an increase in non-performing assets. Nevertheless, this issuer continues to have satisfactory capital measures and interim profitability.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The following table breaks out our trust preferred securities in further detail as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
	(In thousands)			
Trust preferred securities				
Rated issues	$1,447	$(444)	$1,405	$(484)
Unrated issues - no OTTI	1,548	(1,295)	1,231	(1,577)

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

During the three month periods ended March 31, 2012 and 2011 we recorded in earnings OTTI charges on securities available for sale of $0.177 million and $0.142 million, respectively (see discussion above).

A roll forward of credit losses recognized in earnings on securities available for sale for the three month periods ending March 31, follows:

	2012	2011
	(In thousands)	
Balance at beginning of year	$ 1,470	$ 710
Additions to credit losses on securities for which no previous OTTI was recognized	-	-
Increases to credit losses on securities for which OTTI was previously recognized	177	142
Total	$ 1,647	$ 852

The amortized cost and fair value of securities available for sale at March 31, 2012, by contractual maturity, follow. The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$1,360	$1,374
Maturing after one year but within five years	6,722	6,934
Maturing after five years but within ten years	25,349	25,470
Maturing after ten years	102,966	99,695
	136,397	133,473
U.S. agency residential mortgage-backed	161,735	162,154
Private label residential mortgage-backed	10,528	8,031
Total	$308,660	$303,658

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. A summary of proceeds from the sale of securities available for sale and gains and losses for the three month periods ending March 31, follows:

	Proceeds	Realized Gains (In thousands)	Losses(1)
2012	$ 9,206	$ 692	$ -
2011	12,399	185	45

(1) Losses in 2012 and 2011 exclude \$0.177 million and \$0.142 million, respectively of credit related OTTI recognized in earnings.

During 2012 and 2011 our trading securities consisted of various preferred stocks. During the first three months of 2012 and 2011 we recognized gains (losses) on trading securities of \$(0.008) million and \$0.073 million, respectively, that are included in net gains (losses) on securities in the Condensed Consolidated Statements of Operations. Both of these amounts, relate to gains (losses) recognized on trading securities still held at each respective period end.

4. Loans

Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors.

An analysis of the allowance for loan losses by portfolio segment for the three months ended March 31, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
			(In thousands)			
2012						
Balance at beginning of period	$18,183	$22,885	$6,146	$197	$11,473	$58,884
Additions (deductions)						
Provision for loan losses	1,496	4,235	289	30	(919)	5,131
Recoveries credited to allowance	1,006	548	326	-	-	1,880
Loans charged against the allowance	(4,244)	(4,397)	(1,227)	(21)	-	(9,889)
Balance at end of period	$16,441	$23,271	$5,534	$206	$10,554	$56,006
2011						
Balance at beginning of period	$23,836	$22,642	$6,769	$389	$14,279	$67,915
Additions (deductions)						
Provision for loan losses	4,710	5,369	1,235	8	(620)	10,702
	219	355	359	2	-	935

Recoveries credited to allowance						
Loans charged against the allowance	(7,486)	(4,595)	(1,644)	(66)	-	(13,791)
Balance at end of period	$21,279	$23,771	$6,719	$333	$13,659	$65,761

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Allowance for loan losses and recorded investment in loans by portfolio segment follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
			(In thousands)			
March 31, 2012						
Allowance for loan losses:						
Individually evaluated for impairment	$9,285	$11,002	$1,736	$-	$-	$22,023
Collectively evaluated for impairment	7,156	12,269	3,798	206	10,554	33,983
Total ending allowance balance	$16,441	$23,271	$5,534	$206	$10,554	$56,006
Loans						
Individually evaluated for impairment	$58,760	$91,894	$7,737	$-		$158,391
Collectively evaluated for impairment	592,760	481,970	203,466	103,544		1,381,740
Total loans recorded investment	651,520	573,864	211,203	103,544		1,540,131
Accrued interest included in recorded investment	1,968	2,613	843	-		5,424
Total loans	$649,552	$571,251	$210,360	$103,544		$1,534,707
December 31, 2011						
Allowance for loan losses:						
Individually evaluated for impairment	$10,252	$10,285	$1,762	$-	$-	$22,299
Collectively evaluated for impairment	7,931	12,600	4,384	197	11,473	36,585
Total ending allowance balance	$18,183	$22,885	$6,146	$197	$11,473	$58,884
Loans						
Individually evaluated for impairment	$58,674	$93,702	$7,554	$-		$159,930
Collectively evaluated for impairment	594,665	499,919	212,907	115,018		1,422,509
Total loans recorded investment	653,339	593,621	220,461	115,018		1,582,439
Accrued interest included in recorded investment	2,184	2,745	902	-		5,831
Total loans	$651,155	$590,876	$219,559	$115,018		$1,576,608

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Loans on non-accrual status and past due more than 90 days ("Non-performing Loans") follow:

	90+ and Still Accruing	Non-Accrual (In thousands)	Total Non-Performing Loans
March 31, 2012			
Commercial			
Income producing - real estate	$ -	$ 11,000	$ 11,000
Land, land development and construction - real estate	-	5,578	5,578
Commercial and industrial	261	7,759	8,020
Mortgage			
1-4 family	-	14,321	14,321
Resort lending	-	7,828	7,828
Home equity line of credit - 1st lien	-	665	665
Home equity line of credit - 2nd lien	-	730	730
Installment			
Home equity installment - 1st lien	-	1,226	1,226
Home equity installment - 2nd lien	-	935	935
Loans not secured by real estate	-	951	951
Other	-	1	1
Payment plan receivables			
Full refund	-	225	225
Partial refund	-	244	244
Other	-	12	12
Total recorded investment	$ 261	$ 51,475	$ 51,736
Accrued interest included in recorded investment	$ 3	$ -	$ 3
December 31, 2011			
Commercial			
Income producing - real estate	$ 490	$ 13,788	$ 14,278
Land, land development and construction - real estate	43	6,990	7,033
Commercial and industrial	-	7,984	7,984
Mortgage			
1-4 family	54	15,929	15,983
Resort lending	-	8,819	8,819
Home equity line of credit - 1st lien	-	523	523
Home equity line of credit - 2nd lien	-	889	889
Installment			
Home equity installment - 1st lien	-	1,542	1,542
Home equity installment - 2nd lien	-	1,023	1,023
Loans not secured by real estate	-	880	880
Other	-	4	4
Payment plan receivables			

Full refund		-		491		491
Partial refund		-		424		424
Other		-		23		23
Total recorded investment	$	587	$	59,309	$	59,896
Accrued interest included in recorded investment	$	13	$	-	$	13

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

An aging analysis of loans by class follows:

	Loans Past Due				Loans not	Total
	30-59 days	60-89 days	90+ days	Total	Past Due	Loans
			(In thousands)			
March 31, 2012						
Commercial						
Income producing - real estate	$1,098	$2,681	$4,170	$7,949	$269,429	$277,378
Land, land development and construction - real estate	864	265	1,713	2,842	46,969	49,811
Commercial and industrial	3,756	1,819	4,094	9,669	314,662	324,331
Mortgage						
1-4 family	2,674	1,609	14,321	18,604	287,737	306,341
Resort lending	1,337	1,157	7,828	10,322	177,770	188,092
Home equity line of credit - 1st lien	120	6	665	791	24,264	25,055
Home equity line of credit - 2nd lien	359	248	730	1,337	53,039	54,376
Installment						
Home equity installment - 1st lien	385	92	1,226	1,703	40,101	41,804
Home equity installment - 2nd lien	536	172	935	1,643	49,544	51,187
Loans not secured by real estate	1,084	296	951	2,331	112,852	115,183
Other	13	2	1	16	3,013	3,029
Payment plan receivables						
Full refund	2,222	540	225	2,987	90,921	93,908
Partial refund	238	80	244	562	8,456	9,018
Other	15	3	12	30	588	618
Total recorded investment	$14,701	$8,970	$37,115	$60,786	$1,479,345	$1,540,131
Accrued interest included in recorded investment	$127	$118	$3	$248	$5,176	$5,424
December 31, 2011						
Commercial						
Income producing - real estate	$1,701	$937	$6,408	$9,046	$264,620	$273,666
Land, land development and construction - real estate	487	66	2,720	3,273	51,453	54,726
Commercial and industrial	1,861	1,132	3,516	6,509	318,438	324,947
Mortgage						
1-4 family	3,507	1,418	15,983	20,908	294,771	315,679
Resort lending	2,129	932	8,819	11,880	184,943	196,823
Home equity line of credit - 1st lien	96	196	523	815	24,705	25,520
Home equity line of credit - 2nd lien	506	159	889	1,554	54,045	55,599

Installment						
Home equity installment - 1st lien	757	264	1,542	2,563	41,239	43,802
Home equity installment - 2nd lien	676	365	1,023	2,064	51,224	53,288
Loans not secured by real estate	1,173	463	880	2,516	117,661	120,177
Other	36	10	4	50	3,144	3,194
Payment plan receivables						
Full refund	2,943	951	491	4,385	99,284	103,669
Partial refund	380	200	424	1,004	9,918	10,922
Other	23	24	23	70	357	427
Total recorded investment	$16,275	$7,117	$43,245	$66,637	$1,515,802	$1,582,439
Accrued interest included in recorded investment	$160	$105	$13	$278	$5,553	$5,831

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Impaired loans are as follows :

	March 31, 2012	December 31, 2011
Impaired loans with no allocated allowance		
TDR	$29,416	$ 26,945
Non - TDR	400	423
Impaired loans with an allocated allowance		
TDR - allowance based on collateral	18,297	20,142
TDR - allowance based on present value cash flow	98,485	98,130
Non - TDR - allowance based on collateral	11,281	13,773
Non - TDR - allowance based on present value cash flow	-	-
Total impaired loans	$157,879	$ 159,413
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	$5,911	$ 6,004
TDR - allowance based on present value cash flow	12,574	12,048
Non - TDR - allowance based on collateral	3,538	4,247
Non - TDR - allowance based on present value cash flow	-	-
Total amount of allowance for loan losses allocated	$22,023	$ 22,299

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Impaired loans by class are as follows (1):

	March 31, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			(In thousands)			
Commercial						
Income producing - real estate	$2,573	$3,929	$-	$4,626	$6,386	$-
Land, land development & construction-real estate	2,960	3,039	-	219	243	-
Commercial and industrial	4,460	4,734	-	3,593	3,677	-
Mortgage						
1-4 family	7,578	10,269	-	6,975	9,242	-
Resort lending	6,354	6,736	-	7,156	7,680	-
Home equity line of credit - 1st lien	-	-	-	-	-	-
Home equity line of credit - 2nd lien	46	119	-	134	211	-
Installment						
Home equity installment - 1st lien	1,554	1,603	-	2,100	2,196	-
Home equity installment - 2nd lien	1,735	1,792	-	1,987	1,987	-
Loans not secured by real estate	417	427	-	637	688	-
Other	23	23	-	24	24	-
	27,700	32,671	-	27,451	32,334	-
With an allowance recorded:						
Commercial						
Income producing - real estate	21,664	27,653	3,235	22,781	29,400	3,642
Land, land development & construction-real estate	10,787	12,974	2,775	12,362	14,055	3,633
Commercial and industrial	16,316	19,327	3,275	15,093	18,357	2,977
Mortgage						
1-4 family	59,315	60,986	7,384	61,214	63,464	7,716
Resort lending	18,437	18,937	3,501	18,159	19,351	2,534
Home equity line of credit - 1st lien	70	87	34	64	73	35
Home equity line of credit - 2nd lien	94	92	83	-	-	-
Consumer						
Home equity installment - 1st lien	2,020	2,125	649	1,232	1,293	660
Home equity installment - 2nd lien	1,786	1,796	1,051	1,421	1,458	1,062

Loans not secured by real estate	202	250	36	153	156	40
Other	-	-	-	-	-	-
	130,691	144,227	22,023	132,479	147,607	22,299
Total						
Commercial						
Income producing - real estate	24,237	31,582	3,235	27,407	35,786	3,642
Land, land development & construction-real estate	13,747	16,013	2,775	12,581	14,298	3,633
Commercial and industrial	20,776	24,061	3,275	18,686	22,034	2,977
Mortgage						
1-4 family	66,893	71,255	7,384	68,189	72,706	7,716
Resort lending	24,791	25,673	3,501	25,315	27,031	2,534
Home equity line of credit - 1st lien	70	87	34	64	73	35
Home equity line of credit - 2nd lien	140	211	83	134	211	-
Consumer						
Home equity installment - 1st lien	3,574	3,728	649	3,332	3,489	660
Home equity installment - 2nd lien	3,521	3,588	1,051	3,408	3,445	1,062
Loans not secured by real estate	619	677	36	790	844	40
Other	23	23	-	24	24	-
Total	$158,391	$176,898	$22,023	$159,930	$179,941	$22,299
Accrued interest included in recorded investment	$512			$517		

(1) There were no impaired payment plan receivables at March 31, 2012 or December 31, 2011.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Average recorded investment in and interest income earned on impaired loans by class for the three month periods ending March 31, follows:

	2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		(In thousands)		
Commercial				
Income producing - real estate	$3,600	$17	$3,399	$18
Land, land development & construction-real estate	1,590	-	1,236	13
Commercial and industrial	4,027	2	3,678	-
Mortgage			-	
1-4 family	7,277	74	8,886	112
Resort lending	6,755	66	6,923	98
Home equity line of credit - 1st lien	-	-	-	-
Home equity line of credit - 2nd lien	90	1	106	1
Installment			-	
Home equity installment - 1st lien	1,827	20	1,786	20
Home equity installment - 2nd lien	1,861	21	1,909	21
Loans not secured by real estate	527	6	440	6
Other	24	1	-	-
	27,578	208	28,363	289
With an allowance recorded:				
Commercial				
Income producing - real estate	22,223	147	15,851	89
Land, land development & construction-real estate	11,575	53	11,035	32
Commercial and industrial	15,705	114	10,761	49
Mortgage				
1-4 family	60,265	650	64,486	683
Resort lending	18,298	178	26,775	244
Home equity line of credit - 1st lien	67	1	-	-
Home equity line of credit - 2nd lien	47	-	13	-
Consumer				
Home equity installment - 1st lien	1,626	21	1,485	14
Home equity installment - 2nd lien	1,604	19	1,534	16
Loans not secured by real estate	178	2	213	1
Other	-	-	-	-
	131,588	1,185	132,153	1,128
Total				
Commercial				
Income producing - real estate	25,823	164	19,250	107
Land, land development & construction-real estate	13,165	53	12,271	45
Commercial and industrial	19,732	116	14,439	49
Mortgage				
1-4 family	67,542	724	73,372	795

Resort lending	25,053	244	33,698	342
Home equity line of credit - 1st lien	67	1	-	-
Home equity line of credit - 2nd lien	137	1	119	1
Consumer				
Home equity installment - 1st lien	3,453	41	3,271	34
Home equity installment - 2nd lien	3,465	40	3,443	37
Loans not secured by real estate	705	8	653	7
Other	24	1	-	-
Total	$159,166	$1,393	$160,516	$1,417

(1) There were no impaired payment plan receivables during the three month periods ending March 31, 2012 and 2011.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Our average investment in impaired loans was approximately $159.2 million and $160.5 million for the three-month periods ended March 31, 2012 and 2011, respectively. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest income recognized on impaired loans during the first three months of 2012 and 2011 was approximately $1.4 million and $1.4 million, respectively.

Troubled debt restructurings follow:

	March 31, 2012		
	Commercial	Retail	Total
		(In thousands)	
Performing TDR's	$ 34,301	$ 86,724	$ 121,025
Non-performing TDR's(1)	12,655	12,518 (2)	25,173
Total	$ 46,956	$ 99,242	$ 146,198

	December 31, 2011		
	Commercial	Retail	Total
		(In thousands)	
Performing TDR's	$ 29,799	$ 86,770	$ 116,569
Non-performing TDR's(1)	14,567	14,081 (2)	28,648
Total	$ 44,366	$ 100,851	$ 145,217

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

The Company has allocated $18.5 million and $18.1 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2012 and December 31, 2011, respectively.

During the three months ending March 31, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans generally included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan have generally been for periods ranging from 9 months to 60 months but have extended to as much as 480 months in certain circumstances. Modifications involving an extension of the maturity date have generally been for periods ranging from 1 month to 60 months but have extended to as much as 472 months in certain circumstances.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Loans that have been classified as troubled debt restructurings during the three-month period ended March 31, 2012 follows:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
		(Dollars in thousands)	
Commercial			
Income producing - real estate	2	$ 223	$ 217
Land, land development & construction-real estate	2	2,838	2,836
Commercial and industrial	14	3,910	3,894
Mortgage			
1-4 family	15	1,298	1,267
Resort lending	7	2,175	2,155
Home equity line of credit - 1st lien	1	15	6
Home equity line of credit - 2nd lien	-	-	-
Installment			
Home equity installment - 1st lien	4	308	311
Home equity installment - 2nd lien	7	194	194
Loans not secured by real estate	1	25	25
Other	-	-	-
Total	53	$ 10,986	$ 10,905

The troubled debt restructurings described above increased the allowance for loan losses by $0.3 million and resulted in zero charge offs during the three months ending March 31, 2012.

Loans that have been classified as troubled debt restructured during the past twelve months and that have subsequently defaulted during the three-month period ended March 31, 2012 follows:

	Number of Contracts	Recorded Balance
	(Dollars in thousands)	
Commercial		
Income producing - real estate	4	$597
Land, land development & construction-real estate	3	2,303
Commercial and industrial	8	790
Mortgage		
1-4 family	-	-
Resort lending	1	117
Home equity line of credit - 1st lien	-	-
Home equity line of credit - 2nd lien	-	-
Consumer		
Home equity installment - 1st lien	1	26
Home equity installment - 2nd lien	-	-
Loans not secured by real estate	-	-

Other	-	-
	17	$3,833

A loan is considered to be in payment default generally once it is 90 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above decreased the allowance for loan losses by $0.2 million as a result of charge offs of $0.4 million during the three months ending March 31, 2012.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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The terms of certain other loans were modified during the three months ending March 31, 2012 that did not meet the definition of a troubled debt restructuring. The modification of these loans could have included modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, we perform an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under our internal underwriting policy.

Credit Quality Indicators – As part of our on on-going monitoring of the credit quality of our loan portfolios, we track certain credit quality indicators including (a) weighted-average risk grade of commercial loans, (b) the level of classified commercial loans (c) credit scores of mortgage and installment loan borrowers (d) investment grade of certain counterparties for payment plan receivables and (e) delinquency history and non-performing loans.

For commercial loans we use a loan rating system that is similar to those employed by state and federal banking regulators. Loans are graded on a scale of 1 to 12. A description of the general characteristics of the ratings follows:

Rating 1 through 6: These loans are generally referred to as our “non-watch” commercial credits that include very high or exceptional credit fundamentals through acceptable credit fundamentals.

Rating 7 and 8: These loans are generally referred to as our “watch” commercial credits. This rating includes loans to borrowers that exhibit potential credit weakness or downward trends. If not checked or cured these trends could weaken our asset or credit position. While potentially weak, no loss of principle or interest is envisioned with these ratings.

Rating 9: These loans are generally referred to as our “substandard accruing” commercial credits. This rating includes loans to borrowers that exhibit a well-defined weakness where payment default is probable and loss is possible if deficiencies are not corrected. Generally, loans with this rating are considered collectible as to both principle and interest primarily due to collateral coverage.

Rating 10 and 11: These loans are generally referred to as our “substandard - non-accrual” and “doubtful” commercial credits. This rating includes loans to borrowers with weaknesses that make collection of debt in full, on the basis of current facts, conditions and values at best questionable and at worst improbable. All of these loans are placed in non-accrual.

Rating 12: These loans are generally referred to as our “loss” commercial credits. This rating includes loans to borrowers that are deemed incapable of repayment and are charged-off.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The following table summarizes loan ratings by loan class for our commercial loan segment:

	Non-watch 1-6	Watch 7-8	Commercial Substandard Accrual 9	Non-Accrual 10-11	Total
			(In thousands)		
March 31, 2012					
Income producing - real estate	$214,741	$44,688	$ 6,949	$11,000	$277,378
Land, land development and construction - real estate	33,251	8,598	2,384	5,578	49,811
Commercial and industrial	273,789	26,491	16,292	7,759	324,331
Total	$521,781	$79,777	$ 25,625	$24,337	$651,520
Accrued interest included in total	$1,603	$252	$ 113	$-	$1,968
December 31, 2011					
Income producing - real estate	$201,655	$52,438	$ 5,785	$13,788	$273,666
Land, land development and construction - real estate	33,515	9,421	4,800	6,990	54,726
Commercial and industrial	275,245	27,783	13,935	7,984	324,947
Total	$510,415	$89,642	$ 24,520	$28,762	$653,339
Accrued interest included in total	$1,677	$381	$ 126	$-	$2,184

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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For each of our mortgage and consumer segment classes we generally monitor credit quality based on the credit scores of the borrowers. These credit scores are generally updated at least annually.

The following table summarizes credit scores by loan class for our mortgage and installment loan segments:

	Mortgage (1)				
	1-4 Family	Resort Lending	Home Equity 1st Lien	Home Equity 2nd Lien	Total
	(In thousands)				
March 31, 2012					
800 and above	$ 25,306	$ 17,068	$ 3,906	$ 6,128	$ 52,408
750-799	60,446	73,842	7,987	16,586	158,861
700-749	53,452	50,970	4,262	11,907	120,591
650-699	52,818	21,000	2,874	7,810	84,502
600-649	40,444	11,082	2,322	4,893	58,741
550-599	28,782	9,793	1,548	3,468	43,591
500-549	27,355	3,199	1,541	2,635	34,730
Under 500	11,338	559	537	837	13,271
Unknown	6,400	579	78	112	7,169
Total	$ 306,341	$ 188,092	$ 25,055	$ 54,376	$ 573,864
Accrued interest included in total	$ 1,332	$ 892	$ 115	$ 274	$ 2,613
December 31, 2011					
800 and above	$ 26,509	$ 17,345	$ 4,062	$ 6,317	$ 54,233
750-799	63,746	76,381	8,058	16,892	165,077
700-749	55,047	53,210	4,280	12,131	124,668
650-699	54,579	21,579	2,854	7,909	86,921
600-649	40,977	12,750	2,485	5,066	61,278
550-599	29,732	10,698	1,547	3,466	45,443
500-549	28,573	3,716	1,615	2,758	36,662
Under 500	12,434	565	539	886	14,424
Unknown	4,082	579	80	174	4,915
Total	$ 315,679	$ 196,823	$ 25,520	$ 55,599	$ 593,621
Accrued interest included in total	$ 1,404	$ 928	$ 123	$ 290	$ 2,745

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

	Home Equity 1st Lien	Home Equity 2nd Lien	Installment(1) Loans not Secured by Real Estate	Other	Total
			(In thousands)		
March 31, 2012					
800 and above	$ 5,076	$ 4,830	$ 17,349	$ 75	$ 27,330
750-799	11,035	15,807	40,902	550	68,294
700-749	6,774	10,227	22,632	850	40,483
650-699	6,924	8,335	14,799	629	30,687
600-649	4,788	5,165	7,088	412	17,453
550-599	3,259	3,103	4,106	248	10,716
500-549	2,835	2,987	2,757	162	8,741
Under 500	1,042	711	1,092	45	2,890
Unknown	71	22	4,458	58	4,609
Total	$ 41,804	$ 51,187	$ 115,183	$ 3,029	$ 211,203
Accrued interest included in total	$ 164	$ 193	$ 459	$ 27	$ 843
December 31, 2011					
800 and above	$ 5,466	$ 5,047	$ 18,245	$ 70	$ 28,828
750-799	11,651	16,475	41,501	572	70,199
700-749	6,899	10,693	23,174	883	41,649
650-699	7,144	8,407	15,646	673	31,870
600-649	4,943	5,412	7,599	434	18,388
550-599	3,435	3,221	4,573	270	11,499
500-549	3,021	3,145	3,011	183	9,360
Under 500	1,160	854	1,391	50	3,455
Unknown	83	34	5,037	59	5,213
Total	$ 43,802	$ 53,288	$ 120,177	$ 3,194	$ 220,461
Accrued interest included in total	$ 176	$ 208	$ 489	$ 29	$ 902

(1) Credit scores have been updated within the last twelve months.

Mepco Finance Corporation ("Mepco") is a wholly-owned subsidiary of our Bank that operates a vehicle service contract payment plan business throughout the United States. See note #14 for more information about Mepco's business. As of March 31, 2012, approximately 90.7% of Mepco's outstanding payment plan receivables relate to programs in which a third party insurer or risk retention group is obligated to pay Mepco the full refund owing upon cancellation of the related service contract (including with respect to both the portion funded to the service contract seller and the portion funded to the administrator). These receivables are shown as "Full Refund" in the table below. Another approximately 8.7% of Mepco's outstanding payment plan receivables as of March 31, 2012, relate to programs in which a third party insurer or risk retention group is obligated to pay Mepco the refund owing upon cancellation only with respect to the unearned portion previously funded by Mepco to the administrator (but not to the service contract seller). These receivables are shown as "Partial Refund" in the table below. The balance of Mepco's outstanding payment plan receivables relate to programs in which there is no insurer or risk retention group that has any contractual liability to Mepco for any portion of the refund amount. These receivables are shown as "Other" in the table below. For each class of our payment plan receivables we monitor credit ratings of the counterparties as we evaluate the credit quality of this portfolio.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The following table summarizes credit ratings of insurer or risk retention group counterparties by class of payment plan receivable:

	Payment Plan Receivables			
	Full Refund	Partial Refund	Other	Total
	(In thousands)			
March 31, 2012				
AM Best rating				
A+	$ -	$ 106	$ 5	$ 111
A	31,488	154	252	31,894
A-	22,704	8,758	-	31,462
B+	761	-	-	761
B	-	-	-	-
Not rated	38,955	-	361	39,316
Total	$ 93,908	$ 9,018	$ 618	$ 103,544
December 31, 2011				
AM Best rating				
A+	$ -	$ 118	$ 7	$ 125
A	32,461	165	269	32,895
A-	27,056	10,639	-	37,695
B+	1,390	-	-	1,390
B	-	-	-	-
Not rated	42,762	-	151	42,913
Total	$ 103,669	$ 10,922	$ 427	$ 115,018

Although Mepco has contractual recourse against various counterparties for refunds owing upon cancellation of vehicle service contracts, please see note #14 below regarding certain risks and difficulties associated with collecting these refunds.

5. Segments

Our reportable segments are based upon legal entities. We currently have two reportable segments: Independent Bank ("IB" or "Bank") and Mepco. These business segments are also differentiated based on the products and services provided. We evaluate performance based principally on net income (loss) of the respective reportable segments.

In the normal course of business, our IB segment provides funding to our Mepco segment through an intercompany line of credit priced at the prime rate of interest as published in the Wall Street Journal. Our IB segment also provides certain administrative services to our Mepco segment which reimburses at an agreed upon rate. These intercompany transactions are eliminated upon consolidation. The only other material intersegment balances and transactions are investments in subsidiaries at the parent entities and cash balances on deposit at our IB segment.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

A summary of selected financial information for our reportable segments as of or for the three-month periods ended March 31 follows:

As of or for the three months ended March 31,	IB	Mepco(1)	Other(2)	Elimination (3)	Total
			(In thousands)		
2012					
Total assets	$ 2,257,369	$ 159,231	$ 160,126	$ (157,448)	$ 2,419,278
Interest income	21,845	3,851	-	-	25,696
Net interest income	19,939	2,882	(721)	-	22,100
Provision for loan losses	5,103	28	-	-	5,131
Income (loss) before income tax	3,013	1,556	(1,041)	(24)	3,504
Net income (loss)	3,542	1,027	(1,041)	(24)	3,504
2011					
Total assets	$ 2,238,475	$ 238,518	$ 169,934	$ (170,723)	$ 2,476,204
Interest income	24,580	6,138	-	-	30,718
Net interest income	20,531	4,587	(668)	-	24,450
Provision for loan losses	10,699	3	-	-	10,702
Loss before income tax	(6,236)	(590)	(559)	(24)	(7,409)
Net loss	(6,443)	(375)	(559)	(24)	(7,401)

(1) Total assets include gross payment plan receivables of $0.02 million at March 31, 2011 from customers domiciled in Canada. There were no such amounts at March 31, 2012. The amount at March 31, 2011 represents less than 1% of total payment plan receivables outstanding.
(2) Includes amounts relating to our parent company and certain insignificant operations.
(3) Includes parent company's investment in subsidiaries and cash balances maintained at subsidiary.

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6. Earnings Per Common Share

A reconciliation of basic and diluted loss per share for the three-month periods ended March 31 follows:

	Three months ended March 31,	
	2012	2011
	(in thousands, except per share amounts)	
Net income (loss) applicable to common stock	$ 2,448	$ (8,409)
Convertible preferred stock dividends	1,056	-
Net income (loss) applicable to common stock for calculation of diluted earnings per share(1)	$ 3,504	$ (8,409)
Weighted average shares outstanding	8,534	7,933
Effect of convertible preferred stock	38,618	24,547
Restricted stock units	140	68
Stock units for deferred compensation plan for non-employee directors	26	7
Weighted average shares outstanding for calculation of diluted income (loss) per share	47,318	32,555
Net income (loss) per common share		
Basic(2)	$ 0.29	$ (1.06)
Diluted(1)	0.07	(1.06)

(1) For any period in which a loss is recorded, dividends on convertible preferred stock are not added back in the diluted per share calculation. For any period in which a loss is recorded, the assumed conversion of convertible preferred stock, assumed exercise of common stock warrants, assumed exercise of stock options, restricted stock units and stock units for a deferred compensation plan for non-employee directors would have an anti-dilutive impact on the loss per share and thus are ignored in the diluted per share calculation.
(2) Basic income (loss) per share includes weighted average common shares outstanding during the period and participating share awards.

Weighted average stock options outstanding that were not considered in computing diluted loss per share because they were anti-dilutive totaled 0.2 million and 0.1 million for the three-month periods ended March 31, 2012 and 2011, respectively. The warrant to purchase 346,154 shares of our common stock was not considered in computing the diluted loss per share in both periods in 2012 and 2011 as it was anti-dilutive.

7. Derivative Financial Instruments

We are required to record derivatives on our Condensed Consolidated Statements of Financial Condition as assets and liabilities measured at their fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of derivatives and whether the derivatives qualify for hedge accounting.

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Our derivative financial instruments according to the type of hedge in which they are designated follows:

	March 31, 2012		
	Notional Amount	Average Maturity (years)	Fair Value
	(Dollars in thousands)		
Cash Flow Hedges - Pay fixed interest-rate swap agreements	$20,000	1.5	$(969)
No hedge designation			
Mandatory commitments to sell mortgage loans	$107,206	0.1	$8
Rate-lock mortgage loan commitments	70,528	0.1	1,700
Amended Warrant	2,504	6.7	(328)
Total	$180,238	0.2	$1,380

We have established management objectives and strategies that include interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. We monitor our interest rate risk position via simulation modeling reports. The goal of our asset/liability management efforts is to maintain profitable financial leverage within established risk parameters.

We use variable-rate and short-term fixed-rate (less than 12 months) debt obligations to fund a portion of our balance sheet, which exposes us to variability in interest rates. To meet our objectives, we may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates ("Cash Flow Hedges"). Cash Flow Hedges currently include certain pay-fixed interest-rate swaps. Pay-fixed interest-rate swaps convert the variable-rate cash flows on debt obligations to fixed-rates.

We record the fair value of Cash Flow Hedges in accrued income and other assets and accrued expenses and other liabilities. On an ongoing basis, we adjust our Condensed Consolidated Statements of Financial Condition to reflect the then current fair value of Cash Flow Hedges. The related gains or losses are reported in other comprehensive income or loss and are subsequently reclassified into earnings, as a yield adjustment in the same period in which the related interest on the hedged items (primarily variable-rate debt obligations) affect earnings. It is anticipated that approximately $0.4 million, of unrealized losses on Cash Flow Hedges at March 31, 2012 will be reclassified to earnings over the next twelve months. To the extent that the Cash Flow Hedges are not effective, the ineffective portion of the Cash Flow Hedges is immediately recognized as interest expense. The maximum term of any Cash Flow Hedge at March 31, 2012 is 2.8 years.

Certain financial derivative instruments have not been designated as hedges. The fair value of these derivative financial instruments has been recorded on our Condensed Consolidated Statements of Financial Condition and are adjusted on an ongoing basis to reflect their then current fair value. The changes in fair value of derivative financial instruments not designated as hedges are recognized in earnings.

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In the ordinary course of business, we enter into rate-lock mortgage loan commitments with customers (“Rate Lock Commitments”). These commitments expose us to interest rate risk. We also enter into mandatory commitments to sell mortgage loans (“Mandatory Commitments”) to reduce the impact of price fluctuations of mortgage loans held for sale and Rate Lock Commitments. Mandatory Commitments help protect our loan sale profit margin from fluctuations in interest rates. The changes in the fair value of Rate Lock Commitments and Mandatory Commitments are recognized currently as part of net gains on mortgage loans. We obtain market prices on Mandatory Commitments and Rate Lock Commitments. Net gains on mortgage loans, as well as net income (loss) may be more volatile as a result of these derivative instruments, which are not designated as hedges.

During 2010, we entered into an amended and restated warrant with the U.S. Department of the Treasury (“UST”) that would allow them to purchase our common stock at a fixed price (see note #15). Because of certain anti-dilution features included in the Amended Warrant (as defined in note #15), it is not considered to be indexed to our common stock and is therefore accounted for as a derivative instrument and recorded as a liability. Any change in value of the Amended Warrant is recorded in other income in our Condensed Consolidated Statements of Operations.

The following tables illustrate the impact that the derivative financial instruments discussed above have on individual line items in the Condensed Consolidated Statements of Financial Condition for the periods presented:

Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	March 31, 2012		December 31, 2011		March 31, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)							
Derivatives designated as hedging instruments								
Pay-fixed interest rate swap agreements					Other liabilities	$969	Other liabilities	$1,103
Total						969		1,103
Derivatives not designated as hedging instruments								
Rate-lock mortgage loan commitments	Other assets	$1,700	Other assets	$857				
Mandatory commitments to sell mortgage loans	Other assets	8		-		-	Other assets	606
Amended Warrant		-		-		328		174

			Other assets	Other assets
Total	1,708	857	328	780
Total derivatives	$1,708	$857	$1,297	$1,883

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The effect of derivative financial instruments on the Condensed Consolidated Statements of Operations follows:

	Three Month Periods Ended March 31,							
	Gain (Loss) Recognized in Other Comprehensive Income (Loss) (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income (1)	Gain (Loss) Recognized in Income	
	2012	2011		2012	2011		2012	2011
	(In thousands)							
Cash Flow Hedges								
Pay-fixed interest rate swap agreements	$(51)	$(23)	Interest expense	$(330)	$(416)		$-	$-
Interest-rate cap agreements	-	-	Interest expense	-	(8)		-	-
Total	$(51)	$(23)		$(330)	$(424)		$-	$-
No hedge designation								
Rate-lock mortgage loan commitments						Net mortgage loan gains	$843	$31
Mandatory commitments to sell mortgage loans						Net mortgage loan gains	614	(1,492)
Amended warrant						(Increase) decrease in fair value of U.S. Treasury warrant	(154)	354
Total							$1,303	$(1,107)

(1) For cash flow hedges, this location and amount refers to the ineffective portion.

8. Intangible Assets

Other intangible assets, net of amortization, were comprised of the following at March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Amortized other intangible assets - core deposits	$ 31,326	$ 23,989	$ 31,326	$ 23,717

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Amortization of other intangibles has been estimated through 2017 and thereafter in the following table.

	(In thousands)	
Nine months ended December 31, 2012	$	816
Year ending December 31:		
2013		1,078
2014		801
2015		613
2016		613
2017 and thereafter		3,416
Total	$	7,337

9. Share Based Compensation

We maintain share based payment plans that include a non-employee director stock purchase plan and a long-term incentive plan that permits the issuance of share based compensation, including stock options and non-vested share awards. The long-term incentive plan, which is shareholder approved, permits the grant of additional share based awards for up to 0.5 million shares of common stock as of March 31, 2012. The non-employee director stock purchase plan permits the grant of additional share based payments for up to 0.4 million shares of common stock as of March 31, 2012. Share based awards and payments are measured at fair value at the date of grant and are expensed over the requisite service period. Common shares issued upon exercise of stock options come from currently authorized but unissued shares.

During the first quarter of 2012 our president's annual salary was increased by $0.03 million, effective January 1, 2012. One half of this increase is currently being paid in the form of common stock (also referred to as "salary stock"). During the first quarter of 2011, pursuant to a management transition plan, our chief executive officer's annual salary was increased by $0.2 million effective January 1, 2011. This increase is currently being paid entirely in the form of salary stock. These shares are issued each pay period and vest immediately.

During the first quarter of 2011, we issued 0.14 million restricted stock units to five of our executive officers. These restricted stock units do not vest for a minimum of two years and until we repay in full our obligations related to the Troubled Asset Relief Program ("TARP").

Beginning in the second quarter of 2011 our directors elected to receive their quarterly cash retainer fees in the form of common stock currently (or on a deferred basis pursuant to a deferred compensation and stock purchase plan). Shares equal in value to each director's quarterly cash retainer are issued each quarter and vest immediately. We have issued 0.08 million shares to directors during 2012 and expensed their value during that same period. No such shares were issued during the first quarter of 2011.

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Total compensation expense (recovery) recognized for stock option grants, restricted stock grants, restricted stock unit grants and salary stock was $(0.1) million during the three month period ended March 31, 2012, and was $0.2 million during the same period in 2011. The recovery during the three month period ended March 31, 2012 related to a decrease in estimate of the actual amount of restricted stock grants that would actually vest. The corresponding tax benefit relating to these amounts were zero for both the three months ended March 31, 2012 and 2011. Total expense recognized for non-employee director share based payments was $0.1 million and zero during the three month periods ended March 31, 2012 and 2011, respectively.

At March 31, 2012, the total expected compensation cost related to non-vested stock options, restricted stock and restricted stock unit awards not yet recognized was $0.8 million. The weighted-average period over which this amount will be recognized is 2.6 years.

A summary of outstanding stock option grants and transactions follows:

	Three-months ended March 31, 2012			
	Number of Shares	Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregated Intrinsic Value (in thousands)
Outstanding at January 1, 2012	180,862	$ 7.98		
Granted	-	-		
Exercised	-	-		
Exchanged	-	-		
Forfeited	(7,700)	1.92		
Expired	(165)	7.00		
Outstanding at March 31, 2012	172,997	$ 8.25	8.27	$ 37
Vested and expected to vest at March 31, 2012	161,244	$ 8.71	8.19	$ 33
Exercisable at March 31, 2012	42,096	$ 27.93	5.21	$ 0

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A summary of non-vested restricted stock and stock units and transactions follows:

	2012	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2012	165,045	$ 17.90
Granted	-	-
Vested	-	-
Forfeited	(522)	93.14
Outstanding at March 31, 2012	164,523	$ 17.66

There were no stock option exercises during the three month periods ending March 31, 2012 and 2011, respectively.

10. Income Tax

At both March 31, 2012 and December 31, 2011, we had approximately $2.1 million of gross unrecognized tax benefits. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease during the balance of 2012.

As a result of being in a net operating loss carryforward position, we have established a deferred tax asset valuation allowance of $74.5 million and $75.2 million as of March 31, 2012 and December 31, 2011, respectively against all of our net deferred tax assets. Accordingly, we are not recognizing income tax expense (benefit) related to any income or loss before income tax. The income tax expense (benefit) was essentially zero for the three month periods ending March 31, 2012 and 2011.

11. Regulatory Matters

Capital guidelines adopted by Federal and State regulatory agencies and restrictions imposed by law limit the amount of cash dividends our Bank can pay to us. Under these guidelines, the amount of dividends that may be paid in any calendar year is limited to the Bank's current year's net profits, combined with the retained net profits of the preceding two years. It is not our intent to have dividends paid in amounts which would reduce the capital of our Bank to levels below those which we consider prudent and in accordance with guidelines of regulatory authorities.

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In December 2009, the Board of Directors of Independent Bank Corporation adopted resolutions (as subsequently amended) that impose the following restrictions:

We will not pay dividends on our outstanding common stock or the outstanding preferred stock held by the UST and we will not pay distributions on our outstanding trust preferred securities without, in each case, the prior written approval of the Federal Reserve Board ("FRB") and the Michigan Office of Financial and Insurance Regulation ("OFIR");
We will not incur or guarantee any additional indebtedness without the prior approval of the FRB;
We will not repurchase or redeem any of our common stock without the prior approval of the FRB; and
We will not rescind or materially modify any of these limitations without notice to the FRB and the OFIR.

In December 2009, the Board of Directors of Independent Bank adopted resolutions (as subsequently amended) designed to enhance certain aspects of the Bank's performance and, most importantly, to improve the Bank's capital position. These resolutions require the following:

The adoption by the Bank of a capital restoration plan designed to help the Bank achieve the minimum capital ratios established by the Bank's Board of Directors as described below;
The enhancement of the Bank's documentation of the rationale for discounts applied to collateral valuations on impaired loans and improved support for the identification, tracking, and reporting of loans classified as TDR's;
The adoption of certain changes and enhancements to our liquidity monitoring and contingency planning and our interest rate risk management practices;
Additional reporting to the Bank's Board of Directors regarding initiatives and plans pursued by management to improve the Bank's risk management practices;
Prior approval of the FRB and the OFIR for any dividends or distributions to be paid by the Bank to Independent Bank Corporation; and
Notice to the FRB and the OFIR of any rescission of or material modification to any of these resolutions.

The substance of all of the resolutions described above was developed in conjunction with discussions held with the FRB and the OFIR. Based on those discussions, we acted proactively to adopt the resolutions described above to address those areas of the Bank's financial condition and operations that we believe most require our focus at this time.

On October 25, 2011, the respective Boards of Directors of the Company and the Bank entered into a Memorandum of Understanding ("MOU") with the FRB and OFIR. The MOU largely duplicates certain of the provisions in the Board resolutions described above, but also has the following specific requirements:

Submission of a joint revised capital plan by November 30, 2011 to maintain sufficient capital at the Company on a consolidated basis and at the Bank on a stand-alone basis;
Submission of quarterly progress reports regarding disposition plans for any assets in excess of $1.0 million that are in ORE, are 90 days or more past due, are on our "watch list", or were adversely classified in our most recent examination;
Enhanced reporting and monitoring at Mepco regarding risk management and the internal classification of assets; and
Enhanced interest rate risk modeling practices.

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We believe that we are generally in compliance with the provisions of the MOU, however, the implementation and effectiveness of certain of our plans are subject to evaluation by our bank regulators at our next examination and we must still execute on certain strategies outlined in our Joint Revised Capital Plan (the “Capital Plan”).

We are also subject to various regulatory capital requirements. The prompt corrective action regulations establish quantitative measures to ensure capital adequacy and require minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that could have a material effect on our consolidated financial statements. Under capital adequacy guidelines, we must meet specific capital requirements that involve quantitative measures as well as qualitative judgments by the regulators. The most recent regulatory filings as of March 31, 2012 and December 31, 2011 categorized our Bank as well capitalized. Management is not aware of any conditions or events that would have changed the most recent Federal Deposit Insurance Corporation (“FDIC”) categorization.

Our actual capital amounts and ratios follow:

	Actual		Minimum for Adequately Capitalized Institutions		Minimum for Well-Capitalized Institutions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
March 31, 2012						
Total capital to risk-weighted assets						
Consolidated	$ 178,198	11.63 %	$ 122,538	8.00 %	NA	NA
Independent Bank	180,538	11.81	122,321	8.00	$ 152,901	10.00 %
Tier 1 capital to risk-weighted assets						
Consolidated	$ 149,279	9.75 %	$ 61,269	4.00 %	NA	NA
Independent Bank	160,955	10.53	61,161	4.00	$ 91,741	6.00 %
Tier 1 capital to average assets						
Consolidated	$ 149,279	6.33 %	$ 94,282	4.00 %	NA	NA
Independent Bank	160,955	6.84	94,176	4.00	$ 117,719	5.00 %
December 31, 2011						
Total capital to risk-weighted assets						
Consolidated	$ 174,547	11.31 %	$ 123,470	8.00 %	NA	NA
Independent Bank	175,868	11.41	123,254	8.00	$ 154,068	10.00 %
Tier 1 capital to risk-weighted assets						

Consolidated	$ 144,265	9.35	%	$ 61,735	4.00	%	NA	NA	
Independent Bank	156,104	10.13		61,627	4.00		$ 92,441	6.00 %
Tier 1 capital to average assets								
Consolidated	$ 144,265	6.25	%	$ 92,338	4.00	%	NA	NA
Independent Bank	156,104	6.77		92,268	4.00		$ 115,335	5.00 %

NA - Not applicable

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The components of our regulatory capital are as follows:

	Consolidated		Independent Bank	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(In thousands)			
Total shareholders' equity	$105,032	$ 102,627	$156,267	$ 152,987
Add (deduct)				
Qualifying trust preferred securities	39,366	38,183	-	-
Accumulated other comprehensive loss	13,065	11,921	12,872	11,583
Intangible assets	(7,337)	(7,609)	(7,337)	(7,609)
Disallowed capitalized mortgage loan servicing rights	(847)	(857)	(847)	(857)
Tier 1 capital	149,279	144,265	160,955	156,104
Qualifying trust preferred securities	9,302	10,485	-	-
Allowance for loan losses and allowance for unfunded lending commitments limited to 1.25% of total risk-weighted assets	19,617	19,797	19,583	19,764
Total risk-based capital	$178,198	$ 174,547	$180,538	$ 175,868

In November, 2011, our Board adopted the Capital Plan and submitted such Capital Plan to the FRB and the OFIR. The Capital Plan was updated in February, 2012. The FRB and OFIR have accepted such Capital Plan, assuming the execution of certain strategies and the attainment of the required Tier 1 Capital to Average Total Assets Ratio of 8%.

The primary objective of our Capital Plan is to achieve and thereafter maintain the minimum capital ratios required by the Board resolutions adopted in December 2009 (as subsequently amended). The minimum capital ratios established by our Board are higher than the ratios required in order to be considered "well-capitalized" under federal standards. The Board imposed these higher ratios in order to ensure that we have sufficient capital to withstand potential continuing losses based on our elevated level of non-performing assets and given certain other risks and uncertainties we face. As of March 31, 2012, our Bank continued to meet the requirements to be considered "well-capitalized" under federal regulatory standards and met one of the minimum capital ratio goals established by our Board.

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Set forth below are the actual capital ratios of our Bank as of March 31, 2012, the minimum capital ratios imposed by the Board resolutions, and the minimum ratios necessary to be considered "well-capitalized" under federal regulatory standards:

	Independent Bank Actual as of March 31, 2012	Minimum Ratios Established by our Board	Minimum Ratio Required to be Well-Capitalized
Total Capital to Risk-Weighted Assets	11.81 %	11.00 %	10.00 %
Tier 1 Capital to Average Total Assets	6.84	8.00	5.00

If we are unable to achieve both minimum capital ratios set forth in our Capital Plan it may adversely affect our business and financial condition. An inability to improve our capital position could make it difficult for us to withstand continued losses. In addition, we believe that if our financial condition and performance fail to improve, we may not be able to remain well-capitalized under federal regulatory standards. In that case, our primary bank regulators may impose additional regulatory restrictions and requirements on us. If we fail to remain well-capitalized under federal regulatory standards, we will be prohibited from accepting or renewing brokered certificates of deposit without the prior consent of the FDIC, which would likely have an adverse impact on our business and financial condition. If our regulators take more formal enforcement action against us, it would likely increase our expenses and could limit our business operations. There could be other expenses associated with a continued deterioration of our capital, such as increased deposit insurance premiums payable to the FDIC. At the present time, based on our current forecasts and expectations, we believe that our Bank can remain above "well-capitalized" for regulatory purposes for the foreseeable future, even without additional capital, because of some projected further decline in total assets (principally loans) and anticipated improved performance in 2012.

12. Fair Value Disclosures

FASB ASC topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 instruments include securities traded on active exchange markets, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 instruments include securities traded in less active dealer or broker markets.

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Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

We used the following methods and significant assumptions to estimate fair value:

Securities: Where quoted market prices are available in an active market, securities (trading or available for sale) are classified as Level 1 of the valuation hierarchy. Level 1 securities include certain preferred stocks included in our trading portfolio for which there are quoted prices in active markets. If quoted market prices are not available for the specific security, then fair values are estimated by (1) using quoted market prices of securities with similar characteristics, (2) matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or (3) a discounted cash flow analysis whose significant fair value inputs can generally be verified and do not typically involve judgment by management. These securities are classified as Level 2 of the valuation hierarchy and include agency and private label residential mortgage-backed securities, municipal securities and trust preferred securities.

Loans held for sale: The fair value of mortgage loans held for sale is based on mortgage backed security pricing for comparable assets (recurring Level 2).

Impaired loans with specific loss allocations based on collateral value: From time to time, certain loans are considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. We measure our investment in an impaired loan based on one of three methods: the loan's observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At March 31, 2012 and December 31, 2011, all of our total impaired loans were evaluated based on either the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. When the fair value of the collateral is based on an appraised value or when an appraised value is not available we record the impaired loan as nonrecurring Level 3. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and thus will typically result in a Level 3 classification of the inputs for determining fair value.

Other real estate: At the time of acquisition, other real estate is recorded at fair value, less estimated costs to sell, which becomes the property's new basis. Subsequent write-downs to reflect declines in value since the time of acquisition may occur from time to time and are recorded in other expense in the Condensed Consolidated Statements of Operations. The fair value of the property used at and subsequent to the time of acquisition is typically determined by a third party appraisal of the property. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments can be significant and typically result in a Level 3 classification of the inputs for determining fair value.

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Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by us. Once received, an independent third party (for commercial properties over $0.25 million) or a member of our special assets group (for commercial properties under $0.25 million and retail properties) reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, we compare the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment, if any, should be made to the appraisal value to arrive at fair value. For commercial properties we typically do not discount an appraisal while for retail properties we generally discount the value by 5%. In addition, we will adjust the appraised values for expected liquidation costs including sales commissions and transfer taxes.

Capitalized mortgage loan servicing rights: The fair value of capitalized mortgage loan servicing rights is based on a valuation model used by an independent third party that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. Since the secondary servicing market has not been active since the later part of 2009, model assumptions are generally unobservable and are based upon the best information available including data relating to our own servicing portfolio, reviews of mortgage servicing assumption and valuation surveys and input from various mortgage servicers and, therefore, are recorded as nonrecurring Level 3. At March 31, 2012 these assumptions included a weighted average ("WA") discount rate of 10.6%, WA cost to service of $64, WA ancillary income of $35 and WA float rate of 1.27%. Management evaluates the third party valuation for reasonableness each quarter as part of our financial reporting control processes.

Derivatives: The fair value of interest rate swap agreements, in general, is determined using a discounted cash flow model whose significant fair value inputs can generally be verified and do not typically involve judgment by management (recurring Level 2). The fair value of the Amended Warrant is determined by an independent third party using a simulation analysis which considers potential outcomes for a large number of independent scenarios regarding the future prices of our common stock. The simulation analysis relies on a binomial lattice model, a standard technique usually applied to the valuation of stock options. The binomial lattice maps out possible price paths of our common stock, the underlying asset of the Amended Warrant. The simulation is based on a 500-step lattice covering the term of the Amended Warrant. The binomial lattice requires specification of 14 variables, of which several are unobservable in the market including probability of a non-permitted capital raise (1.0% at March 31, 2012 and December 31, 2011), expected discount to stock price in an equity raise (10%), dollar amount of expected capital raise ($100 million) and expected time of equity raise (April, 2013 at March 31, 2012 and December 31, 2011). As a result of these unobservable inputs, the resulting fair value of the Amended Warrant is classified as Level 3 pricing. Changes in these variables would have an impact on the fair value of the Amended Warrant. If the probability of a non-permitted capital raise increased to 2.5%, 5.0% or 10.0%, the value of the Amended Warrant would increase to $0.38 million, $0.42 million and $0.55 million, respectively.

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Assets and liabilities measured at fair value, including financial assets for which we have elected the fair value option, were as follows:

		Fair Value Measurements Using		
	Fair Value Measure-ments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
	(In thousands)			
March 31, 2012:				
Measured at Fair Value on a Recurring Basis:				
Assets				
Trading securities	$69	$69	$-	$-
Securities available for sale				
U.S. agency	96,064	-	96,064	-
U.S. agency residential mortgage-backed	162,154	-	162,154	-
Private label residential mortgage-backed	8,031	-	8,031	-
Obligations of states and political subdivisions	34,414	-	34,414	-
Trust preferred	2,995	-	2,995	-
Loans held for sale	40,321	-	40,321	-
Derivatives (1)	1,708	-	1,708	-
Liabilities				
Derivatives (2)	1,297	-	969	328
Measured at Fair Value on a Non-recurring basis:				
Assets				
Capitalized mortgage loan servicing rights (3)	11,229	-	-	11,229
Impaired loans (4)				
Commercial				
Income producing - real estate	7,458	-	-	7,458
Land, land development &construction-real estate	3,255	-	-	3,255
Commercial and industrial	6,089	-	-	6,089
Mortgage				
1-4 Family	2,606	-	-	2,606
Resort Lending	721	-	-	721
Other real estate (5)				
Commercial				
Income producing - real estate	1,035	-	-	1,035
Land, land development &construction-real estate	7,238	-	-	7,238
Commercial and industrial	620	-	-	620
Mortgage				
1-4 Family	994	-	-	994
Resort Lending	4,928	-	-	4,928

Installment				
Home equity installment - 1st lien	90	-	-	90

(1) Included in accrued income and other assets
(2) Included in accrued expenses and other liabilities
(3) Only includes servicing rights that are carried at fair value due to recognition of a valuation allowance.
(4) Only includes impaired loans with specific loss allocations based on collateral value.
(5) Only includes other real estate with subsequent write downs to fair value.

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		Fair Value Measurements Using		
	Fair Value Measure-ments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
	(In thousands)			
December 31, 2011:				
Measured at Fair Value on a Recurring Basis:				
Assets				
Trading securities	$77	$77	$-	$-
Securities available for sale				
U.S. agency	25,017	-	25,017	-
U.S. agency residential mortgage-backed	94,206	-	94,206	-
Private label residential mortgage-backed	8,268	-	8,268	-
Obligations of states and political subdivisions	27,317	-	27,317	-
Trust preferred	2,636	-	2,636	-
Loans held for sale	44,801	-	44,801	-
Derivatives (1)	857	-	857	-
Liabilities				
Derivatives (2)	1,883	-	1,709	174
Measured at Fair Value on a Non-recurring basis:				
Assets				
Capitalized mortgage loan servicing rights (3)	11,004	-	-	11,004
Impaired loans (4)				
Commercial				
Income producing - real estate	8,022	-	-	8,022
Land, land development &construction-real estate	5,702	-	-	5,702
Commercial and industrial	5,613	-	-	5,613
Mortgage				
1-4 Family	3,263	-	-	3,263
Resort Lending	1,064	-	-	1,064
Other real estate (5)				
Commercial				
Income producing - real estate	1,388	-	-	1,388
Land, land development &construction-real estate	7,512	-	-	7,512
Commercial and industrial	497	-	-	497
Mortgage				
1-4 Family	2,079	-	-	2,079
Resort Lending	5,297	-	-	5,297
Home equity line of credit - 1st lien	53	-	-	53
Installment				

Home equity installment - 1st lien	100	-	-	100

(1) Included in accrued income and other assets
(2) Included in accrued expenses and other liabilities
(3) Only includes servicing rights that are carried at fair value due to recognition of a valuation allowance.
(4) Only includes impaired loans with specific loss allocations based on collateral value.
(5) Only includes other real estate with subsequent write downs to fair value.

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There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2012 and 2011.

Changes in fair values for financial assets which we have elected the fair value option for the periods presented were as follows:

	Changes in Fair Values for the Three-Month Periods Ended March 31 for Items Measured at Fair Value Pursuant to Election of the Fair Value Option					
	2012			2011		
	Net Gains (Losses) on Assets		Total Change in Fair Values Included in Current Period Earnings	Net Gains (Losses) on Assets		Total Change in Fair Values Included in Current Period Earnings
	Securities	Loans		Securities	Loans	
	(In thousands)					
Trading securities	$(8)	$ -	$ (8)	$ 73	$ -	$ 73
Loans held for sale	-	(421)	(421)	-	585	585

For those items measured at fair value pursuant to our election of the fair value option, interest income is recorded within the Condensed Consolidated Statements of Operations based on the contractual amount of interest income earned on these financial assets and dividend income is recorded based on cash dividends.

The following represent impairment charges recognized during the three month periods ended March 31, 2012 and 2011 relating to assets measured at fair value on a non-recurring basis:

- Capitalized mortgage loan servicing rights, whose individual strata are measured at fair value, had a carrying amount of $11.2 million which is net of a valuation allowance of $5.8 million at March 31, 2012 and had a carrying amount of $11.0 million which is net of a valuation allowance of $6.5 million at December 31, 2011. A recovery of $0.7 million and $0.6 million was included in our results of operations for the three month periods ending March 31, 2012 and 2011, respectively.
- Loans which are measured for impairment using the fair value of collateral for collateral dependent loans, had a carrying amount of $29.6 million, with a valuation allowance of $9.4 million at March 31, 2012 and had a carrying amount of $33.9 million, with a valuation allowance of $10.3 million at December 31, 2011. An additional provision for loan losses relating to impaired loans of $2.3 million and $4.9 million was included in our results of operations for the three month periods ending March 31, 2012 and 2011, respectively.
- Other real estate, which is measured using the fair value of the property, had a carrying amount of $14.9 million which is net of a valuation allowance of $13.9 million at March 31, 2012 and a carrying amount of $16.9 million which is net of a valuation allowance of $14.7 million at December 31, 2011. An additional charge relating to ORE measured at fair value of $1.0 million and $1.4 million was included in our results of operations during the three month periods ended March 31, 2012 and 2011, respectively.

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A reconciliation for all liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31 follows:

	(Liability) Amended Warrant	
	2012	2011
Beginning balance	$(174)	$(1,311)
Total gains (losses) realized and unrealized:		
Included in results of operations	(154)	354
Included in other comprehensive income	-	-
Purchases, issuances, settlements, maturities and calls	-	-
Transfers in and/or out of Level 3	-	-
Ending balance	$(328)	$(957)
Amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at March 31	$(154)	$354

During 2010, we entered into an amended and restated warrant with the UST that would allow them to purchase our common stock at a fixed price (see note #15). Because of certain anti-dilution features included in the Amended Warrant, it is not considered to be indexed to our common stock and is therefore accounted for as a derivative instrument (see note #7). Any change in value of this warrant is recorded in other income in our Condensed Consolidated Statements of Operations.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding for loans held for sale for which the fair value option has been elected for the periods presented.

	Aggregate Fair Value	Difference	Contractual Principal
		(In thousands)	
Loans held for sale			
March 31, 2012	$40,321	$982	$39,339
December 31, 2011	44,801	1,403	43,398

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13. Fair Values of Financial Instruments

Most of our assets and liabilities are considered financial instruments. Many of these financial instruments lack an available trading market and it is our general practice and intent to hold the majority of our financial instruments to maturity. Significant estimates and assumptions were used to determine the fair value of financial instruments. These estimates are subjective in nature, involving uncertainties and matters of judgment, and therefore, fair values cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimated fair values have been determined using available data and methodologies that are considered suitable for each category of financial instrument. For instruments with adjustable-interest rates which reprice frequently and without significant credit risk, it is presumed that estimated fair values approximate the recorded book balances.

Cash and due from banks and interest bearing deposits: The recorded book balance of cash and due from banks and interest bearing deposits approximate fair value and are classified as Level 1.

Securities: Financial instrument assets actively traded in a secondary market have been valued using quoted market prices. Trading securities are classified as Level 1 while securities available for sale are classified as Level 2 as described in note #12.

Federal Home Loan Bank and Federal Reserve Bank Stock: It is not practicable to determine the fair value of FHLB and FRB Stock due to restrictions placed on transferability.

Net loans and loans held for sale: The fair value of loans is calculated by discounting estimated future cash flows using estimated market discount rates that reflect credit and interest-rate risk inherent in the loans resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described in note #12. Loans held for sale are classified as Level 2 as described in note #12.

Accrued interest receivable and payable: The recorded book balance of accrued interest receivable and payable approximate fair value and are classified at the same Level as the asset and liability they are associated with.

Derivative financial instruments: Interest rate swaps have principally been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates and are classified as Level 2 as described in note #12 and the Amended Warrant has been valued based on a simulation analysis which considers potential outcomes for a large number of independent scenarios and is classified as Level 3 as described in note #12.

Deposits: Deposits without a stated maturity, including demand deposits, savings, NOW and money market accounts, have a fair value equal to the amount payable on demand. Each of these instruments is classified as Level 1. Deposits with a stated maturity, such as certificates of deposit have been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

Other borrowings: Other borrowings have been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity resulting in a Level 2 classification.

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Subordinated debentures: Subordinated debentures have generally been valued based on a quoted market price of the specific or similar instruments resulting in a Level 1 or Level 2 classification.

The estimated recorded book balances and fair values follows:

	March 31, 2012				
			Fair Value Measurements Using		
	Recorded Book Balance	Fair Value Measure-ments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
			(In thousands)		
Assets					
Cash and due from banks	$53,700	$53,700	$53,700	$-	$-
Interest bearing deposits	299,200	299,200	299,200	-	-
Trading securities	70	70	70	-	-
Securities available for sale	303,700	303,700	-	303,700	-
Federal Home Loan Bank and Federal Reserve Bank Stock	20,800	NA	NA	NA	NA
Net loans and loans held for sale	1,519,000	1,464,700	-	40,300	1,424,400
Accrued interest receivable	6,500	6,500	50	1,000	5,450
Derivative financial instruments	1,700	1,700	-	1,700	-
Liabilities					
Deposits with no stated maturity	$1,613,600	$1,613,600	$1,613,600	$-	$-
Deposits with stated maturity	570,700	574,500	-	574,500	-
Other borrowings	33,000	37,100	-	37,100	-
Subordinated debentures	50,200	27,600	5,200	22,400	-
Accrued interest payable	5,700	5,500	2,200	3,300	-
Derivative financial instruments	1,300	1,300	-	1,000	300

	December 31, 2011	
	Recorded Book Balance	Estimated Fair Value
Assets		
Cash and due from banks	$ 62,800	$ 62,800
Interest bearing deposits	278,300	278,300
Trading securities	80	80
Securities available for sale	157,400	157,400
Federal Home Loan Bank and Federal Reserve Bank Stock	20,800	NA

Net loans and loans held for sale		1,562,500		1,475,700
Accrued interest receivable		6,200		6,200
Derivative financial instruments		900		900
Liabilities				
Deposits with no stated maturity	$	1,517,300	$	1,517,300
Deposits with stated maturity		568,800		571,600
Other borrowings		33,400		37,900
Subordinated debentures		50,200		16,100
Accrued interest payable		5,100		5,100
Derivative financial instruments		1,900		1,900

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The fair values for commitments to extend credit and standby letters of credit are estimated to approximate their aggregate book balance, which is nominal and therefore are not disclosed.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the entire holdings of a particular financial instrument.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, the value of future earnings attributable to off-balance sheet activities and the value of assets and liabilities that are not considered financial instruments.

Fair value estimates for deposit accounts do not include the value of the core deposit intangible asset resulting from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

14. Contingent Liabilities

Our Mepco segment conducts its payment plan business activities across the United States. Mepco acquires the payment plans from companies (which we refer to as Mepco's "counterparties") at a discount from the face amount of the payment plan. Each payment plan (which are classified as payment plan receivables in our Condensed Consolidated Statements of Financial Condition) permit a consumer to purchase a service contract by making installment payments, generally for a term of 12 to 24 months, to the sellers of those contracts (one of the "counterparties"). Mepco thereafter collects the payments from consumers. In acquiring the payment plan, Mepco generally funds a portion of the cost to the seller of the service contract and a portion of the cost to the administrator of the service contract. The administrator, in turn, pays the necessary contractual liability insurance policy ("CLIP") premium to the insurer or risk retention group.

Consumers are allowed to voluntarily cancel the service contract at any time and are generally entitled to receive a refund from the administrator of the unearned portion of the service contract at the time of cancellation. As a result, while Mepco does not owe any refund to the consumer, it also does not have any recourse against the consumer for nonpayment of a payment plan and therefore does not evaluate the creditworthiness of the individual consumer. If a consumer stops making payments on a payment plan or exercises the right to voluntarily cancel the service contract, the service contract seller and administrator are each obligated to refund to Mepco the amount necessary to make Mepco whole as a result of its funding of the service contract. In addition, the insurer or risk retention group that issued the CLIP for the service contract often guarantees all or a portion of the refund to Mepco. See note #4 above for a breakdown of Mepco's payment plan receivables by the level of recourse Mepco has against various counterparties.

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Upon the cancellation of a service contract and the completion of the billing process to the counterparties for amounts due to Mepco, there is a decrease in the amount of “payment plan receivables” and an increase in the amount of “vehicle service contract counterparty receivables” until such time as the amount due from the counterparty is collected. These amounts represent funds actually due to Mepco from its counterparties for cancelled service contracts. At March 31, 2012, the aggregate amount of such obligations owing to Mepco by counterparties, net of write-downs and reserves made through the recognition of vehicle service contract counterparty contingencies expense, totaled $28.9 million. This compares to a balance of $29.3 million at December 31, 2011. Mepco is currently in the process of working to recover these receivables, including through liquidation of collateral, claims against the bankruptcy estate of a counterparty that previously represented a significant portion of Mepco’s business, and litigation against counterparties.

In some cases, Mepco requires collateral or guaranties by the principals of the counterparties to secure these refund obligations; however, this is generally only the case when no rated insurance company is involved to guarantee the repayment obligation of the seller and administrator counterparties. In most cases, there is no collateral to secure the counterparties’ refund obligations to Mepco, but Mepco has the contractual right to offset unpaid refund obligations against amounts Mepco would otherwise be obligated to fund to the counterparties. In addition, even when other collateral is involved, the refund obligations of these counterparties are not fully secured. Mepco incurs losses when it is unable to fully recover funds owing to it by counterparties upon cancellation of the underlying service contracts. The sudden failure of one of Mepco’s major counterparties (an insurance company, administrator, or seller/dealer) could expose us to significant losses.

When counterparties do not honor their contractual obligations to Mepco to repay advanced funds, we recognize estimated losses. Mepco pursues collection (including commencing legal action if necessary) of funds due to it under its various contracts with counterparties. For the three months ended March 31, 2012 and 2011, non-interest expenses include $0.5 million and $2.3 million, respectively, of charges related to estimated losses for vehicle service contract counterparty contingencies. These charges are being classified in non-interest expense because they are associated with a default or potential default of a contractual obligation under our counterparty contracts as opposed to loss on the administration of the payment plan itself.

The determination of losses related to vehicle service contract counterparty contingencies requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and the amount collected from counterparties in connection with their contractual obligations. Mepco is currently involved in litigation with certain of its counterparties in an attempt to collect amounts owing from those counterparties for cancelled service contracts.

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We apply a rigorous process, based upon observable contract activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses. As a result, we could record future losses associated with vehicle service contract counterparty contingencies that may be significantly different than the levels that we recorded during the first three months of 2012 and 2011.

We believe our assumptions regarding the collection of vehicle service contract counterparty receivables are reasonable, and we based them on our good faith judgments using data currently available. We also believe the current amount of reserves we have established and the vehicle service contract counterparty contingencies expense that we have recorded are appropriate given our estimate of probable incurred losses at the applicable Condensed Consolidated Statement of Financial Condition date. However, because of the uncertainty surrounding the numerous and complex assumptions made, actual losses could exceed the charges we have taken to date.

We are also involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our Condensed Consolidated Financial Statements. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. However, at this time, we are unable to estimate the range of additional losses that are reasonably possible because of a number of factors, including the fact that certain of these litigation matters are still in their early stages and involve claims for which, at this point, we believe have little to no merit.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans or vehicle service contract counterparty receivables). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote. Risks associated with the likelihood that we will not collect the full amount owed to us, net of reserves, are disclosed elsewhere in this report.

15. Shareholders' Equity

On April 2, 2010, we entered into an exchange agreement with the UST pursuant to which the UST agreed to exchange all 72,000 shares of our Series A Fixed Rate Cumulative Perpetual Preferred Stock, with an original liquidation preference of $1,000 per share ("Series A Preferred Stock"), beneficially owned and held by the UST, plus accrued and unpaid dividends on such Series A Preferred Stock, for shares of our Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, with an original liquidation preference of $1,000 per share ("Series B Preferred Stock"). As part of the terms of the exchange agreement, we also agreed to amend and restate the terms of the warrant, dated December 12, 2008, issued to the UST to purchase 346,154 shares of our common stock.

On April 16, 2010, we closed the transactions described in the exchange agreement and we issued to the UST (1) 74,426 shares of our Series B Preferred Stock and (2) an Amended and Restated Warrant to purchase 346,154 shares of our common stock at an exercise price of $7.234 per share and expiring on December 12, 2018 (the "Amended Warrant") for all of the 72,000 shares of Series A Preferred Stock and the original warrant that had been issued to the UST in December 2008 pursuant to the TARP Capital Purchase Program, plus approximately $2.4 million in accrued dividends on such Series A Preferred Stock.

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With the exception of being convertible into shares of our common stock, the terms of the Series B Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that was exchanged. The Series B Preferred Stock qualifies as Tier 1 regulatory capital and pays cumulative dividends quarterly at a rate of 5% per annum through February 14, 2014, and at a rate of 9% per annum thereafter. The Series B Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Series B Preferred Stock. If dividends on the Series B Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether consecutive or not, the holders of the Series B Preferred Stock, voting together with holders of any then outstanding voting parity stock, have the right to elect two additional directors at our next annual meeting of shareholders or at a special meeting of shareholders called for that purpose. These directors would be elected annually and serve until all accrued and unpaid dividends on the Series B Preferred Stock have been paid. Beginning in December of 2009, we suspended payment of quarterly dividends. The cash dividends payable to the UST amount to approximately $4.1 million per year until December of 2013, at which time they would increase to approximately $7.4 million per year. Because we have deferred dividends on the Series B Preferred Stock for at least six quarterly dividend periods, the UST currently has the right to elect two directors to our board. At this time, in lieu of electing such directors, the UST requested us to allow (and we have allowed) an observer to attend our Board of Directors meetings beginning in the third quarter of 2011. The UST continues to retain the right to elect two directors as described above.

Under the terms of the Series B Preferred Stock, UST (and any subsequent holder of the Series B Preferred Stock) has the right to convert the Series B Preferred Stock into our common stock at any time. In addition, we have the right to compel a conversion of the Series B Preferred Stock into common stock, subject to the following conditions:

(i) we shall have received all appropriate approvals from the Board of Governors of the Federal Reserve System;
(ii) we shall have issued our common stock in exchange for at least $40 million aggregate original liquidation amount of the trust preferred securities issued by the Company’s trust subsidiaries, IBC Capital Finance II, IBC Capital Finance III, IBC Capital Finance IV, and Midwest Guaranty Trust I;
(iii) we shall have closed one or more transactions (on terms reasonably acceptable to the UST, other than the price per share of common stock) in which investors, other than the UST, have collectively provided a minimum aggregate amount of $100 million in cash proceeds to us in exchange for our common stock; and
(iv) we shall have made the anti-dilution adjustments to the Series B Preferred Stock, if any, required by the terms of the Series B Preferred Stock.

If converted by the holder or by us pursuant to either of the above-described conversion rights, each share of Series B Preferred Stock (liquidation amount of $1,000 per share) will convert into a number of shares of our common stock equal to a fraction, the numerator of which is $750 and the denominator of which is $7.234, which was the market price of our common stock at the time the exchange agreement was signed (as such market price was determined pursuant to the terms of the Series B Preferred Stock), referred to as the “conversion rate.” This conversion rate is subject to certain anti-dilution adjustments that may result in a greater number of shares being issued to the holder of the Series B Preferred Stock. If converted by the holder or by us pursuant to either of the above-described conversion rights, as of March 31, 2012, the Series B Preferred Stock and accrued and unpaid dividends would have been convertible into approximately 11.3 million shares of our common stock.

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

At the time any Series B Preferred Stock are converted into our common stock, we will be required to pay all accrued and unpaid dividends on the Series B Preferred Stock being converted in cash or, at our option, in shares of our common stock, in which case the number of shares to be issued will be equal to the amount of accrued and unpaid dividends to be paid in common stock divided by the market value of our common stock at the time of conversion (as such market price is determined pursuant to the terms of the Series B Preferred Stock). Accrued and unpaid dividends on the Series B Preferred Stock totaled $7.6 million (approximately $102 per share of Series B Preferred Stock) and $6.6 million (approximately $89 per share of Series B Preferred Stock) at March 31, 2012 and December 31, 2011, respectively. These amounts are recorded in Convertible Preferred Stock on the Condensed Consolidated Statements of Financial Condition.

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

The Series B Preferred Stock may be redeemed by us, subject to the approval of the Board of Governors of the Federal Reserve System, at any time, in an amount up to the cash proceeds (minimum of approximately $18.6 million) from qualifying equity offerings of common stock (plus any net increase to our retained earnings after the original issue date). If the Series B Preferred Stock is redeemed prior to the first dividend payment date falling on or after the second anniversary of the original issue date, the redemption price will be equal to the $1,000 liquidation amount per share plus any accrued and unpaid dividends. If the Series B Preferred Stock is redeemed on or after such date, the redemption price will be the greater of (a) the $1,000 liquidation amount per share plus any accrued and unpaid dividends and (b) the product of the applicable Conversion Rate (as described above) and the average of the market prices per share of our common stock (as such market price is determined pursuant to the terms of the Series B Preferred Stock) over a 20 trading day period beginning on the trading day immediately after we give notice of redemption to the holder (plus any accrued and unpaid dividends). In any redemption, we must redeem at least 25% of the number of Series B Preferred Stock shares originally issued to the UST, unless fewer of such shares are then outstanding (in which case all of the Series B Preferred Stock must be redeemed). In addition to the terms of the Series B Preferred Stock discussed above, the UST updated its Frequently Asked Questions regarding the Capital Purchase Program ("CPP") as of March 1, 2012 to permit any CPP participant to repay its investment, in part, subject to a minimum repayment of the greater of (i) 5% of the aggregate liquidation amount of the preferred stock issued to the UST or (ii) $100,000. Under this updated guidance, we could repay a minimum of approximately $3.7 million, subject to the approval of the Board of Governors of the Federal Reserve System, in a partial redemption of the Series B Preferred Stock.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

On July 7, 2010 we executed an Investment Agreement and Registration Rights Agreement with Dutchess Opportunity Fund, II, LP ("Dutchess") for the sale of up to 1.50 million shares of our common stock. These agreements serve to establish an equity line facility as a contingent source of liquidity at the parent company level. Pursuant to the Investment Agreement, Dutchess committed to purchase up to $15.0 million of our common stock over a 36-month period ending November 1, 2013. We have the right, but no obligation, to draw on this equity line facility from time to time during such 36-month period by selling shares of our common stock to Dutchess. The sales price would be at a 5% discount to the market price of our common stock at the time of the draw; as such market price is determined pursuant to the terms of the Investment Agreement. Through March 31, 2012, 0.78 million shares of our common stock were sold to Dutchess pursuant to the Investment Agreement (0.43 million shares during 2011 and 0.35 million shares during the fourth quarter of 2010) for an aggregate purchase price of $1.8 million. In order to comply with Nasdaq rules, we needed shareholder approval to sell more than approximately 0.7 million more shares to Dutchess pursuant to the Investment Agreement. In April 2011, our shareholders approved a resolution at our Annual Meeting to authorize us to sell up to 2.5 million additional shares under this equity line, so we now have additional flexibility to take advantage of this contingent source of liquidity. Remaining shares approved to sell pursuant to the Investment Agreement totaled 3.2 million shares at March 31, 2012. Based on our closing stock price on March 31, 2012, additional funds available under the Investment Agreement totaled approximately $7.1 million at March 31, 2012.

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ITEM 2.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

The following section presents additional information that may be necessary to assess our financial condition and results of operations. This section should be read in conjunction with our condensed consolidated financial statements contained elsewhere in this report as well as our 2011 Annual Report on Form 10-K. The Form 10-K includes a list of risk factors that you should consider in connection with any decision to buy or sell our securities.

Introduction. Our success depends to a great extent upon the economic conditions in Michigan's Lower Peninsula. We have in general experienced a difficult economy in Michigan since 2001, although economic conditions in the state began to show signs of improvement during 2010 and generally these improvements have continued into 2012, albeit at a slower pace, as evidenced, in part, by an overall decline in the unemployment rate. However, Michigan's unemployment rate has been consistently above the national average.

We provide banking services to customers located primarily in Michigan's Lower Peninsula. Our loan portfolio, the ability of the borrowers to repay these loans and the value of the collateral securing these loans has been and will be impacted by local economic conditions. The weaker economic conditions faced in Michigan have had and may continue to have adverse consequences as described below in "Portfolio Loans and asset quality." However, since early- to mid-2009, we have generally seen a decline in non-performing loans and a declining level of provision for loan losses.

In response to these difficult market conditions and the significant losses that we incurred from 2008 through 2011 that reduced our capital, we have taken steps or initiated actions designed to increase our capital ratios, improve our operations and augment our liquidity as described in more detail below.

At the present time, based on our current forecasts and expectations, we believe that our Bank can remain above "well-capitalized" for regulatory purposes for the foreseeable future, even without additional capital, primarily because of our reduction in total assets (principally loans) and our forecasted return to profitability during 2012. Our forecast of a return to profitability during 2012 reflects an expectation for reduced credit costs (in particular the provision for loan losses, net losses on other real estate ["ORE"] and repossessed assets and loan and collection costs) that is anticipated to be partially offset by a decline in net interest income (due primarily to a change in asset mix as higher yielding loans are expected to continue to decline and lower yielding investment securities are expected to increase). This forecast is susceptible to significant variations, particularly if the Michigan economy were to deteriorate and credit costs were to be higher than anticipated or if we incur any significant future losses at Mepco Finance Corporation ("Mepco") related to the collection of vehicle service contract counterparty receivables (see "Non-interest expense"). Because of such uncertainties, it is possible that our Bank may not be able to remain well-capitalized as we work through asset quality issues and seek to return to consistent profitability. As described in more detail under "Liquidity and capital resources" below, we believe failing to remain well-capitalized would have a material adverse effect on our business and financial condition as it would, among other consequences, likely lead to further regulatory enforcement actions (see "Regulatory development"), a potential loss of our mortgage servicing rights with Fannie Mae and/or Freddie Mac, and limits on our access to certain wholesale funding sources. In addition, any significant deterioration in our ability to improve our capital position would make it very difficult for us to withstand future losses that we may incur and that may be increased or made more likely as a result of economic difficulties and other factors.

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In July 2010, Congress passed and the President signed into law the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act"). The Dodd-Frank Act includes the creation of the new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws; the creation of the Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk; provisions affecting corporate governance and executive compensation of all companies whose securities are registered with the SEC; a provision that broadened the base for Federal Deposit Insurance Corporation ("FDIC") insurance assessments; a provision under which interchange fees for debit cards are set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard; a provision that requires bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for financial institutions with less than $15 billion in assets as of December 31, 2009; and new restrictions on how mortgage brokers and loan originators may be compensated. Certain provisions of the Dodd-Frank Act only apply to institutions with more than $10 billion in assets. We expect that the Dodd-Frank Act will have a significant impact on the banking industry, including our organization, although the full extent of such impact is difficult to project at this time.

It is against this backdrop that we discuss our results of operations and financial condition in the first quarter of 2012 as compared to 2011.

Results of Operations

Summary. We recorded net income of $3.5 million and net income applicable to common stock of $2.4 million during the three months ended March 31, 2012, compared to a net loss of $7.4 million and a net loss applicable to common stock of $8.4 million during the three months ended March 31, 2011. The improvement in our results of operations is primarily due to an increase in non-interest income and decreases in the provision for loan losses and non-interest expenses that were partially offset by a decline in net interest income.

Key performance ratios(a)

	Three months ended March 31, 2012		Three months ended March 31, 2011	
Net income (loss) (annualized) to				
Average assets	0.42	%	(1.36	)%
Average common shareholders' equity	42.29		(83.75	)
Net income (loss) per common share				
Basic	$0.29		$(1.06	)
Diluted	0.07		(1.06	)

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

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Net interest income. Net interest income is the most important source of our earnings and thus is critical in evaluating our results of operations. Changes in our net interest income are primarily influenced by our level of interest-earning assets and the income or yield that we earn on those assets and the manner and cost of funding our interest-earning assets. Certain macro-economic factors can also influence our net interest income such as the level and direction of interest rates, the difference between short-term and long-term interest rates (the steepness of the yield curve) and the general strength of the economies in which we are doing business. Finally, risk management plays an important role in our level of net interest income. The ineffective management of credit risk and interest-rate risk in particular can adversely impact our net interest income.

Net interest income totaled \$22.1 million during the first quarter of 2012, which represents a \$2.4 million or 9.6% decrease from the comparable quarter one year earlier. The decrease in net interest income in 2012 compared to 2011 primarily reflects a \$131.5 million decrease in average interest-earning assets as well as a 20 basis point decline in our net interest income as a percent of average interest-earning assets (the "net interest margin"). The decline in the net interest margin primarily reflects a decrease in the yield on average interest-earning assets that fell to 4.82% during the first quarter of 2012 from 5.46% in the year ago period. This decline is principally due to a change in the mix of interest-earning assets with a declining level of higher yielding loans and an increasing level of lower yielding investment securities, as described in more detail below. The change in asset mix and overall reduction in interest-earning assets principally reflects our strategy to preserve our regulatory capital ratios by reducing loan balances that have higher risk weightings for regulatory capital purposes. Given our improved operating results and expectations for the balance of 2012, we have recently been pursuing growth in commercial loans (particularly small business lending) and consumer loans.

Beginning in the last half of 2009 and continuing into the first quarter of 2012, we increased our level of lower-yielding interest bearing cash balances and investment securities to augment our liquidity in response to our stressed financial condition (see "Liquidity and capital resources"). In addition, due to the challenges facing Mepco (see "Noninterest expense"), we have been reducing the balance of payment plan receivables beginning in late 2009 and continuing into the first quarter of 2012. These payment plan receivables are the highest yielding segment of our loan portfolio, with an average yield of approximately 13% to 14%. The combination of these two items (an increase in the level of lower-yielding interest bearing cash balances and investment securities and a decrease in the level of higher-yielding loans, including payment plan receivables) has had an adverse impact on our 2012 net interest income and net interest margin.

Our net interest income is also adversely impacted by our level of non-accrual loans. In the first quarter of 2012 non-accrual loans averaged \$56.2 million compared to \$63.6 million in the first quarter of 2011. In addition, we reversed \$0.03 million of accrued and unpaid interest on loans placed on non-accrual in the first quarter of 2012 compared to \$0.11 million during the first quarter of 2011.

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Average Balances and Rates

	Three Months Ended March 31,					
	2012			2011		
	Average Balance	Interest	Rate(3)	Average Balance	Interest	Rate(3)
Assets (1)	(Dollars in thousands)					
Taxable loans	$1,582,444	$ 24,270	6.16 %	$ 1,798,106	$ 29,397	6.60 %
Tax-exempt loans (2)	7,239	76	4.22	8,391	87	4.20
Taxable securities	184,798	658	1.43	41,621	467	4.55
Tax-exempt securities (2)	27,145	296	4.39	30,956	332	4.35
Cash – interest bearing	318,573	199	0.25	369,793	232	0.25
Other investments	20,828	197	3.80	23,630	203	3.48
Interest Earning Assets	2,141,027	25,696	4.82	2,272,497	30,718	5.46
Cash and due from banks	56,080			50,888		
Other assets, net	164,120			191,884		
Total Assets	$2,361,227			$ 2,515,269		
Liabilities						
Savings and interest-bearing checking	$1,053,896	472	0.18	$ 994,530	589	0.24
Time deposits	576,967	1,952	1.36	805,645	4,356	2.19
Other borrowings	83,384	1,172	5.65	104,907	1,323	5.11
Interest Bearing Liabilities	1,714,247	3,596	0.84	1,905,082	6,268	1.33
Non-interest bearing deposits	504,019			448,979		
Other liabilities	39,252			44,231		
Shareholders' equity	103,709			116,977		
Total liabilities and shareholders' equity	$2,361,227			$ 2,515,269		
Net Interest Income		$ 22,100			$ 24,450	
Net Interest Income as a Percent of Average Interest Earning Assets			4.14 %			4.34 %

(1) All domestic, except for $0.03 million for the three months ended March 31, 2011, of average payment plan receivables included in taxable loans for customers domiciled in Canada.

(2) Interest on tax-exempt loans and securities is not presented on a fully tax equivalent basis due to the current net operating loss carryforward position and the deferred tax asset valuation allowance.

(3) Annualized.

Provision for loan losses. The provision for loan losses was $5.1 million and $10.7 million during the three months ended March 31, 2012 and 2011, respectively. The provision reflects our assessment of the allowance for loan losses taking into consideration factors such as loan mix, levels of non-performing and classified loans and loan net charge-offs. While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors. The decrease in the provision for loan losses in the first quarter of 2012 primarily reflects reduced levels of non-performing loans, lower total loan balances and a decline in loan net charge-offs. See “Portfolio Loans and asset quality” for a discussion of the various components of the allowance for loan losses and their impact on the provision for loan losses in the first quarter of 2012.

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Non-interest income. Non-interest income is a significant element in assessing our results of operations. We regard net gains on mortgage loans as a core recurring source of revenue but they are quite cyclical and thus can be volatile. We regard net gains (losses) on securities as a "non-operating" component of non-interest income.

Non-interest income totaled $14.6 million during the first three months of 2012 compared to $12.7 million in 2011.

Non-Interest Income

	Three months ended March 31, 2012	2011
	(In thousands)	
Service charges on deposit accounts	$4,201	$4,282
Interchange income	2,322	2,168
Net gains (losses) on assets		
Mortgage loans	3,860	1,935
Securities	684	213
Other than temporary loss on securities available for sale		
Total impairment loss	(177)	(469)
Loss recognized in other comprehensive income	-	327
Net impairment loss recognized in earnings	(177)	(142)
Mortgage loan servicing	736	896
Investment and insurance commissions	447	555
Bank owned life insurance	424	425
Title insurance fees	508	473
(Increase) decrease in fair value of U.S. Treasury warrant	(154)	354
Other	1,733	1,552
Total non-interest income	$14,584	$12,711

Service charges on deposit accounts totaled $4.2 million in the first quarter of 2012, a $0.1 million or 1.9% decrease from the comparable period in 2011. The decrease in such service charges in 2012 principally relates to a decline in non-sufficient funds ("NSF") occurrences and related NSF fees. We believe the decline in NSF occurrences is principally due to our customers managing their finances more closely in order to reduce NSF activity and avoid the associated fees.

Interchange income increased by $0.2 million, or 7.1%, in the first quarter of 2012 compared to the year ago period. The growth in interchange income primarily reflects an increase in debit card transaction volumes and PIN-based interchange fees. As described earlier, the Dodd-Frank Act includes a provision under which interchange fees for debit cards are set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard. On June 29, 2011 the Federal Reserve issued final rules (that were effective October 1, 2011) on interchange fees for debit cards. Overall, these final rules established price caps for debit card interchange fees that were approximately 50% lower than previous averages. However, debit card issuers with less than $10 billion in assets (like us) are exempt from this rule. On a long-term basis, it is not clear how competitive market factors may impact debit card issuers who are exempt from the rule. As a result, at the present time, we cannot predict if our interchange income will be lower in the future because of such price caps.

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Net gains on mortgage loans were $3.9 million and $1.9 million in the first quarters of 2012 and 2011, respectively. Mortgage loan sales totaled $112.1 million in the first quarter of 2012 compared to $121.5 million in the first quarter of 2011. Mortgage loans originated totaled $112.8 million in the first quarter of 2012 compared to $95.6 million in the comparable quarter of 2011.

Mortgage Loan Activity

	Three months ended March 31, 2012	2011
	(Dollars in thousands)	
Mortgage loans originated	$ 112,798	$ 95,573
Mortgage loans sold	112,141	121,488
Mortgage loans sold with servicing rights released	15,340	16,572
Net gains on the sale of mortgage loans	3,860	1,935
Net gains as a percent of mortgage loans sold (“Loan Sales Margin”)	3.44 %	1.59 %
Fair value adjustments included in the Loan Sales Margin	0.92	(0.72)

The volume of loans sold is dependent upon our ability to originate mortgage loans as well as the demand for fixed-rate obligations and other loans that we choose to not put into portfolio because of our established interest-rate risk parameters. (See “Portfolio Loans and asset quality.”) Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates and thus can often be a volatile part of our overall revenues.

Net gains as a percentage of mortgage loans sold (our “Loan Sales Margin”) are impacted by several factors including competition and the manner in which the loan is sold (with servicing rights retained or released). Our decision to sell or retain mortgage loan servicing rights is primarily influenced by an evaluation of the price being paid for mortgage loan servicing by outside third parties compared to our calculation of the economic value of retaining such servicing. The sale of mortgage loan servicing rights may result in declines in mortgage loan servicing income in future periods. Net gains on mortgage loans are also impacted by recording fair value accounting adjustments. Excluding the aforementioned accounting adjustments, the Loan Sales Margin would have been 2.52% and 2.31% in the first quarters of 2012 and 2011, respectively. The increase in the Loan Sales Margin (excluding fair value adjustments) in 2012 was generally due to somewhat more favorable competitive conditions including wider primary-to-secondary market pricing spreads. The increase in the fair value accounting adjustments in the first quarter of 2012 is primarily due to growth in the amount of commitments to originate mortgage loans for sale.

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We recorded net securities gains of approximately $0.7 million and $0.2 million in the first quarters of 2012 and 2011, respectively. These securities gains were due primarily to the sale of U.S. agency residential mortgage-backed investment securities.

We also recorded net impairment losses of $0.2 million and $0.1 million in the first quarters of 2012 and 2011, respectively, for other than temporary impairment of securities available for sale. These impairment charges related to private label residential mortgage-backed securities. (See "Securities.")

Mortgage loan servicing generated income of $0.7 million and $0.9 million in the first quarters of 2012 and 2011, respectively. This quarterly comparative variance is primarily due to changes in the valuation allowance on and the amortization of capitalized mortgage loan servicing rights. The period end valuation allowance is based on the valuation of the mortgage loan servicing portfolio. Activity related to capitalized mortgage loan servicing rights is as follows:

Capitalized Mortgage Loan Servicing Rights

	Three months ended March 31,	
	2012	2011
	(In thousands)	
Balance at beginning of period	$ 11,229	$ 14,661
Originated servicing rights capitalized	924	1,064
Amortization	(1,062)	(749)
Decrease in valuation allowance	704	555
Balance at end of period	$ 11,795	$ 15,531
Valuation allowance at end of period	$ 5,840	$ 2,655

At March 31, 2012 we were servicing approximately $1.77 billion in mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 5.12% and a weighted average service fee of approximately 25.4 basis points. Remaining capitalized mortgage loan servicing rights at March 31, 2012 totaled $11.8 million, representing approximately 67 basis points on the related amount of mortgage loans serviced for others. The capitalized mortgage loan servicing had an estimated fair market value of $12.2 million at March 31, 2012.

Nearly all of our mortgage loans serviced for others at March 31, 2012 are for either Fannie Mae or Freddie Mac. Because of our current financial condition, if our Bank were to fall below "well capitalized" (as defined by banking regulations) it is possible that Fannie Mae and Freddie Mac could require us to very quickly sell or transfer such servicing rights to a third party or unilaterally strip us of such servicing rights if we cannot complete an approved transfer. Depending on the terms of any such transaction, this forced sale or transfer of such mortgage loan servicing rights could have a material adverse impact on our financial condition and results of operations.

Investment and insurance commissions decreased during the first quarter of 2012 compared to the year ago period due primarily to a change in product mix (sales of lower commission products) and the loss of one investment sales representative.

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We earned $0.4 million in both the first quarters of 2012 and 2011 on our separate account bank owned life insurance principally as a result of increases in cash surrender value. Our separate account is primarily invested in U.S. government sponsored agency residential mortgage-backed securities and managed by PIMCO. The crediting rate (on which the earnings are based) reflects the performance of the separate account. The total cash surrender value of our bank owned life insurance was $49.7 million and $49.3 million at March 31, 2012 and December 31, 2011, respectively.

Title insurance fees totaled $0.5 million in both the first quarters of 2012 and 2011. The amount of title insurance fees is primarily a function of the level of mortgage loans that we originated.

Changes in the fair value of the amended warrant issued to the U.S. Department of the Treasury ("UST") in April 2010 are recorded as a component of non-interest income. The fair value of this amended warrant is included in accrued expenses and other liabilities in our Condensed Consolidated Statements of Financial Condition. (See "Liquidity and capital resources.") Two significant inputs in our valuation model for the amended warrant are our common stock price and the probability percentage of triggering anti-dilution provisions in this instrument related to certain equity transactions. The fair value of the amended warrant increased by $0.2 million in the first quarter of 2012 due primarily to a rise in our common stock price and it declined by $0.4 million in the first quarter of 2011 due primarily to decreases in the two aforementioned inputs.

Other non-interest income totaled $1.7 million and $1.6 million during the first quarters of 2012 and 2011, respectively. This increase is primarily due to a rise in rental income on ORE properties.

Non-interest expense. Non-interest expense is an important component of our results of operations. We strive to efficiently manage our cost structure and management is focused on a number of initiatives to reduce and contain non-interest expenses.

Non-interest expense totaled $28.0 million in the first quarter of 2012 compared to $33.9 million in the year ago period. This decrease was primarily due to declines in credit related costs (loan and collection expenses and net losses on ORE and repossessed assets), occupancy expenses, FDIC deposit insurance costs, credit card and bank service fees, vehicle service contract counterparty contingencies, and other non-interest expenses.

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Non-Interest Expense

	Three months ended March 31, 2012	2011
	(In thousands)	
Compensation	$9,945	$9,812
Performance-based compensation and benefits	85	157
Other benefits	2,452	2,380
Compensation and employee benefits	12,482	12,349
Loan and collection	2,890	3,867
Occupancy, net	2,716	3,101
Data processing	2,339	2,310
Furniture, fixtures and equipment	1,294	1,418
Net losses on other real estate and repossessed assets	987	1,406
Legal and professional fees	897	778
Communications	875	948
FDIC deposit insurance	857	1,235
Credit card and bank service fees	651	1,047
Advertising	556	554
Vehicle service contract counterparty contingencies	471	2,346
Provision for loss reimbursement on sold loans	432	406
Supplies	394	402
Amortization of intangible assets	272	343
Costs (recoveries) related to unfunded lending commitments	(47)	95
Other	(17)	1,263
Total non-interest expense	$28,049	$33,868

Compensation and employee benefits expenses increased by $0.1 million, or 1.1%, in the first quarter of 2012, primarily because of an increase in salaries due to merit raises. This increase due to merit raises was partially offset by a 3.4% reduction in the average number of full time equivalent employees in 2012 compared to year ago levels.

Loan and collection expenses primarily reflect costs related to the management and collection of non-performing loans and other problem credits. These expenses (although still at an elevated level compared to historic norms) have declined in 2012, which primarily reflects the overall decrease in the volume of problem credits (non-performing loans and "watch" credits). (See "Portfolio Loans and asset quality.")

Occupancy, net decreased by $0.4 million, or 12.4%, in the first quarter of 2012 compared to the first quarter of 2011 due primarily to lower snow removal and utilities costs which reflect an unseasonably warm winter in Michigan in 2012.

Data processing, furniture, fixtures and equipment, communications, advertising and supplies expenses collectively declined by $0.2 million, or 3.1%, in the first quarter of 2012 compared to the year ago period due primarily to our cost reduction efforts.

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Net losses on ORE and repossessed assets primarily represent the loss on the sale or additional write downs on these assets subsequent to the transfer of the asset from our loan portfolio. This transfer occurs at the time we acquire the collateral that secured the loan. At the time of acquisition, the other real estate or repossessed asset is valued at fair value, less estimated costs to sell, which becomes the new basis for the asset. Any write-downs at the time of acquisition are charged to the allowance for loan losses. The reduced net loss in 2012 primarily reflects some stability in real estate prices during the last twelve months, with some markets even experiencing modest price increases. However, foreclosed properties generally continue to have distressed valuations which have been accentuated by the high inventory of foreclosed homes and vacant land for sale in many of our markets as well as Michigan’s weaker economic conditions.

Legal and professional fees increased $0.1 million, or 15.3%, in the first quarter of 2012 compared to the year earlier period due primarily to an increase in legal fees at Mepco related to counterparty litigation associated with collection matters as further described below.

FDIC deposit insurance expense declined by $0.4 million, or 30.6%, in the first quarter of 2012 compared to the year ago period principally reflecting a new rate structure implemented by the FDIC and effective beginning in the second quarter of 2011. The new rate structure has a lower assessment rate but is based on total assets as compared to the prior structure that was based primarily on total deposits but had a higher assessment rate.

Credit card and bank service fees decreased primarily due to a decline in the number of payment plans being serviced by Mepco in the first quarter of 2012 compared to the first quarter of 2011.

We record estimated incurred losses associated with Mepco’s vehicle service contract payment plan receivables in our provision for loan losses and establish a related allowance for loan losses. (See “Portfolio Loans and asset quality.”) We record estimated incurred losses associated with defaults by Mepco’s counterparties as “vehicle service contract counterparty contingencies expense,” which is included in non-interest expenses in our Condensed Consolidated Statements of Operations. Such expenses totaled $0.5 million and $2.3 million in the first quarters of 2012 and 2011, respectively. The lower expense is attributed to a decline in the actual and expected level of cancellations giving rise to potential amounts due from counterparties.

Our estimate of probable incurred losses from vehicle service contract counterparty contingencies requires a significant amount of judgment because a number of factors can influence the amount of loss that we may ultimately incur. These factors include our estimate of future cancellations of vehicle service contracts, our evaluation of collateral that may be available to recover funds due from our counterparties, and our assessment of the amount that may ultimately be collected from counterparties in connection with their contractual obligations. We apply a rigorous process, based upon historical payment plan activity and past experience, to estimate probable incurred losses and quantify the necessary reserves for our vehicle service contract counterparty contingencies, but there can be no assurance that our modeling process will successfully identify all such losses.

In particular, as noted in our Risk Factors included in Part I - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, Mepco has had to initiate litigation against certain counterparties, including one of the respective third party insurers, to collect amounts owed to Mepco as a result of those parties' dispute of their contractual obligations to Mepco. In addition, see Note #14 to the Interim Condensed Consolidated Financial Statements included within this report for more information about Mepco's business, certain risks and difficulties we currently face with respect to that business, and reserves we have established (through vehicle service contract counterparty contingencies expense) for losses related to the business.

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The provision for loss reimbursement on sold loans represents our estimate of incurred losses related to mortgage loans that we have sold to investors (primarily Fannie Mae and Freddie Mac). Since we sell mortgage loans without recourse, loss reimbursements only occur in those instances where we have breached a representation or warranty or other contractual requirement related to the loan sale. Historically, loss reimbursements on mortgage loans sold without recourse were very rare. In 2009, we had only one actual loss reimbursement (for $0.06 million). Prior to 2009, we had years in which we incurred no such loss reimbursements. However, our loss reimbursements have increased and totaled $0.2 million in 2010, $0.5 million in 2011 and $0.4 million in the first quarter of 2012. Over the past two years Fannie Mae and Freddie Mac, in particular, have been doing more reviews of mortgage loans where they have incurred or expect to incur a loss and have been more aggressive in pursuing loss reimbursements from the sellers of such mortgage loans. Although we are successful in the vast majority of cases where file reviews are conducted on mortgage loans that we have sold to investors and actual loss reimbursements have been relatively modest, the levels of such file reviews and loss reimbursement requests have increased, particularly over the past twelve months. As a result, we have established a reserve (which totaled $1.5 million at both March 31, 2012 and December 31, 2011, respectively) for loss reimbursements on sold mortgage loans. This reserve is included in accrued expenses and other liabilities in our Condensed Consolidated Statements of Financial Condition. This reserve is based on an analysis of mortgage loans that we have sold which are further categorized by delinquency status, loan to value, and year of origination. The calculation includes factors such as probability of default, probability of loss reimbursement (breach of representation or warranty) and estimated loss severity. While we believe that the amounts we have accrued for incurred losses on sold loans are appropriate given these analyses, future losses could exceed our current estimate.

The amortization of intangible assets primarily relates to branch acquisitions and the amortization of the deposit customer relationship value, including core deposit value, which was acquired in connection with those acquisitions. We had remaining unamortized intangible assets of $7.3 million and $7.6 million at March 31, 2012 and December 31, 2011, respectively. See Note #8 to the Interim Condensed Consolidated Financial Statements for a schedule of future amortization of intangible assets.

The changes in costs (recoveries) related to unfunded lending commitments are primarily impacted by changes in the amounts of such commitments to originate portfolio loans as well as (for commercial loan commitments) the grade (pursuant to our loan rating system) of such commitments.

Other non-interest expenses declined by $1.3 million in the first quarter of 2012 compared to 2011. This decline principally reflects the reversal of a previously established accrual at Mepco that was determined to no longer be necessary

Income tax expense (benefit). As a result of being in a net operating loss carryforward position, we have established a deferred tax asset valuation allowance against all of our net deferred tax assets. Accordingly, the income tax expense (benefit) related to any income (loss) before income tax is largely being offset by changes in the deferred tax valuation allowance. See Note #10 to the Interim Condensed Consolidated Financial Statements.

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The capital initiatives detailed below under "Liquidity and capital resources" may trigger an ownership change that would negatively affect our ability to utilize our net operating loss carryforwards and other deferred tax assets in the future. If such an ownership change were to occur, we may suffer higher-than-anticipated tax expense, and consequently lower net income and cash flow, in those future years. As of March 31, 2012, we had federal loss carryforwards of approximately $77.4 million (which includes $0.5 million of federal capital loss carryforwards). Companies are subject to a change of ownership test under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), that, if met, would limit the annual utilization of tax losses and credits carrying forward from pre-change of ownership periods, as well as the ability to use certain unrealized built-in losses. Generally, under Section 382, the yearly limitation on our ability to utilize such deductions will be equal to the product of the applicable long-term tax exempt rate (presently 2.97%) and the sum of the values of our common shares and of our outstanding preferred stock, immediately before the ownership change. In addition to limits on the use of net operating loss carryforwards, our ability to utilize deductions related to bad debts and other losses for up to a five-year period following such an ownership change would also be limited under Section 382, to the extent that such deductions reflect a net loss that was "built-in" to our assets immediately prior to the ownership change. At this time, the details (including the timing and size of a stock offering) and the likelihood of success of the capital initiatives are not certain; therefore, we do not know the likelihood of experiencing a change of ownership under these tax rules. However, we are presently seeking to limit the size of any future equity offering in order to avoid triggering any Section 382 limitations.

Since we currently have a valuation allowance intended to fully offset these net operating loss carryforwards and most other deferred tax assets, we do not expect these tax rules to cause a material impact to our net income or loss in the near term.

Our actual federal income tax expense (benefit) is different than the amount computed by applying our statutory federal income tax rate to our pre-tax income (loss) primarily due to tax-exempt interest income and tax-exempt income from the increase in the cash surrender value on life insurance, as well as the impact of the change in the deferred tax asset valuation allowance.

Business Segments. Our reportable segments are based upon legal entities. We currently have two reportable segments: Independent Bank and Mepco. These business segments are also differentiated based on the products and services provided. We evaluate performance based principally on net income (loss) of the respective reportable segments.

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The following table presents net income (loss) by business segment.

Business Segments

	Three months ended March 31, 2012	2011
	(In thousands)	
Independent Bank	$ 3,542	$ (6,443)
Mepco	1,027	(375)
Other(1)	(1,041)	(559)
Elimination	(24)	(24)
Net income (loss)	$ 3,504	$ (7,401)

(1) Includes amounts relating to our parent company and certain insignificant operations.

The improvement in the results of operations of Independent Bank in 2012 compared to 2011 is primarily due to a lower provision for loan losses, an increase in non-interest income and a decrease in non-interest expenses that were partially offset by a decline in net interest income. (See “Provision for loan losses,” “Portfolio Loans and asset quality,” “Net interest income,” “Non-interest income,” and “Non-interest expense.”)

The change in Mepco’s results (net income of $1.0 million in 2012 as compared to a net loss of $0.4 million in 2011) is due to a decline in non-interest expenses that was partially offset by a decrease in net interest income that is due principally to a decline in payment plan receivables (see “Net interest income” and “Non-interest expense”). All of Mepco’s funding is provided by Independent Bank through an intercompany loan (that is eliminated in consolidation). The rate on this intercompany loan is based on the Prime Rate (currently 3.25%). Mepco might not be able to obtain such favorable funding costs on its own in the open market.

The change in other in the table above (increased loss of $0.5 million in 2012 as compared to 2011) is due primarily to the change in the fair value of the amended warrant issued to the UST in each respective quarterly period (see “Non-interest income”).

Financial Condition

Summary. Our total assets increased by $111.9 million during the first three months of 2012 due primarily to increases in cash and cash equivalents and securities available for sale that were partially offset by a decline in loans. Loans, excluding loans held for sale ("Portfolio Loans"), totaled $1.535 billion at March 31, 2012, down 2.7% from $1.577 billion at December 31, 2011. (See "Portfolio Loans and asset quality.")

Deposits totaled $2.184 billion at March 31, 2012, compared to $2.086 billion at December 31, 2011. The $98.2 million increase in total deposits during the period is primarily due to growth in checking and savings account balances. Other borrowings totaled $33.0 million at March 31, 2012, a decrease of $0.3 million from December 31, 2011. This decrease primarily reflects reduced borrowings from the Federal Home Loan Bank of Indianapolis.

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Accrued expenses and other liabilities totaled $39.9 million at March 31, 2012, compared to $28.5 million at December 31, 2011. The increase is primarily attributed to certain securities available for sale that were purchased during the first quarter but not settled until the second quarter. The security purchases were recorded in securities available for sale as of the first quarter trade date with the corresponding liability recorded in accrued expenses and other liabilities.

Securities. We maintain diversified securities portfolios, which include obligations of U.S. government-sponsored agencies, securities issued by states and political subdivisions, residential mortgage-backed securities and trust preferred securities. We regularly evaluate asset/liability management needs and attempt to maintain a portfolio structure that provides sufficient liquidity and cash flow. Except as discussed below, we believe that the unrealized losses on securities available for sale are temporary in nature and are expected to be recovered within a reasonable time period. We have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse. (See “Asset/liability management.”)

Securities

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In thousands)		
Securities available for sale				
March 31, 2012	$ 308,660	$ 1,136	$ 6,138	$ 303,658
December 31, 2011	161,023	1,575	5,154	157,444

Securities available for sale increased during the first quarter of 2012 due primarily to the purchase of U.S. government-sponsored agency residential mortgage-backed securities and U.S. government-sponsored agency structured notes. The securities were purchased to utilize some of the funds generated from the continued decline in Portfolio Loans as well as from the increase in total deposits. (See “Deposits” and “Liquidity and capital resources.”)

Our portfolio of available-for-sale securities is reviewed quarterly for impairment in value. In performing this review, management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet these recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or loss.

We recorded net other than temporary impairment charges on securities of $0.2 million and $0.1 million in the first quarters of 2012 and 2011, respectively. In these instances we believe that the decline in value is directly due to matters other than changes in interest rates, are not expected to be recovered within a reasonable timeframe based upon available information and are therefore other than temporary in nature. These net other than temporary impairment charges are all related to private label residential mortgage-backed securities. (See “Non-interest income” and “Asset/liability management.”)

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Sales of securities were as follows (See "Non-interest income."):

	Three months ended March 31, 2012	2011
	(In thousands)	
Proceeds	$ 9,206	$ 12,399
Gross gains	$ 692	$ 185
Gross losses	-	(45)
Net impairment charges	(177)	(142)
Fair value adjustments	(8)	73
Net gains	$ 507	$ 71

Portfolio Loans and asset quality. In addition to the communities served by our Bank branch network, our principal lending markets also include nearby communities and metropolitan areas. Subject to established underwriting criteria, we also historically participated in commercial lending transactions with certain non-affiliated banks and also purchased mortgage loans from third-party originators. Currently, we are not engaging in any new commercial loan participations with non-affiliated banks or purchasing any mortgage loans from third party originators.

The senior management and board of directors of our Bank retain authority and responsibility for credit decisions and we have adopted uniform underwriting standards. Our loan committee structure and the loan review process attempt to provide requisite controls and promote compliance with such established underwriting standards. There can be no assurance that the aforementioned lending procedures and the use of uniform underwriting standards will prevent us from the possibility of incurring significant credit losses in our lending activities and, in fact, we recorded a significant provision for loan losses over the past four years as compared to prior historical levels.

We generally retain loans that may be profitably funded within established risk parameters. (See "Asset/liability management.") As a result, we may hold adjustable-rate and balloon mortgage loans as Portfolio Loans, while 15- and 30-year, fixed-rate obligations are generally sold to mitigate exposure to changes in interest rates. (See "Non-interest income.")

Future growth of overall Portfolio Loans is dependent upon a number of competitive and economic factors. Although economic conditions have generally improved in Michigan over the past two years, overall loan demand has remained somewhat subdued, reflecting still somewhat weak economic conditions in the State. Further, it is our desire to reduce certain loan categories in order to preserve our regulatory capital ratios or for risk management reasons. For example, construction and land development loans have been declining because we are seeking to shrink this portion of our Portfolio Loans due to a generally poor economic climate for real estate development, particularly residential real estate. In addition, payment plan receivables have declined as we seek to reduce Mepco's vehicle service contract payment plan business. Further declines in Portfolio Loans may continue to adversely impact our future net interest income.

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Non-performing assets(1)

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Non-accrual loans	$ 51,475	$ 59,309
Loans 90 days or more past due and still accruing interest	258	574
Total non-performing loans	51,733	59,883
Other real estate and repossessed assets	30,918	34,042
Total non-performing assets	$ 82,651	$ 93,925
As a percent of Portfolio Loans		
Non-performing loans	3.37 %	3.80 %
Allowance for loan losses	3.65	3.73
Non-performing assets to total assets	3.42	4.07
Allowance for loan losses as a percent of non-performing loans	108.26	98.33

(1) Excludes loans classified as "troubled debt restructured" that are not past due and vehicle service contract counterparty receivables, net.

Troubled debt restructurings ("TDR")

	March 31, 2012		
	Commercial	Retail	Total
	(In thousands)		
Performing TDR's	$34,301	$ 86,724	$ 121,025
Non-performing TDR's (1)	12,655	12,518 (2)	25,173
Total	$46,956	$ 99,242	$ 146,198

	December 31, 2011		
	Commercial	Retail	Total
	(In thousands)		
Performing TDR's	$ 29,799	$ 86,770	$ 116,569
Non-performing TDR's (1)	14,567	14,081 (2)	28,648
Total	$ 44,366	$ 100,851	$ 145,217

(1) Included in non-performing loans in the "Non-performing assets" table above.
(2) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

Non-performing loans declined by $8.2 million, or 13.6%, during the first quarter of 2012 due principally to declines in non-performing commercial loans and residential mortgage loans. These declines primarily reflect loan net charge-offs, pay-offs, negotiated transactions, and the migration of loans into ORE. Non-performing commercial loans relate largely to delinquencies caused by cash-flow difficulties encountered by owners of income-producing properties (due to higher vacancy rates and/or lower rental rates). Non-performing residential mortgage loans are primarily due to delinquencies reflecting both weak economic conditions and soft real estate values in many parts of Michigan and in certain markets where we have mortgage loans secured by resort properties (see Note #4 to the Interim Condensed Consolidated Financial Statements). Non-performing loans exclude performing loans that are classified as troubled debt restructurings ("TDRs"). Performing TDRs totaled $121.0 million, or 7.9% of total Portfolio Loans, and $116.6 million, or 7.4% of total Portfolio Loans, at March 31, 2012 and December 31, 2011, respectively. The increase in the amount of performing TDRs in the first quarter of 2012 primarily reflects an increase in commercial loan TDR's.

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ORE and repossessed assets totaled $30.9 million at March 31, 2012, compared to $34.0 million at December 31, 2011. This decrease is primarily the result of sales and write-downs of ORE being in excess of the migration of non-performing loans secured by real estate into ORE as the foreclosure process is completed and any redemption period expires. High foreclosure rates are evident nationwide, but Michigan has consistently had one of the higher foreclosure rates in the U.S. during the past few years. We believe that this high foreclosure rate is due to both weak economic conditions and declines in residential real estate values (which has eroded or eliminated the equity that many mortgagors had in their home).

We will place a loan that is 90 days or more past due on non-accrual, unless we believe the loan is both well secured and in the process of collection. Accordingly, we have determined that the collection of the accrued and unpaid interest on any loans that are 90 days or more past due and still accruing interest is probable.

The ratio of loan net charge-offs to average Portfolio Loans was 2.07% on an annualized basis in the first quarter of 2012 compared to 2.93% in the first quarter of 2011. The $4.8 million decline in loan net charge-offs primarily reflects a decrease of $4.0 million for commercial loans. These loan net charge-offs primarily reflect elevated levels of non-performing assets and lower collateral liquidation values, particularly on residential real estate and income-producing commercial properties.

Allowance for loan losses

	Three months ended March 31,			
	2012		2011	
	Loans	Unfunded Commitments	Loans	Unfunded Commitments
	(Dollars in thousands)			
Balance at beginning of period	$58,884	$ 1,286	$67,915	$ 1,322
Additions (deduction)				
Provision for loan losses	5,131	-	10,702	-
Recoveries credited to allowance	1,880	-	935	-
Loans charged against the allowance	(9,889)	-	(13,791)	-
Additions (deductions) included in non-interest expense	-	(47)	-	95
Balance at end of period	$56,006	$ 1,239	$65,761	$ 1,417
Net loans charged against the allowance to average Portfolio Loans (annualized)	2.07%		2.93%	

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Allocation of the Allowance for Loan Losses

	March 31, 2012	December 31, 2011
	(In thousands)	
Specific allocations	$22,023	$ 22,299
Other adversely rated loans	3,959	4,430
Historical loss allocations	19,470	20,682
Additional allocations based on subjective factors	10,554	11,473
Total	$56,006	$ 58,884

Some loans will not be repaid in full. Therefore, an allowance for loan losses ("AFLL") is maintained at a level which represents our best estimate of losses incurred. In determining the allowance and the related provision for loan losses, we consider four principal elements: (i) specific allocations based upon probable losses identified during the review of the loan portfolio, (ii) allocations established for other adversely rated loans, (iii) allocations based principally on historical loan loss experience, and (iv) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolios.

The first AFLL element (specific allocations) reflects our estimate of probable incurred losses based upon our systematic review of specific loans. These estimates are based upon a number of objective factors, such as payment history, financial condition of the borrower, discounted collateral exposure and discounted cash flow analysis. Impaired commercial and mortgage loans are allocated allowance amounts using this first element. The second AFLL element (other adversely rated loans) reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Loans that are rated below a certain predetermined classification are assigned a loss allocation factor for each loan classification category that is based upon a historical analysis of both the probability of default and the expected loss rate ("loss given default"). The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied. For higher rated loans ("non-watch credit") we again determine a probability of default and loss given default in order to apply an allocation percentage. Commercial loans not falling under the first AFLL element are allocated allowance amounts using this second AFLL element. The third AFLL element (historical loss allocations) is determined by assigning allocations to homogeneous loan groups based principally upon the five-year average of loss experience for each type of loan. Recent years are weighted more heavily in this average. Average losses may be further adjusted based on an analysis of delinquent loans. Loss analyses are conducted at least annually. Mortgage loans not falling under the first AFLL element as well as installment and payment plan receivables are allocated allowance amounts using this third AFLL element. The fourth AFLL element (additional allocations based on subjective factors) is based on factors that cannot be associated with a specific credit or loan category and reflects our attempt to ensure that the overall allowance for loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. We consider a number of subjective factors when determining this fourth element, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and the general terms of the overall loan portfolio.

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Increases in the allowance are recorded by a provision for loan losses charged to expense. Although we periodically allocate portions of the allowance to specific loans and loan portfolios, the entire allowance is available for incurred losses. We generally charge-off commercial, homogenous residential mortgage, and installment loans and payment plan receivables when they are deemed uncollectible or reach a predetermined number of days past due based on product, industry practice and other factors. Collection efforts may continue and recoveries may occur after a loan is charged against the allowance.

While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors.

Mepco's allowance for losses is determined in a similar manner as discussed above, and primarily takes into account historical loss experience and other subjective factors deemed relevant to Mepco's payment plan business. Estimated incurred losses associated with Mepco's outstanding vehicle service contract payment plans are included in the provision for loan losses. Mepco recorded $0.03 million and $0.003 million in the first quarters of 2012 and 2011, respectively, for its provision for loan losses. These low provision levels are due primarily to declines in the balance of payment plan receivables. Mepco's allowance for loan losses totaled $0.2 million at both March 31, 2012 and December 31, 2011, respectively. Mepco has established procedures for vehicle service contract payment plan servicing, administration and collections, including the timely cancellation of the vehicle service contract, in order to protect our position in the event of payment default or voluntary cancellation by the customer. Mepco has also established procedures to attempt to prevent and detect fraud since the payment plan origination activities and initial customer contacts are done entirely through unrelated third parties (vehicle service contract administrators and sellers or automobile dealerships). However, there can be no assurance that the aforementioned risk management policies and procedures will prevent us from the possibility of incurring significant credit or fraud related losses in this business segment. The estimated incurred losses described in this paragraph should be distinguished from the possible losses we may incur from counterparties failing to pay their obligations to Mepco. See Note #14 to the Interim Condensed Consolidated Financial Statements included within this report.

The allowance for loan losses decreased $2.9 million to $56.0 million at March 31, 2012 from $58.9 million at December 31, 2011 and was equal to 3.65% of total Portfolio Loans at March 31, 2012 compared to 3.73% at December 31, 2011. All four components of the allowance for loan losses outlined above declined in the first quarter of 2012. The allowance for loan losses related to specific loans decreased $0.3 million in 2012 due primarily to a decline in loss allocations on individual commercial loans. There was a $0.4 million increase in loss allocations (which totaled $18.5 million at March 31, 2012, compared to $18.1 million at December 31, 2011) for loans classified as TDR. The balance of TDR loans with an allocated allowance totaled $116.8 million at March 31, 2012 compared to $118.3 million at December 31, 2011. The allowance for loan losses related to other adversely rated loans decreased $0.5 million in 2012 primarily due to a decrease in the balance of such loans included in this component to $74.1 million at March 31, 2012 from $83.0 million at December 31, 2011. The allowance for loan losses related to historical losses decreased $1.2 million during 2012 due principally to declines in loan delinquency levels and in the loan balances included in this component of the allowance calculation. The allowance for loan losses related to subjective factors decreased $0.9 million during 2012 primarily due to the improvement of various economic indicators used in computing this portion of the allowance as well as the overall reduction in total Portfolio Loans.

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Deposits and borrowings. Historically, the loyalty of our customer base has allowed us to price deposits competitively, contributing to a net interest margin that compares favorably to our peers. However, we still face a significant amount of competition for deposits within many of the markets served by our branch network, which limits our ability to materially increase deposits without adversely impacting the weighted-average cost of core deposits.

To attract new core deposits, we have implemented a direct mail account acquisition program as well as branch staff sales training. Our new account acquisition initiatives have historically generated increases in customer relationships. Over the past three to four years we have also expanded our treasury management products and services for commercial businesses and municipalities or other governmental units and have also increased our sales calling efforts in order to attract additional deposit relationships from these sectors. We view long-term core deposit growth as an important objective. Core deposits generally provide a more stable and lower cost source of funds than alternative sources such as short-term borrowings. During the first quarter of 2012 total deposits increased by $98.2 million, or 4.7%. This increase was primarily due to growth in checking and savings account balances. (See "Liquidity and capital resources.")

During the fourth quarter of 2009 we prepaid our estimated quarterly deposit insurance premium assessments to the FDIC for periods through the fourth quarter of 2012. These estimated quarterly deposit insurance premium assessments were based on projected deposit balances over the assessment periods. The prepaid deposit insurance premium assessments totaled $11.8 million and $12.6 million at March 31, 2012 and December 31, 2011, respectively. The actual expense over the assessment periods may be different from this prepaid amount due to various factors including variances in the estimated compared to the actual assessment base and rates used during each assessment period.

We have also implemented strategies that incorporate using federal funds purchased, other borrowings and Brokered CDs to fund a portion of our interest earning assets. The use of such alternate sources of funds supplements our core deposits and is also an integral part of our asset/liability management efforts.

Alternative Sources of Funds

	March 31, 2012			December 31, 2011		
	Amount	Average Maturity	Rate	Amount	Average Maturity	Rate
	(Dollars in thousands)					
Brokered CDs	$ 46,000	1.1 years	1.31 %	$ 42,279	1.0 years	1.59 %
Fixed-rate FHLB advances	30,030	3.2 years	3.95	30,384	3.3 years	3.99
Variable-rate FHLB advances(1)	3,000	2.1 years	0.66	3,000	2.3 years	0.51
Total	$ 79,030	1.9 years	2.29 %	$ 75,663	2.0 years	2.51 %

(1) Certain of these items have had their average maturity and rate altered through the use of derivative instruments, such as pay-fixed interest-rate swaps.

Other borrowings, comprised of advances from the Federal Home Loan Bank (the "FHLB"), totaled $33.0 million at March 31, 2012, compared to $33.4 million at December 31, 2011. The decrease in other borrowed funds reflects reduced borrowings from the FHLB.

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As described above, we utilize wholesale funding, including FHLB borrowings and Brokered CDs to augment our core deposits and fund a portion of our assets. At March 31, 2012, our use of such wholesale funding sources amounted to approximately $79.0 million, or 3.6% of total funding (deposits and total borrowings, excluding subordinated debentures). Because wholesale funding sources are affected by general market conditions, the availability of such funding may be dependent on the confidence these sources have in our financial condition and operations. The continued availability to us of these funding sources is uncertain, and Brokered CDs may be difficult for us to retain or replace at attractive rates as they mature. Our liquidity may be constrained if we are unable to renew our wholesale funding sources or if adequate financing is not available in the future at acceptable rates of interest or at all. Additionally, we may not have sufficient liquidity to continue to fund new loans, and we may need to liquidate loans or other assets unexpectedly, in order to repay obligations as they mature.

If we fail to remain “well-capitalized” (under federal regulatory standards) we will be prohibited from accepting or renewing Brokered CDs, without the prior consent of the FDIC. At March 31, 2012, we had Brokered CDs of approximately $46.0 million, or 2.1% of total deposits. Of this amount $30.5 million mature during the next twelve months. We currently have ample liquidity in the form of interest-bearing deposits at the FRB or other short-term investments to retire maturing Brokered CDs. As a result, any potential future restrictions on our ability to access Brokered CDs are not expected to adversely impact our business or financial condition.

We cannot be sure that we will be able to maintain our current level of core deposits. In particular, those deposits that are currently uninsured or those deposits that are in non-interest bearing transaction accounts and have unlimited deposit insurance only through December 31, 2012 (in accordance with provisions in the Dodd-Frank Act), may be particularly susceptible to outflow. At March 31, 2012 we had an estimated $140.3 million of uninsured deposits and an additional $178.8 million of deposits that were in non-interest bearing transaction accounts and fully insured only through December 31, 2012 under the Dodd-Frank Act. A reduction in core deposits would increase our need to rely on wholesale funding sources, at a time when our ability to do so may be more restricted, as described above.

We historically employed derivative financial instruments to manage our exposure to changes in interest rates. We discontinued the active use of derivative financial instruments during 2008, in part, because we could no longer get unsecured credit from our derivatives counterparties. At March 31, 2012, we had remaining interest-rate swaps with an aggregate notional amount of $20.0 million (of which $10.0 million, or one-half, mature in the second quarter of 2012).

Liquidity and capital resources. Liquidity risk is the risk of being unable to timely meet obligations as they come due at a reasonable funding cost or without incurring unacceptable losses. Our liquidity management involves the measurement and monitoring of a variety of sources and uses of funds. Our Condensed Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus our liquidity management on maintaining adequate levels of liquid assets (primarily funds on deposit with the FRB and certain investment securities) as well as developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for purchasing investment securities or originating Portfolio Loans as well as to be able to respond to unforeseen liquidity needs.

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Our primary sources of funds include our deposit base, secured advances from the FHLB, a federal funds purchased borrowing facility with another commercial bank, and access to the capital markets (for Brokered CDs).

At March 31, 2012 we had $373.2 million of time deposits that mature in the next twelve months. Historically, a majority of these maturing time deposits are renewed by our customers. Additionally $1.614 billion of our deposits at March 31, 2012 were in account types from which the customer could withdraw the funds on demand. Changes in the balances of deposits that can be withdrawn upon demand are usually predictable and the total balances of these accounts have generally grown or have been stable over time as a result of our marketing and promotional activities. However, there can be no assurance that historical patterns of renewing time deposits or overall growth or stability in deposits will continue in the future.

In particular, media reports about bank failures have created concerns among depositors at banks throughout the country, including certain of our customers, particularly those with deposit balances in excess of deposit insurance limits. In response, the deposit insurance limit was permanently increased from $100,000 to $250,000 and unlimited deposit insurance is currently provided (only through December 31, 2012) for balances in non-interest bearing demand deposit accounts under provisions in the Dodd-Frank Act. We have proactively sought to provide appropriate information to our deposit customers about our organization in order to retain our business and deposit relationships. Despite the increases in deposit insurance limits and our proactive communications efforts, the potential outflow of deposits remains as a significant liquidity risk, particularly since our recent losses and our elevated level of non-performing assets have reduced some of the financial ratings of our Bank that are followed by our larger deposit customers, such as municipalities. The potential outflow of significant amounts of deposits could have an adverse impact on our liquidity and results of operations.

We have developed contingency funding plans that stress tests our liquidity needs that may arise from certain events such as an adverse change in our financial metrics (for example, credit quality or regulatory capital ratios). Our liquidity management also includes periodic monitoring that measures quick assets (defined generally as short-term assets with maturities less than 30 days and loans held for sale) to total assets; short-term liability dependence and basic surplus (defined as quick assets compared to short-term liabilities). Policy limits have been established for our various liquidity measurements and are monitored on a monthly basis. In addition, we also prepare cash flow forecasts that include a variety of different scenarios.

As a result of the liquidity risks described above and in “Deposits and borrowings” we have generally maintained elevated levels of overnight cash balances in interest-bearing deposits, which totaled $299.2 million and $278.3 million at March 31, 2012 and December 31, 2011, respectively. Because of our continued expectation of some future decline in Portfolio Loans, we are comfortable with using a portion of our overnight cash balances to reduce wholesale funding or for the purchase of certain investment securities.

As described in greater detail below, we are deferring interest on our subordinated debentures and are not currently paying any dividends on our preferred or common stock. Interest on the subordinated debentures can continue to be deferred until the fourth quarter of 2014. Thus, the only use of cash at the parent company at the present time is for operating expenses. Because of the past losses that our Bank has experienced and the Bank’s regulatory capital requirements, we do not anticipate that the Bank will be able to pay any dividends up to the parent company for at least through the end of 2012. As a result, the only substantial near term source of cash to our parent company is under an equity line facility that is described below. We believe that the available cash and cash equivalents on hand as well as access to the equity line facility provide sufficient liquidity at the parent company to meet its operating expenses until the fourth quarter of 2014 (at which point the parent company can no longer defer interest on its subordinated debentures).

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Effective management of capital resources is critical to our mission to create value for our shareholders. The cost of capital is an important factor in creating shareholder value and, accordingly, our capital structure includes cumulative trust preferred securities and cumulative preferred stock.

Capitalization

	March 31, 2012	December 31, 2011
	(In thousands)	
Subordinated debentures	$ 50,175	$ 50,175
Amount not qualifying as regulatory capital	(1,507)	(1,507)
Amount qualifying as regulatory capital	48,668	48,668
Shareholders' equity		
Preferred stock	80,913	79,857
Common stock	248,995	248,950
Accumulated deficit	(211,811)	(214,259)
Accumulated other comprehensive loss	(13,065)	(11,921)
Total shareholders' equity	105,032	102,627
Total capitalization	$ 153,700	$ 151,295

We have four special purpose entities that originally issued $90.1 million of cumulative trust preferred securities. On June 23, 2010, we issued 5.1 million shares of our common stock (having a fair value of approximately $23.5 million on the date of the exchange) in exchange for $41.4 million in liquidation amount of trust preferred securities and $2.3 million of accrued and unpaid interest on such securities. As a result, at March 31, 2012 and December 31, 2011, $48.7 million of cumulative trust preferred securities remained outstanding. These special purpose entities issued common securities and provided cash to our parent company that in turn, issued subordinated debentures to these special purpose entities equal to the trust preferred securities and common securities. The subordinated debentures represent the sole asset of the special purpose entities. The common securities and subordinated debentures are included in our Condensed Consolidated Statements of Financial Condition.

The Federal Reserve Board has issued rules regarding trust preferred securities as a component of the Tier 1 capital of bank holding companies. The aggregate amount of trust preferred securities (and certain other capital elements) are limited to 25 percent of Tier 1 capital elements, net of goodwill (net of any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit can be included in Tier 2 capital, subject to restrictions. At the parent company, $39.4 million of these securities qualified as Tier 1 capital at March 31, 2012. Although the Dodd-Frank Act further limited Tier 1 treatment for trust preferred securities, those new limits will not apply to our outstanding trust preferred securities.

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In December 2008, we issued 72,000 shares of Series A, Fixed Rate Cumulative Perpetual Preferred Stock, with an original liquidation preference of $1,000 per share ("Series A Preferred Stock"), and a warrant to purchase 346,154 shares (at $31.20 per share) of our common stock ("Original Warrant") to the UST in return for $72.0 million under the Troubled Asset Relief Program's Capital Purchase Program. Of the total proceeds, $68.4 million was originally allocated to the Series A Preferred Stock and $3.6 million was allocated to the Original Warrant (included in capital surplus) based on the relative fair value of each. The $3.6 million discount on the Series A Preferred Stock was being accreted using an effective yield method over five years. The accretion had been recorded as part of the Series A Preferred Stock dividend.

On April 16, 2010, we exchanged the Series A Preferred Stock (including accumulated but unpaid dividends) for 74,426 shares of our Series B Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, with an original liquidation preference of $1,000 per share ("Series B Preferred Stock"). As part of the terms of the exchange agreement, we also agreed to amend and restate the terms of the Original Warrant and issued an Amended and Restated Warrant to purchase 346,154 shares of our common stock at an exercise price of $7.234 per share and expiring on December 12, 2018. The Series B Preferred Stock and the Amended Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. We did not receive any cash proceeds from the issuance of the Series B Preferred Stock or the Amended Warrant. In general, the terms of the Series B Preferred Stock are substantially similar to the terms of the Series A Preferred Stock that was held by the UST, except that the Series B Preferred Stock is convertible into our common stock. See Note #15 to the Interim Condensed Consolidated Financial Statements included within this report for information about the terms of the Series B Preferred Stock and the Amended and Restated Warrant.

Shareholders' equity applicable to common stock increased to $24.1 million at March 31, 2012 from $22.8 million at December 31, 2011 due primarily to our first quarter 2012 net income. Our tangible common equity ("TCE") totaled $16.8 million and $15.2 million, respectively, at those same dates. Our ratio of TCE to tangible assets was 0.70% at March 31, 2012 compared to 0.66% at December 31, 2011. Although our Bank's regulatory capital ratios remain at levels above "well capitalized" standards, because of the losses that we have incurred, our elevated levels of non-performing loans and other real estate, and the ongoing economic stress in Michigan, we have taken the following actions to maintain and improve our regulatory capital ratios and preserve liquidity at our parent company level:

- Eliminated the cash dividend on our common stock: Beginning in November 2009, we eliminated the $0.10 per share quarterly cash dividend on our common stock.

- Deferred dividends on our preferred stock: Beginning in December 2009, we suspended payment of quarterly dividends on the preferred stock held by the UST. The cash dividends payable to the UST on the Series B Preferred Stock amount to approximately $4.1 million per year until December of 2013, at which time they would increase to approximately $7.4 million per year. Accrued and unpaid dividends were $7.6 million at March 31, 2012.

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- Deferred dividends on our subordinated debentures: Beginning in December 2009, we exercised our right to defer all quarterly interest payments on the subordinated debentures we issued to our trust subsidiaries. As a result, all quarterly dividends on the related trust preferred securities were also deferred. Based on current dividend rates, the cash dividends on all outstanding trust preferred securities as of March 31, 2012, amount to approximately $2.3 million per year. Accrued and unpaid dividends on trust preferred securities at March 31, 2012 and December 31, 2011 were $4.9 million and $4.4 million, respectively.

- Exchanged the Series A Preferred Stock held by the UST for Series B Preferred Stock: In April 2011, we completed the exchange of Series A Preferred Stock held by the UST (plus accrued and unpaid dividends on such stock) for new shares of convertible Series B Preferred Stock, as described above.

- Exchanged certain trust preferred securities for our common stock: In June 2011, we completed the exchange of 5.1 million shares of our common stock for $41.4 million in liquidation amount of trust preferred securities and $2.3 million of accrued and unpaid interest on such securities.

These actions have preserved cash at our parent company as we do not expect our Bank to be able to pay any cash dividends in the near term. Dividends from the Bank are restricted by federal and state law and are further restricted by the board resolutions adopted in December 2009 (as subsequently amended) and by the Memorandum of Understanding (“MOU”) described in Note #11 to the Interim Condensed Consolidated Financial Statements included within this report. In particular, those resolutions and the MOU prohibit the Bank from paying any dividends to the parent company without the prior written approval of the FRB and the Michigan Office of Financial and Insurance Regulation (“OFIR”). Also see “Regulatory development.”

Our parent company is also currently prohibited from paying any dividends on our common stock or the preferred stock held by the UST or any distributions on our trust preferred securities. Although there are no specific regulations restricting dividend payments by bank holding companies (other than state corporate laws) the FRB, our primary federal regulator, has issued a policy statement on cash dividend payments. The FRB’s view is that: “an organization experiencing earnings weaknesses or other financial pressures should not maintain a level of cash dividends that exceeds its net income, that is inconsistent with the organization’s capital position, or that can only be funded in ways that may weaken the organization’s financial health.” Moreover, the resolutions adopted by our Board in 2009 and the MOU referenced above specifically prohibit the parent company from paying any dividends on our common stock or the preferred stock held by the UST or any distributions on our trust preferred securities without, in each case, the prior written approval of the FRB and the OFIR.

Payment of dividends and distributions on the outstanding common stock, preferred stock, and trust preferred securities is also restricted and governed by the terms of those instruments, as follows:

The terms of the subordinated debentures and trust indentures (the “Indentures”) related to our trust preferred securities allow us to defer payment of interest at any time or from time to time for up to 20 consecutive quarters provided no event of default (as defined in the Indentures) has occurred and is continuing. We are not in default with respect to the Indentures, and the deferral of interest does not constitute an event of default under the Indentures. While we defer the payment of interest, we will continue to accrue the interest expense owed at the applicable interest rate. Upon the expiration of the deferral, all accrued and unpaid interest is due and payable. During the deferral period on the Indentures, we may not declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock.

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So long as any shares of the Series B Preferred Stock remain outstanding, unless all accrued and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full, (a) no dividend may be paid or declared on our common stock or other junior stock, other than a dividend payable solely in common stock and other than certain dividends or distributions of rights in connection with a shareholders' rights plan; and (b) with limited exceptions, neither we nor any of our subsidiaries may purchase, redeem or otherwise acquire for consideration any shares of our common stock or other junior stock unless we have paid in full all accrued dividends on the Series B Preferred Stock for all prior dividend periods.

We do not have any current plans to resume interest payments on our outstanding trust preferred securities or dividend payments on the outstanding shares of any preferred stock or common stock. We do not know if or when any such payments will resume. However, as described in Note #11 to the Interim Condensed Consolidated Financial Statements included within this report, our Board adopted a Joint Revised Capital Plan (the "Capital Plan") in November 2011 (as subsequently amended in February 2012). The primary objective of our Capital Plan is to achieve and thereafter maintain the minimum capital ratios required by the December 2009 board resolutions referenced above (as subsequently amended).

As of March 31, 2012, our Bank continued to meet the requirements to be considered "well-capitalized" under federal regulatory standards. However, the minimum capital ratios established by our Board are higher than the ratios required in order to be considered "well-capitalized" under federal standards. The Board imposed these higher ratios in order to ensure that we have sufficient capital to withstand potential continuing losses based on our elevated level of non-performing assets and given certain other risks and uncertainties we face. Set forth below are the actual capital ratios of our Bank as of March 31, 2012, the minimum capital ratios imposed by the board resolutions, and the minimum ratios necessary to be considered "well-capitalized" under federal regulatory standards. As of March 31, 2012, our Bank's Total Capital to Risk-Weighted Assets ratio exceeded the target of 11%.

Regulatory Capital Ratios	Independent Bank Actual at March 31, 2012		Minimum Ratios Established by our Board		Required to be Well-Capitalized	
Tier 1 capital to average total assets	6.84	%	8.00	%	5.00	%
Total capital to risk-weighted assets	11.81		11.00		10.00	

The Capital Plan includes projections that reflect forecasted financial data through 2014. At the present time, based on these forecasts and our expectations, we believe that our Bank can remain above "well-capitalized" for regulatory purposes, even without additional capital, primarily because of some further projected decline in total assets (principally loans). Further, we expect credit costs to abate sufficiently so that we can return to profitability in 2012 and beyond. These forecasts are susceptible to significant variations, particularly if the Michigan economy were to further deteriorate and credit costs were to be higher than anticipated or if we incur any significant future losses at Mepco related to the collection of vehicle service contract counterparty receivables (see "Non-interest expense"). Because of such uncertainties, it is possible that our Bank may not be able to remain well-capitalized as we work through asset quality issues and seek to return to consistent profitability. Any significant deterioration in or inability to improve our capital position would make it very difficult for us to withstand continued losses that we may incur and that may be increased or made more likely as a result of continued economic difficulties and other factors. Please see page 1 of this report for cautionary information about these forward-looking statements and factors that may cause actual results to differ from our current expectations.

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Our Capital Plan also outlines various contingency plans in case we do not succeed in meeting the required minimum capital ratios. These contingency plans include a possible further reduction in our assets (such as through a sale of branches, loans, and/or operating divisions or subsidiaries), more significant expense reductions than those that have already been implemented, and a sale of the Bank. These contingency plans were considered and included within the Capital Plan in recognition of the possibility that market conditions for these transactions may improve and that such transactions may be necessary or required by our regulators if we are unable to attain the required minimum capital ratios described above through other means. Also see "Regulatory development."

In addition to the measures outlined in the Capital Plan, on July 7, 2010 we executed an Investment Agreement and Registration Rights Agreement with Dutchess Opportunity Fund, II, LP ("Dutchess") for the sale of shares of our common stock. These agreements serve to establish an equity line facility as a contingent source of liquidity at the parent company level. Pursuant to the Investment Agreement, Dutchess committed to purchase up to $15.0 million of our common stock over a 36-month period ending November 1, 2013. We have the right, but no obligation, to draw on this equity line facility from time to time during such 36-month period by selling shares of our common stock to Dutchess. The sales price is at a 5% discount to the market price of our common stock at the time of the draw (as such market price is determined pursuant to the terms of the Investment Agreement). To date, we have sold a total of 777,974 shares (345,177 shares in the fourth quarter of 2010, 253,759 shares in the first quarter of 2011 and 179,038 shares in the second quarter of 2011) of our common stock to Dutchess under this equity line for total net proceeds of approximately $1.8 million. At the present time, we have shareholder approval to sell approximately 3.2 million additional shares under this equity line.

Our bank holding company and our Bank both remain "well capitalized" (as defined by banking regulations) at March 31, 2012.

Asset/liability management. Interest-rate risk is created by differences in the cash flow characteristics of our assets and liabilities. Options embedded in certain financial instruments, including caps on adjustable-rate loans as well as borrowers' rights to prepay fixed-rate loans, also create interest-rate risk.

Our asset/liability management efforts identify and evaluate opportunities to structure our statement of financial condition in a manner that is consistent with our mission to maintain profitable financial leverage within established risk parameters. We evaluate various opportunities and alternate asset/liability management strategies carefully and consider the likely impact on our risk profile as well as the anticipated contribution to earnings. The marginal cost of funds is a principal consideration in the implementation of our asset/liability management strategies, but such evaluations further consider interest-rate and liquidity risk as well as other pertinent factors. We have established parameters for interest-rate risk. We regularly monitor our interest-rate risk and report at least quarterly to our board of directors.

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We employ simulation analyses to monitor our interest-rate risk profile and evaluate potential changes in our net interest income and market value of portfolio equity that result from changes in interest rates. The purpose of these simulations is to identify sources of interest-rate risk inherent in our Statement of Financial Condition. The simulations do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the simulations do not provide a reliable forecast of anticipated results. The simulations are predicated on immediate, permanent and parallel shifts in interest rates and generally assume that current loan and deposit pricing relationships remain constant. The simulations further incorporate assumptions relating to changes in customer behavior, including changes in prepayment rates on certain assets and liabilities.

Changes in Market Value of Portfolio Equity and Net Interest Income

Change in Interest Rates	Market Value Of Portfolio Equity(1)	Percent Change	Net Interest Income(2)	Percent Change
	(Dollars in thousands)			
March 31, 2012				
200 basis point rise	$260,700	22.22 %	$92,400	6.33 %
100 basis point rise	242,200	13.55	89,000	2.42
Base-rate scenario	213,300	-	86,900	-
100 basis point decline	176,600	(17.21)	85,600	(1.50)
December 31, 2011				
200 basis point rise	$277,500	26.08 %	$91,200	6.17 %
100 basis point rise	252,200	14.58	88,200	2.68
Base-rate scenario	220,100	-	85,900	-
100 basis point decline	181,700	(17.45)	85,000	(1.05)

(1) Simulation analyses calculate the change in the net present value of our assets and liabilities, including debt and related financial derivative instruments, under parallel shifts in interest rates by discounting the estimated future cash flows using a market-based discount rate. Cash flow estimates incorporate anticipated changes in prepayment speeds and other embedded options.

(2) Simulation analyses calculate the change in net interest income under immediate parallel shifts in interest rates over the next twelve months, based upon a static statement of financial condition, which includes debt and related financial derivative instruments, and do not consider loan fees.

Accounting standards update. See Note #2 to the Interim Condensed Consolidated Financial Statements included elsewhere in this report for details on recently issued accounting pronouncements and their impact on our financial statements.

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Fair valuation of financial instruments. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") topic 820 - "Fair Value Measurements and Disclosures" ("FASB ASC topic 820") defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We utilize fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. FASB ASC topic 820 differentiates between those assets and liabilities required to be carried at fair value at every reporting period ("recurring") and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances ("nonrecurring"). Trading securities, securities available-for-sale, loans held for sale, and derivatives are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a nonrecurring basis, such as loans held for investment, capitalized mortgage loan servicing rights and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. See Note #12 to the Interim Condensed Consolidated Financial Statements included within this report for a complete discussion on our use of fair valuation of financial instruments and the related measurement techniques.

Regulatory developments. On October 25, 2011, the respective Boards of Directors of the Company and the Bank entered into an MOU with the FRB and OFIR. The MOU largely duplicates certain of the provisions in the Board resolutions described above, but also has the following specific requirements:

- Submission of a joint revised capital plan by November 30, 2011 to maintain sufficient capital at the Company on a consolidated basis and at the Bank on a stand-alone basis;
- Submission of quarterly progress reports regarding disposition plans for any assets in excess of $1.0 million that are in ORE, are 90 days or more past due, are on our "watch list," or were adversely classified in our most recent examination;
- Enhanced reporting and monitoring at Mepco regarding risk management and the internal classification of assets; and
- Enhanced interest rate risk modeling practices.

We believe that we are generally in compliance with the provisions of the MOU, however, the implementation and effectiveness of certain of our plans are subject to evaluation by our bank regulators at our next examination and we must still execute on certain strategies outlined in our Capital Plan.

Management plans and expectations. Elevated credit costs, including our provision for loan losses, loan and collection costs, net losses on ORE, and losses related to vehicle service contract counterparty contingencies, have resulted in substantial losses over the past four years and reduced our capital. Management continues to focus on reducing non-performing assets and returning the organization to consistent profitability as soon as possible. Management believes meaningful progress was made on these objectives in 2011 and 2010. Further, as discussed above, we have adopted a Capital Plan, which includes a series of actions designed to increase our regulatory capital ratios, decrease our expenses and enable us to withstand and better respond to current market conditions and the potential for worsening market conditions. At the present time, based on our current forecasts and expectations, we believe that our Bank can remain above "well-capitalized" for regulatory purposes for the foreseeable future, even without additional capital, primarily because of some projected further decline in total assets (principally loans) and a return to profitability in 2012. As a result of these expectations with respect to the Bank's regulatory capital ratios, and in light of our improvements in asset quality and other positive indicators, we continue to evaluate our alternatives in connection with the timing and size of any common stock offering. This evaluation will take into account our ongoing operating results, as well as input from our financial advisors and the UST.

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Litigation Matters

We are involved in various litigation matters in the ordinary course of business. At the present time, we do not believe any of these matters will have a significant impact on our consolidated financial position or results of operations. The aggregate amount we have accrued for losses we consider probable as a result of these litigation matters is immaterial. However, because of the inherent uncertainty of outcomes from any litigation matter, we believe it is reasonably possible we may incur losses in addition to the amounts we have accrued. However, at this time, we are unable to estimate the range of additional losses that are reasonably possible because of a number of factors, including the fact that certain of these litigation matters are still in their early stages and involve claims for which, at this point, we believe have little to no merit.

The litigation matters described in the preceding paragraph primarily include claims that have been brought against us for damages, but do not include litigation matters where we seek to collect amounts owed to us by third parties (such as litigation initiated to collect delinquent loans or vehicle service contract counterparty receivables). These excluded, collection-related matters may involve claims or counterclaims by the opposing party or parties, but we have excluded such matters from the disclosure contained in the preceding paragraph in all cases where we believe the possibility of us paying damages to any opposing party is remote. Risks associated with the likelihood that we will not collect the full amount owed to us, net of reserves, are disclosed elsewhere in this report.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Accounting and reporting policies for other than temporary impairment of investment securities, the allowance for loan losses, originated mortgage loan servicing rights, vehicle service contract payment plan counterparty contingencies, and income taxes are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different than those that we have used could result in material changes in our consolidated financial position or results of operations. There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

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Item 3.

Quantitative and Qualitative Disclosures about Market Risk

See applicable disclaimers set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 under the caption "Asset/liability management."

Item 4.

Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15(e) and 15d – 15(e)) for the period ended March 31, 2012, have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls.

During the quarter ended March 31, 2012, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

The following table shows certain information relating to purchases of common stock for the three-months ended March 31, 2012, pursuant to any share repurchase plans:

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Remaining Number of Shares Authorized for Purchase Under the Plan
January 2012	4,561	(1)	$ 1.53	-	NA
February 2012	4,618	(1)	1.62	-	NA
March 2012	4,521	(1)	1.71	-	NA
Total	13,700		$ 1.62	-	NA

(1) A portion of the salary payable to our Chief Executive Officer, Michael M. Magee, and to our President, William B. Kessel, is payable in salary stock, which is issued on a bi-weekly basis in connection with our regular pay periods. The shares disclosed in this table are shares withheld from the shares that would otherwise be issued to Mr. Magee and Mr. Kessel in order to satisfy tax withholding obligations.

Item 3b. Defaults Upon Senior Securities

As of March 31, 2012, the Company was in arrears in the aggregate amount of $7.1 million with respect to the Series B Preferred Stock it issued to the U.S. Department of the Treasury as a result of the Company's decision to defer these dividends in the fourth quarter of 2009.

Item 6. Exhibits

(a) The following exhibits (listed by number corresponding to the Exhibit Table as Item 601 in Regulation S-K) are filed with this report:

11.	Computation of Earnings Per Share.
31.1	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
31.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.1	

	Certificate of the Chief Executive Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).	
32.2	Certificate of the Chief Financial Officer of Independent Bank Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).	
	101.INS	Instance Document
	101.SCH	XBRL Taxonomy Extension Schema Document
	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
	101.LAB	XBRL Taxonomy Extension Label Linkbase Document
	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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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.

Date	May 9, 2012	By	/s/ Robert N. Shuster
			Robert N. Shuster, Principal Financial Officer
Date	May 9, 2012	By	/s/ James J. Twarozynski
			James J. Twarozynski, Principal Accounting Officer