ENTERPRISE BANCORP INC /MA/
Form 10-Q
November 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2008

or

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 0-21021

Enterprise Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts	**04-3308902**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

222 Merrimack Street, Lowell, Massachusetts	**01852**
(Address of principal executive offices)	(Zip code)

(978) 459-9000

(Registrant s telephone number, including area code)

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

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition for large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerate filer o	Accelerated filer x
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

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

o Yes x No

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

November 3, 2008 Common Stock - Par Value **$0.01: 7,999,089** shares outstanding

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ENTERPRISE BANCORP, INC.

Consolidated Balance Sheets

(unaudited)

(Dollars in thousands)		September 30, 2008		December 31, 2007
Assets				
Cash and cash equivalents:				
Cash and due from banks	$	31,858	$	24,930
Short-term investments		14,296		7,788
Total cash and cash equivalents		46,154		32,718
Investment securities at fair value		137,535		145,517
Loans, less allowance for loan losses of $15,198 at September 30, 2008 and $13,545 at December 31, 2007		893,573		820,274
Premises and equipment		20,423		19,296
Accrued interest receivable		5,475		5,777
Deferred income taxes, net		9,601		7,722
Bank-owned life insurance		13,156		12,736
Prepaid income taxes		1,067		378
Prepaid expenses and other assets		3,663		7,250
Core deposit intangible, net of amortization		243		342
Goodwill		5,656		5,656
Total assets	$	1,136,546	$	1,057,666
Liabilities and Stockholders Equity				
Liabilities				
Deposits	$	944,253	$	868,786
Borrowed funds		83,476		81,429
Junior subordinated debentures		10,825		10,825
Accrued expenses and other liabilities		7,709		6,245
Accrued interest payable		1,607		3,369
Total liabilities		1,047,870		970,654
Commitments and Contingencies				
Stockholders Equity				
Preferred stock, $0.01 par value per share; 1,000,000 shares authorized; no shares issued				
Common stock $0.01 par value per share; 20,000,000 shares authorized; 7,999,089 and 7,912,715 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively		80		79
Additional paid-in capital		29,347		28,051
Retained earnings		60,890		58,527
Accumulated other comprehensive (loss) / income		(1,641)		355

Total stockholders equity		88,676		87,012
Total liabilities and stockholders equity	$	1,136,546	$	1,057,666

See accompanying notes to the unaudited consolidated financial statements.

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ENTERPRISE BANCORP, INC.

Consolidated Statements of Income

(unaudited)

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Interest and dividend income:				
Loans	$ 14,501	$ 15,096	$ 43,154	$ 43,936
Investment securities	1,415	1,463	4,427	4,151
Short-term investments	60	143	165	209
Total interest and dividend income	15,976	16,702	47,746	48,296
Interest expense:				
Deposits	4,210	5,946	14,156	16,451
Borrowed funds	557	183	1,721	589
Junior subordinated debentures	294	294	883	883
Total interest expense	5,061	6,423	16,760	17,923
Net interest income	10,915	10,279	30,986	30,373
Provision for loan losses	1,173	215	2,040	350
Net interest income after provision for loan losses	9,742	10,064	28,946	30,023
Non-interest income:				
Investment advisory fees	778	794	2,439	2,389
Deposit service fees	988	756	2,826	2,067
Bank-owned life insurance	157	152	464	448
Net gains on sales of investment securities	220	391	267	869
Gains on sales of loans	40	45	100	144
Other income	442	406	1,314	1,220
Total non-interest income	2,625	2,544	7,410	7,137
Non-interest expense:				
Salaries and employee benefits	5,791	5,303	16,948	15,945
Occupancy expenses	1,685	1,520	4,937	4,873
Audit, legal and other professional fees	331	289	1,096	1,081
Advertising and public relations	434	283	1,272	875
Deposit insurance premiums	194	25	537	77
Supplies and postage	222	222	685	704
Investment advisory and custodial expenses	72	132	274	384
Other operating expenses	910	818	2,525	2,137
Total non-interest expense	9,639	8,592	28,274	26,076
Income before income taxes	2,728	4,016	8,082	11,084
Income tax expense	1,009	1,393	2,563	3,921
Net income	$ 1,719	$ 2,623	$ 5,519	$ 7,163

Basic earnings per share	$ 0.22	$ 0.33	$ 0.69	$ 0.92
Diluted earnings per share	$ 0.21	$ 0.33	$ 0.69	$ 0.91
Basic weighted average common shares outstanding	7,984,628	7,846,563	7,961,943	7,797,682
Diluted weighted average common shares outstanding	8,012,595	7,921,918	7,997,111	7,899,919

See accompanying notes to the unaudited consolidated financial statements.

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ENTERPRISE BANCORP, INC.

Consolidated Statement of Changes in Stockholders Equity

(unaudited)

Nine months ended September 30, 2008

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2007	$ 79	$ 28,051	$ 58,527		$ 355	$ 87,012
Cumulative-effect adjustment for adoption of new accounting principle (post retirement obligation)			(1,010)			(1,010)
Comprehensive income						
Net income			5,519	$ 5,519		5,519
Other comprehensive loss, net				(1,996)	(1,996)	(1,996)
Total comprehensive income				$ 3,523		
Tax benefit from exercise of stock options		2				2
Common stock dividend paid ($0.27 per share)			(2,146)			(2,146)
Common stock issued under dividend reinvestment plan	1	757				758
Stock-based compensation		427				427
Stock options exercised		110				110
Balance at September 30, 2008	$ 80	$ 29,347	$ 60,890		$ (1,641)	$ 88,676
Disclosure of other comprehensive loss:						
Gross unrealized holding losses on securities arising during the period				$ (2,756)		
Income tax				932		
Net unrealized holding losses, net of tax				(1,824)		
Reclassification adjustment for net gains included in net income:						
Net realized gains on sales of securities during the period				267		
Income tax expense				(95)		
Reclassification adjustment, net of tax				(172)		
Other comprehensive loss, net of reclassification				$ (1,996)		

See the accompanying notes to the unaudited consolidated financial statements

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ENTERPRISE BANCORP, INC.

Consolidated Statements of Cash Flows

(unaudited)

(Dollars in thousands)	Nine months ended September 30, 2008	September 30, 2007
Cash flows from operating activities:		
Net income	$ 5,519	$ 7,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,040	350
Depreciation and amortization	1,839	1,875
Amortization of intangible assets	99	99
Stock-based compensation expense	387	442
Mortgage loans originated for sale	(11,746)	(14,727)
Proceeds from mortgage loans sold	11,251	15,340
Gains on sales of loans	(100)	(144)
Net gains on sales of investment securities	(267)	(869)
Income on bank-owned life insurance, net	(420)	(406)
Decrease (Increase) in:		
Accrued interest receivable	302	(675)
Prepaid expenses and other assets	3,273	(4)
Deferred income taxes	(842)	
Increase (Decrease) in:		
Accrued expenses and other liabilities	536	(151)
Accrued interest payable	(1,762)	677
Net cash provided by operating activities	10,109	8,970
Cash flows from investing activities:		
Proceeds from sales of investment securities	4,913	6,722
Proceeds from maturities, calls and pay-downs of investment securities	27,520	13,721
Purchase of investment securities	(27,094)	(34,777)
Purchase of tax credits		(1,735)
Net increase in loans	(75,119)	(51,652)
Additions to premises and equipment, net	(3,131)	(4,558)
Proceeds from bank-owned life insurance policy withdrawals		24
Net cash used in investing activities	(72,911)	(72,255)
Cash flows from financing activities:		
Net increase in deposits	75,467	30,814
Net increase (decrease) in borrowed funds	2,047	15,297
Cash dividends paid	(2,146)	(1,869)
Proceeds from issuance of common stock	758	796
Proceeds from exercise of stock options	110	391
Tax benefit from exercise of stock options	2	11
Net cash provided by financing activities	76,238	45,440
Net increase (decrease) in cash and cash equivalents	13,436	(17,845)
Cash and cash equivalents at beginning of period	32,718	50,887
Cash and cash equivalents at end of period	$ 46,154	$ 33,042
Supplemental financial data:		
Cash Paid For: Interest	$ 18,522	$ 17,246
Income taxes	3,764	3,869
Supplemental schedule of non-cash investing activity:		

Transfer from loans to Other Real Estate Owned	375	$	266

See accompanying notes to the unaudited consolidated financial statements.

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ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

(1) Organization of Holding Company

The consolidated financial statements of Enterprise Bancorp, Inc. (the company) include the accounts of the company and its wholly owned subsidiary Enterprise Bank and Trust Company (the bank). The bank is a Massachusetts trust company organized in 1989. Substantially all of the company s operations are conducted through the bank.

The bank has five wholly owned subsidiaries. The bank s subsidiaries include Enterprise Insurance Services, LLC and Enterprise Investment Services, LLC, organized for the purposes of engaging in insurance sales activities and offering non-deposit investment products and services, respectively. In addition, the bank has three subsidiary security corporations (Enterprise Security Corporation, Enterprise Security Corporation II, and Enterprise Security Corporation III), which hold various types of qualifying securities. The security corporations are limited to conducting securities investment activities that the bank itself would be allowed to conduct under applicable laws.

Through the bank and its subsidiaries, the company offers a range of commercial and consumer loan products, deposit and cash management products, investment advisory, trust and insurance services. The services offered through the bank and subsidiaries are managed as one strategic unit and represent the company s only reportable operating segment.

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements and these notes should be read in conjunction with the company s December 31, 2007 audited consolidated financial statements and notes thereto contained in the company s 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2008. Interim results are not necessarily indicative of results to be expected for the entire year.

The company has not changed its significant accounting and reporting policies from those disclosed in its 2007 Annual Report on Form 10-K.

In the opinion of management, the accompanying consolidated financial statements reflect all necessary adjustments consisting of normal recurring accruals for a fair presentation. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Certain fiscal 2007 information has been reclassified to conform to the 2008 presentation.

(3) Critical Accounting Estimates

In preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles, management is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. These estimates and assumptions affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ should the assumptions and estimates used change over time due to changes in circumstances.

As discussed in the company s 2007 Annual Report on Form 10-K, the two most significant areas in which management applies critical assumptions and estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and the impairment valuation of goodwill. Refer to note 1 to the company s consolidated financial statements included in the company s 2007 Annual Report on Form 10-K for significant accounting policies.

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Notes to the Unaudited Consolidated Financial Statements

(4) Supervision and Regulation

The company s deposit accounts are insured by the Deposit Insurance Fund (the DIF) of the Federal Deposit Insurance Corporation (the FDIC) up to the maximum amount provided by law. The FDIC and the Massachusetts Commissioner of Banks (the Commissioner) have regulatory authority over the bank. The business and operations of the company are subject to the regulatory oversight of the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Commissioner also retains supervisory jurisdiction over the company.

On October 3, 2008, the President signed the Emergency Economic Stabilization Act of 2008, which temporarily raises the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase in deposit insurance coverage became effective upon the President s signature. The legislation provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009. There were no increases to the FDIC assessment rate as a result of this increase in coverage.

As a result of recent bank failures, the DIF reserve ratio (DIF reserves as a percent of estimated insured deposits) declined to a level which requires the FDIC to establish and implement a plan to restore the DIF to the minimum reserve ratio within five years. Therefore, on October 7, 2008 the Board of Directors of the FDIC voted to adopt a DIF restoration plan. Currently, insured institutions pay annual premium assessment rates of between 5 to 43 basis points of their deposit base. Under this proposed restoration plan, the assessment schedule would be raised uniformly by seven basis points beginning on January 1, 2009 for all insured institutions. In addition, beginning with the second quarter of 2009, changes would be made to require riskier institutions to pay a larger share of premiums. The proposed assessment system would include assessing higher rates to institutions with a significant reliance on secured liabilities, and higher rates for institutions with a significant reliance on brokered deposits but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth. The proposal also would provide incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. In 2008, the bank qualified as a FDIC Assessment Risk Category I institution (least risk) and is currently assessed deposit insurance premiums at an annualized assessment of 5.3 basis points of the bank s deposit assessment base. If the restoration plan is approved as proposed, management expects the bank s FDIC insurance premiums to increase beginning in January 2009. Management expects that the bank will again qualify as Risk Category I in 2009, and is currently assessing the impact of this proposal on the company s results of operations. The proposal is open for comment until November 17, 2008.

On October 14, 2008, the United States Treasury (the Treasury) and the FDIC jointly announced a new program to strengthen confidence and encourage liquidity in the nation s banking system. Under the Temporary Liquidity Guarantee Program, the FDIC will guarantee certain newly issued senior unsecured debt of banks, thrifts and certain holding companies. In addition, the FDIC will provide participating depository institutions with full insurance coverage for non-interest bearing deposit transaction accounts, regardless of the dollar amount. Institutions opting to participate will be charged a 75-basis point fee to protect newly issued debt (issued on or before June 30, 2009) and a 10-basis point surcharge, on those non-interest bearing account balances over the existing insurance limit of $250,000, will be added to participating institutions deposit insurance assessment in order to fully cover the non-interest bearing deposit transaction accounts. The company is currently evaluating participation in this program.

On October 14, 2008, the Treasury announced a voluntary Capital Purchase Program to support the U.S. economy, to encourage financial institutions to build capital, and to increase the flow of financing to businesses and consumers. Under the program, the Treasury will purchase senior preferred shares from qualifying financial institutions that elect to participate. The Treasury will determine eligibility and allocations for interested parties after consultation with the appropriate federal banking agency. The newly issued senior preferred shares would qualify as Tier 1 capital, and have specific standardized terms set by the Treasury, including dividend rates, callable terms and attached warrants for the purchase of common stock. Issuance of the senior preferred shares will not result in dilution for existing stockholders, but the exercise of warrants would result in some stockholder dilution. The company is currently evaluating participation in this program.