ENTERPRISE BANCORP INC /MA/
Form 10-Q
August 10, 2009
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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 June 30, 2009

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: 001-33912

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 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) o 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:

August 3, 2009 Common Stock - Par Value **$0.01: 8,222,424** shares outstanding

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Consolidated Balance Sheets

(Dollars in thousands)	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 29,827	$ 21,479
Short-term investments	24,838	3,797
Total cash and cash equivalents	54,665	25,276
Investment securities at fair value	127,490	159,373
Loans, less allowance for loan losses of $16,710 at June 30, 2009, and $15,269 at December 31, 2008	1,002,713	933,372
Premises and equipment	22,857	21,651
Accrued interest receivable	5,154	5,357
Deferred income taxes, net	9,992	9,349
Bank-owned life insurance	13,561	13,290
Prepaid income taxes	1,163	1,034
Prepaid expenses and other assets	4,876	5,910
Core deposit intangible, net of amortization	143	209
Goodwill	5,656	5,656
Total assets	$ 1,248,270	$ 1,180,477
Liabilities and Stockholders Equity		
Liabilities		
Deposits	$ 1,085,190	$ 947,903
Borrowed funds	44,746	121,250
Junior subordinated debentures	10,825	10,825
Accrued expenses and other liabilities	11,985	7,546
Accrued interest payable	1,713	1,849
Total liabilities	1,154,459	1,089,373
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; 8,222,424 and, 8,025,239 shares issued and outstanding at June 30, 2009, and December 31, 2008, respectively	82	80
Additional paid-in capital	30,896	29,698
Retained earnings	61,552	60,200
Accumulated other comprehensive income	1,281	1,126
Total stockholders equity	93,811	91,104
Total liabilities and stockholders equity	$ 1,248,270	$ 1,180,477

See the 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 June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest and dividend income:				
Loans	$ 14,095	$ 14,091	$ 27,715	$ 28,653
Investment securities	1,121	1,477	2,704	3,012
Total short-term investments	56	43	73	105
Total interest and dividend income	15,272	15,611	30,492	31,770
Interest expense:				
Deposits	3,294	4,583	6,933	9,946
Borrowed funds	67	578	162	1,164
Junior subordinated debentures	295	295	589	589
Total interest expense	3,656	5,456	7,684	11,699
Net interest income	11,616	10,155	22,808	20,071
Provision for loan losses	864	550	1,966	867
Net interest income after provision for loan losses	10,752	9,605	20,842	19,204
Non-interest income:				
Investment advisory fees	697	841	1,346	1,661
Deposit service fees	905	961	1,778	1,838
Bank-owned life insurance	156	153	311	307
Other than temporary impairment on investment securities	(16)		(774)	
Net gains on sales of investment securities			971	47
Gains on sales of loans	256	29	378	60
Other income	357	404	718	872
Total non-interest income	2,355	2,388	4,728	4,785
Non-interest expense:				
Salaries and employee benefits	6,166	5,807	12,045	11,157
Occupancy expenses	1,886	1,631	3,780	3,252
Audit, legal and other professional fees	422	358	760	765
Advertising and public relations	446	471	992	838
Deposit insurance premiums	954	202	1,327	343
Supplies and postage	212	228	417	463
Investment advisory and custodial expenses	116	88	219	202
Other operating expenses	1,028	819	2,015	1,615
Total non-interest expense	11,230	9,604	21,555	18,635
Income before income taxes	1,877	2,389	4,015	5,354
Provision for Income Taxes	503	606	1,123	1,554
Net income	$ 1,374	$ 1,783	$ 2,892	$ 3,800

Basic earnings per share	$ 0.17	$ 0.22	$ 0.36	$ 0.48
Diluted earnings per share	$ 0.17	$ 0.22	$ 0.36	$ 0.48
Basic weighted average common shares outstanding	8,181,721	7,962,963	8,120,867	7,950,475
Diluted weighted average common shares outstanding	8,195,116	8,000,586	8,133,032	7,990,545

See the accompanying notes to the unaudited consolidated financial statements.

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ENTERPRISE BANCORP, INC.

Consolidated Statement of Changes in Stockholders Equity

(unaudited)

Six months ended June 30, 2009

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2008	$ 80	$ 29,698	$ 60,200		$ 1,126	$ 91,104
Comprehensive income						
Net income			2,892	2,892		2,892
Other comprehensive income, net				155	155	155
Total comprehensive income				$ 3,047		
Tax benefit from exercise of stock options		13				13
Common stock dividend paid ($0.19 per share)			(1,540)			(1,540)
Common stock issued under dividend reinvestment plan	1	536				537
Stock-based compensation	1	429				430
Stock options exercised		220				220
Balance at June 30, 2009	$ 82	$ 30,896	$ 61,552		$ 1,281	$ 93,811

See the accompanying notes to the unaudited consolidated financial statement

ENTERPRISE BANCORP, INC.

Consolidated Statements of Cash Flows

(unaudited)

(Dollars in thousands)	**Six months ended June 30, 2009**	**Six months ended June 30, 2008**
Cash flows from operating activities:		
Net income	$ 2,892	$ 3,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,966	867
Depreciation and amortization	1,560	1,166
Amortization of intangible assets	66	66
Stock-based compensation expense	369	259
Mortgage loans originated for sale	(38,678)	(7,944)
Proceeds from mortgage loans sold	37,899	7,278
Gains on sales of loans	(378)	(60)
Net gains on sales of investment securities	(971)	(47)
Other-than-temporary-impairment on investment securities	774	
Income on bank-owned life insurance, net of costs	(271)	(280)
(Increase)/Decrease in:		
Accrued interest receivable	203	499
Prepaid expenses and other assets	1,213	2,744
Deferred income tax	(763)	
Increase (decrease) in:		
Accrued expenses and other liabilities	4,500	5
Accrued interest payable	(136)	(497)
Net cash provided by operating activities	10,245	7,856
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	39,505	
Proceeds from maturities, calls and pay-downs of investment securities	22,659	20,949
Purchase of investment securities	(29,783)	(18,930)
Net increase in loans, net of charge-offs	(70,750)	(50,850)
Additions to premises and equipment, net	(2,792)	(2,249)
Proceeds from OREO sales and payments	632	
Purchase of OREO	(340)	
Net cash used in investing activities	(40,869)	(51,080)
Cash flows from financing activities:		
Net increase in deposits	137,287	53,676
Net (decrease)/increase in borrowed funds	(76,504)	2,644
Cash dividends paid	(1,540)	(1,430)
Proceeds from issuance of common stock	537	507
Proceeds from exercise of stock options	220	109
Tax benefit from exercise of stock options	13	2
Net cash provided by financing activities	60,013	55,508
Net increase in cash and cash equivalents	29,389	12,284
Cash and cash equivalents at beginning of period	25,276	32,718
Cash and cash equivalents at end of period	$ 54,665	$ 45,002
Supplemental financial data:		
Cash Paid For: Interest	$ 7,820	$ 12,196

Income taxes	2,408	2,518
Supplemental schedule of non-cash investing activity:		
Transfer from loans to real estate owned	600	

See accompanying notes to the unaudited consolidated financial statements.

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ENTERPRISE BANCORP, INC.

Notes to 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.

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.

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements and these notes should be read in conjunction with the Company s December 31, 2008 audited consolidated financial statements and notes thereto contained in the Company s 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2009. 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 2008 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.

Based on management s evaluation through August 10, 2009, the date the financials statements were originally issued to shareholders, there were no events or material transactions subsequent to the financial statements date that required recognition or disclosure in the financial statements presented in this Form 10-Q.

Certain fiscal 2008 information has been reclassified to conform to the 2009 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 2008 Annual Report on Form 10-K, the three 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, impairment review of investment securities and the impairment review of goodwill and other intangible assets. Refer to note 1 to the Company s consolidated financial statements included in the Company s 2008 Annual Report on Form 10-K for significant accounting policies.

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Notes to Unaudited Consolidated Financial Statements

(4) Reporting Comprehensive Income

Comprehensive income is defined as all changes to equity except investments by and distributions to stockholders. Net income is one component of comprehensive income, with other components referred to in the aggregate as other comprehensive income. The Company s only other comprehensive income component is the net unrealized holding gains or losses on investments available for sale, net of deferred income taxes.

The following table summarized the components of other comprehensive income (loss) for the six month periods ended June 30,

	2009	2008
Disclosure of other comprehensive income (loss):		
Gross unrealized holding gains (losses) on investments arising during the period	$ 485	$ (1,291)
Income tax benefit (expense)	(209)	436
Net unrealized holding gains (losses), net of tax	276	(855)
Less: Reclassification adjustment for impairment included in net income:		
Other than temporary impairment loss arising during the period	(774)	
Income tax benefit	263	
Reclassification adjustment for impairment realized, net of tax	(511)	
Less: Reclassification adjustment for net gains included in net income		
Net realized gains on sales of securities during the period	971	47
Income tax expense	(339)	(16)
Reclassification adjustment for gains realized, net of tax	632	31
Other comprehensive income (loss), net of reclassifications	$ 155	$ (886)

(5) FDIC Deposit Insurance Assessment

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. As a result of nationwide bank failures in 2008, the DIF reserve ratio (DIF reserves as a percent of estimated insured deposits) declined substantially, and the FDIC took several steps to restore the ratio, as required by law.

Under the FDIC s DIF restoration plan, the assessment schedule for the first quarter of 2009 was raised uniformly for all insured institutions. In addition, the FDIC subsequently adopted a final rule to restore the DIF reserve ratio, which among other matters, modified the risk-based assessment system to require riskier institutions to pay a larger share of premiums beginning with the second quarter of 2009. The modified assessment system imposes higher rates for 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 modified system also provides incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and for smaller institutions with high levels of Tier 1 capital.

As an additional measure, in May 2009, the FDIC also adopted a rule to impose special assessments on all insured depository institutions in 2009. The initial 5 basis point special assessment, based on each insured depository institution s assets minus its Tier 1 capital as of June 30, 2009, will be collected on September 30, 2009. The rule allows the FDIC Board to impose possible additional special assessments, of up to 5 basis points of assets minus Tier 1 capital, if necessary for the third and fourth quarters of 2009 in order to maintain the DIF at a level that will preserve public confidence and an adequate fund balance.

In addition to general increases in the FDIC s assessment rates, the Company s deposit insurance costs have increased in 2009 due to its participation in the FDIC s Transaction Account Guarantee Program (the TAGP) as described in the Company s 2008 Annual Report on Form 10-K.

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Notes to Unaudited Consolidated Financial Statements

Any special assessment in the third or fourth quarter of 2009 or thereafter, as well as any future increases in annual assessment rates, will further increase the Company s deposit insurance expense and may have a material adverse effect on the Company s results of operations.

(6) Accounting for Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities will be adjusted accordingly through the provision for income taxes.

On July 3, 2008, the Commonwealth of Massachusetts enacted a law that included reducing future tax rates on net income applicable to financial institutions. For tax years beginning on or after January 1, 2010, the tax rate drops from the current rate of 10.5% to 10%, for tax years beginning on or after January 1, 2011 the rate drops to 9.5%, and to 9% for tax years beginning on or after January 1, 2012 and thereafter.

The Company s policy is to classify interest resulting from underpayment of income taxes as income tax expense in the first period the interest would begin accruing according to the provisions of the relevant tax law. The Company classifies penalties resulting from underpayment of income taxes as income tax expense in the period for which the Company claims or expects to claim an uncertain tax position or in the period in which the Company s judgment changes regarding an uncertain tax position.

The Company did not have any unrecognized tax benefits accrued as income tax liabilities or receivables or as deferred tax items at June 30, 2009. The Company s tax years beginning after December 31, 2005 and later are open to federal and state income tax examinations.

(7) Stock-Based Compensation

On May 5, 2009, the Company adopted a 2009 Stock Incentive Plan (the 2009 plan). The 2009 plan permits the board of directors to grant both incentive and non-qualified stock options (as well as restricted stock, restricted stock units and stock appreciation rights) to officers and other employees, directors and consultants for the purchase of up to 400,000 shares of common stock.

Prior to May 5, 2009, the Company had two stock incentive plans. The Company has not significantly changed the general terms and conditions of these plans from those disclosed in the Company s 2008 Annual Report on Form 10-K.

The Company s stock-based compensation expense includes restricted stock awards and stock option awards to officers and other employees, and stock compensation in lieu of cash fees to directors. Total stock-based compensation expense was $215 thousand and $122 thousand for the three months ended June 30, 2009 and 2008, respectively and was $369 thousand and $259 thousand for the six months ended June 30, 2009 and 2008, respectively.

Restricted Stock Awards

Stock-based compensation expense recognized in association with restricted stock awards amounted to $80 thousand and $13 thousand for the three months ended June 30, 2009 and 2008 respectively and $104 thousand and $25 thousand for the six months ended June 30, 2009 and 2008, respectively.

There were no restricted stock awards granted during the three month period ended June 30, 2009. During the first quarter of 2009, the Company granted 83,200 shares of common stock to employees as restricted stock awards. The grant date fair value of the restricted stock awarded was $8.75 per share, which reflects the market value of the common stock on the grant date. Of the 2009 award, 43,200 shares vest twenty-five percent per year and 40,000 shares vest fifty percent per year, starting on the first anniversary date of the award. There have been 150 awards forfeited to date.

Prior to the 2009 restricted stock grant, the Company had granted one restricted stock award, comprised of 17,500 shares, issued in September 2005. The grant date fair value of the restricted stock awarded was $14.25 per share, which reflects the market value of the common stock on the grant date. The shares granted vest twenty percent per year starting on the first anniversary date of the award and there have been no forfeitures to date.

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Notes to Unaudited Consolidated Financial Statements

The restricted stock awards allow for the receipt of dividends, and the voting of all shares, whether or not vested, throughout the vesting periods.

Stock Option Awards

The Company recognized stock-based compensation expense related to stock option awards of $80 thousand and $159 thousand for the three and six months ended June 30, 2009, compared to $64 thousand and $148 thousand for the same period in 2008. There were no stock option awards granted to employees during the three month period ended June 30, 2009 and 51,050 stock option awards granted to employees during the six month period ended June 30, 2009. There were no stock option awards granted during the three months ended June 30, 2008, and there were 132,000 stock option awards granted during the six month period ended June 30, 2008. All of the options granted in 2009 and 2008 become exercisable at the rate of twenty-five percent per year on the anniversary date of the original grant, and provide for accelerated vesting of the entire grant for those who are age 62 on the grant date or upon attaining age 62 during the normal vesting period. Vested options are only exercisable while the employee remains employed with the Bank and for a limited period thereafter, and the options expire seven years from the date of grant.

The Company utilizes the Black-Scholes option valuation model in order to determine the per share grant date fair value of option grants. The table below provides a summary of the options granted, fair value, the fair value as a percentage of the market value of the stock at the date of grant and the average assumptions used in the model for the six months ended June 30, 2009 and 2008.

	2009	2008
Options granted	51,050	132,000
Per share weighted average fair value	$ 2.51	$ 2.47
Percentage of market value at grant date	29%	19%
Average assumptions used in the model:		
Expected volatility	40%	25%
Expected dividend yield	4.54%	2.82%
Expected life in years	5.5	5.5
Risk-free interest rate	2.32%	2.61%

Refer to note 9 Stock Based Compensation Plans in the Company s 2008 Annual Report on Form 10-K for a further description of the assumptions used in the valuation model.

Director Stock-based Compensation

Stock-based compensation expense related to Directors election to receive shares of common stock in lieu of cash fees for attendance at Board and Board Committee meetings amounted to $55 thousand and $106 thousand for the three and six months ended June 30, 2009 compared to $45 thousand and $86 thousand for the same periods in 2008. In January 2009, 13,013 shares of common stock were issued to directors in lieu of cash fees related to 2008 annual directors stock-based compensation expense of $168 thousand.

(8) Supplemental Retirement Plan and Other Postretirement Benefit Obligations

Supplemental Retirement Plan

The Company has salary continuation and supplemental life insurance agreements (see Supplemental Life Insurance below) with three of its executive officers. The salary continuation agreements (SERPs) provide for a predetermined fixed-cash supplemental retirement benefit, the amount subject to vesting requirements, to be provided for a period of 20 years after the individual reaches a defined retirement age .

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Notes to Unaudited Consolidated Financial Statements

The following table illustrates the net periodic benefit cost for the SERPs for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2009	2008	2009	2008
Service Cost	$ 41	$ 175	$ 82	$ 260
Interest Cost	45	39	89	80
Net periodic benefit cost	$ 86	$ 214	$ 171	$ 340

Benefits paid amounted to $30 thousand for the three months and $75 thousand for the six months ended June 30, 2009, and $20 thousand for both the three and six months ended June 30, 2008. The Company anticipates accruing an additional $171 thousand to the plan during the remainder of 2009.

Bank Owned Life Insurance

The Company has purchased bank owned life insurance (BOLI) on certain senior and executive officers. The cash surrender value carried on the balance sheet at June 30, 2009 and December 31, 2008 amounted to $13.6 million and $13.3 million, respectively. There are no associated surrender charges under the outstanding policies.

Supplemental Life Insurance

For certain senior and executive officers on whom the Bank owns BOLI, the Bank has provided supplement life insurance which provides a death benefit to the officer s designated beneficiaries.

On January 1, 2008, the Company adopted the Financial Accounting Standards Board s Emerging Issues Task Force Issue No. 06-4 (EITF No. 06-4) Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements. EITF No. 06-4 requires that an employer recognize a liability for future benefits associated with an endorsement split-dollar life insurance arrangement that provides a benefit to an employee that extends to postretirement periods. Upon adoption of EITF No. 06-4, the Company recorded a cumulative-effect adjustment to retained earnings of $1.0 million.

The following table illustrates the net periodic post retirement benefit cost for the supplemental life insurance plans for the periods indicated:

(Dollars in thousands)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Service Cost	$ 5	$ 5	$ 10	$ 10
Interest Cost	21	16	41	31
Net periodic post retirement benefit cost	$ 26	$ 21	$ 51	$ 41

(9) Earnings Per Share

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the effect on weighted average shares outstanding of the number of additional shares outstanding if dilutive stock options were converted into common stock using the treasury stock method.

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ENTERPRISE BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

The table below presents the increase in average shares outstanding, using the treasury stock method, for the diluted earnings per share calculation and the effect of those shares on earnings, for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Basic weighted average common shares outstanding	8,181,721	7,962,963	8,120,867	7,950,475
Dilutive shares	13,395	37,623	12,165	40,070
Diluted weighted average common shares outstanding	8,195,116	8,000,586	8,133,032	7,990,545
Basic earnings per share	$ 0.17	$ 0.22	$ 0.36	$ 0.48
Effect of dilutive shares				
Diluted earnings per share	$ 0.17	$ 0.22	$ 0.36	$ 0.48

At June 30, 2009, there were additional options outstanding to purchase up to 640,424 shares which were excluded from the calculation of diluted earnings per share due to the exercise price of these options exceeding the average market price of the Company s common stock. These options, which were not dilutive at that date, may potentially dilute earnings per share in the future.

(10) Investment Securities

The amortized cost and estimated fair values of investment securities at June 30, 2009 are summarized as follows:

	June 30, 2009			
(Dollars in thousands)	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Fair Value**
Federal Agency obligations (1)	$ 12,991	$ 4	$ 11	$ 12,984
Federal Agency mortgage backed securities (MBS) (1)	42,362	708	149	42,921
Non-agency MBS	4,077		69	4,008
Municipal securities	56,893	1,025	434	57,484
Total fixed income securities	116,323	1,737	663	117,397
FHLB Boston stock, at cost (2)	4,740			4,740
Equity investments	4,449	908	4	5,353
Total investment securities	$ 125,512	$ 2,645	$ 667	$ 127,490

(1) Investments issued and guaranteed by government sponsored enterprises such as Fannie Mae (FNMA), Freddie Mac (FHLMC), Ginnie Mae (GNMA) or one of several Federal Home Loan Banks. All agency MBS owned by the Company are backed by residential mortgages.

(2)

The Bank is required to purchase Federal Home Loan Bank of Boston (FHLB) stock in association with outstanding advances from the FHLB; this stock is classified as a restricted investment and carried at cost.

See Note 11,   Fair Value Measurements   below for further information regarding the Company s fair value measurements for available-for-sale securities.

Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss is deemed to be other than temporary, the Company marks the investment down to its carrying value through a charge to earnings.

The net unrealized gain or loss in the Company s fixed income portfolio fluctuates as market interest rates rise and fall. Due to the fixed rate nature of this portfolio, as market rates fall the value of the portfolio rises, and as market rates rise, the value of the portfolio declines. The unrealized gains or losses on fixed income investments will also decline as the securities approach maturity.

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As of June 30, 2009, the $160 thousand of unrealized losses on the federal agency obligations and federal agency MBS investments were limited to six individual securities and were attributed to market volatility. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government, and the agencies that issued these securities are sponsored by the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Company s investment. The Company does not consider those investments to be other-than-temporarily impaired at June 30, 2009, because the decline in market value is attributable to interest rate volatility and not credit quality, and because the Company has the ability and intent to hold those investments until a market price recovery or maturity.

As of June 30, 2009, Company s non-agency MBS portfolio consisted of one residential mortgage backed security. The $69 thousand unrealized losses on this MBS was due to current market conditions which resulted generally in lower prices for most non-agency MBS in relation to government issued and agency securities. This trend is considered temporary in nature by the Company. The Company does not consider this investment to be other-than-temporarily impaired at June 30, 2009 due to the AAA rating of the security and the high credit quality of the underlying loans. In addition, the Company has the ability and intent to hold this investment until a recovery or maturity.

As of June 30, 2009, the $434 thousand of unrealized losses on the Company s municipal securities were related to thirty obligations and attributed to market volatility and not a fundamental deterioration in the issuer. The Company does not consider these investments to be other-than-temporarily impaired at June 30, 2009 due to the portfolio being designated investment grade quality and conservative from a credit risk perspective. In addition, the Company has the ability and intent to hold these investments until a recovery or maturity.

The net unrealized gain or loss on equity securities will fluctuate based on changes in the market value of the funds and individual securities held in the portfolio. At June 30, 2009, the Company s equity portfolio consisted primarily of investments in a diversified group of mutual funds, with a small portion of the portfolio (approximately 8%) invested in funds or individual common stock of entities in the financial services industry. At June 30, 2009, the $4 thousand of unrealized losses in the Company equity portfolio consisted of three investments in the financial services industry. These unrealized losses were short-term in duration and due to market volatility and the equity investments were not considered other-than-temporarily impaired.

Management regularly reviews the portfolio for securities with unrealized losses that are other than temporarily impaired. Management s assessment includes evaluating if any equity security or fund exhibits fundamental deterioration and whether it is unlikely that the security or fund will completely recover its unrealized loss within a reasonable time period. During the first six months of 2009, the Company recorded fair market value impairment charges on certain investments contained in its equity portfolio, to reflect the impact of declines in the equity markets during the period. In determining the amount of the other than temporary impairment charge, management considers the severity of the declines in the stock market and the general economy and the uncertainty in determining the likelihood of recovery in the short-term for these equities. The pretax impairment charge of $774 thousand represented a $511 thousand after tax charge against earnings. In March 2009 the Company sold $991 thousand of previously impaired equity funds and recognized additional losses of $299 thousand.

As a member of the Federal Home Loan Bank of Boston (FHLB), the Company is required to purchase FHLB capital stock in association with the Bank s outstanding advances from the FHLB; this stock is classified as a restricted investment and carried at cost. The FHLB is currently operating with retained earnings below its target level. The FHLB has instituted a plan to increase retained earnings which includes suspending its quarterly dividend and a moratorium on the repurchase of excess capital stock from member banks, among other programs. If further

deterioration in the FHLB financial condition or capital levels occurs, the FHLB capital stock may become other than temporarily impaired to some degree and its carrying value correspondingly reduced. Management reviews its investment in FHLB stock for other than temporary impairment based on an assessment of the ultimate recoverability of the par value. Management s most recent evaluation considered the long term nature of the investments, the liquidity position of the FHLB, actions take by FHLB to address the issue, and the Company s intent and ability to hold the investment for sufficient time to recover the par value. Based on this review, management concluded that no other than temporary impairment charge on FHLB stock was necessary as of June 30, 2009.

(11) Fair Value Measurements

On January 1, 2008, the Company adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). This Statement provides a single definition of fair value and establishes a framework for measuring fair value in generally accepted accounting principles, with the intention of increasing consistency and comparability in fair value measurements. The application of this Statement expanded disclosure requirements about fair value measurements. In accordance with FASB Staff Position No. 157-2, Effective Date of FASB

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Statement No. 157, the Company deferred the application of SFAS No. 157 to non-financial assets such as goodwill and real property held for sale, and non-financial liabilities until January 1, 2009. The adoption of SFAS No. 157 did not require any new fair value measurements, as the Statement applies under other existing accounting pronouncements that require or permit fair value measurements.

SFAS No. 157 defines the fair value to be the price which a seller would receive in an orderly transaction between market participants (an exit price). This Statement also establishes a fair value hierarchy segregating fair value measurements using three levels of inputs: (Level 1) quoted market prices in active markets for identical assets or liabilities; (Level 2) significant other observable inputs, including quoted prices for similar items in active markets, quoted prices for identical or similar items in market that are not active, inputs such as interest rates and yield curves, volatilities, prepayment speeds, credit risks and default rates which provide a reasonable basis for fair value determination or inputs derived principally from observed market data; (Level 3) significant unobservable inputs for situations in which there is little, if any, market activity for the asset or liability. Unobservable inputs must reflect reasonable assumptions that market participants would use in pricing the asset or liability, which are developed on the basis of the best information available under the circumstances.

The following table summarizes significant assets and liabilities carried at fair value at June 30, 2009 (there were no items measured using level 3 inputs):

(Dollars in thousands)	**Fair Value**	**Fair Value Measurements using: (level 1)**	**(level 2)**
Assets measured on a recurring basis:			
Available for sale securities	$ 122,750	$ 5,353	$ 117,397
Assets measured on a non-recurring basis:			
Impaired loans	$ 4,185	$	$ 4,185

Available for sale securities

Investment securities that are considered available for sale are carried at fair value in accordance with SFAS No. 115 (as amended). The Company utilizes third-party pricing vendors to provide valuations on its fixed income securities. These vendors generally determine fair value prices based upon pricing matrices utilizing observable market data inputs for similar or benchmark securities. The Company s equity portfolio fair value is measured based on quoted market prices for the shares. Net unrealized appreciation and depreciation on investments available for sale, net of applicable income taxes, are reflected as a component of accumulated other comprehensive income. The Bank is required to purchase Federal Home Loan Bank of Boston (FHLB) stock in association with outstanding advances from the FHLB; this stock is classified as a restricted investment and carried at cost.

Impaired loans

Impaired loan balances in the table above represent those collateral dependent impaired loans where management has estimated the credit loss by comparing the loan s carrying value against the expected realizable fair value of the collateral, in accordance with SFAS No. 114 (as amended). A specific allowance is assigned to the impaired loan for the amount of estimated credit loss. Specific allowances assigned to the collateral dependent impaired loans at June 30, 2009 amounted to $1.1 million, an increase of $796 thousand since December 31, 2008.

Guarantees and Commitments

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. If the letter of credit is drawn upon, the Company creates a loan for the customer with the same criteria associated with similar loans. The fair value of these commitments was estimated to be the fees charged to enter into similar agreements, and accordingly these fair value measures are deemed to be SFAS No. 157 Level 2 measurements. In accordance with FASB Interpretation No. 45, the estimated fair values of these commitments are carried on the balance sheet as a liability and amortized to income over the life of the letters of credit, which are typically one year. At June 30, 2009 and December 31, 2008, the estimated fair values of these commitments were immaterial.

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Interest rate lock commitments related to the origination of mortgage loans that will be sold are considered derivative instruments. The Company estimates the fair value of these derivatives using the difference between the guaranteed interest rate in the commitment and the current market interest rate. To reduce the net interest rate exposure arising from its loan sale activity, the Company enters into the commitment to sell these loans at essentially the same time that the interest rate lock commitment on the loan is quoted. The commitments to sell loans are also considered derivative instruments, with estimated fair values based on changes in current market rates. These commitments represent the Company s only derivative instruments and are accounted for in accordance with SFAS No. 133 (as amended). The fair values of the Company s derivative instruments are deemed to be SFAS No. 157 Level 2 measurements. At June 30, 2009 and December 31, 2008, the estimated fair value of the Company s derivative instruments was considered to be immaterial.

Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1 (FSP 107-1 and APB 28-1), Interim Disclosures about Fair Value of Financial Instruments. The FSP requires publicly traded companies to provide disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009. The implementation of FSP 107-1 and APB 28-1 did not have a material impact on the Company s financial position or results of operations.

In addition to disclosures regarding the measurement of assets and liabilities carried at fair value on the balance sheet, in accordance with FSP 107-1 and APB 28-1, the Company is also required to disclosure fair value information about financial instruments for which it is practicable to estimate that value, whether or not recognized on the balance sheet. In cases where quoted fair values are not available, fair values are based upon estimates using various valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following methods and assumptions were used by the Company in estimating fair values of its financial instruments:

The respective carrying values of certain financial instruments approximated their fair value, as they were short-term in nature or payable on demand. These include cash and due from banks, total short-term investments, accrued interest receivable, repurchase agreements, accrued interest payable and non-certificate deposit accounts.

Investments: Fair values for investments were based on quoted market prices, where available, as provided by third-party accounting and pricing vendors. If quoted market prices were not available, fair values provided by the vendors were based on quoted market prices of comparable instruments in active markets and/or based on a matrix pricing methodology which employs The Bond Market Association s standard calculations for cash flow and price/yield analysis, live benchmark bond pricing and terms/condition data available from major pricing sources. Management regards the inputs and methods used by third party pricing vendors to be Level 2 inputs and methods as defined in the fair value hierarchy provided in SFAS No. 157.

The carrying amount of FHLB stock reported approximates fair value. If the FHLB stock is redeemed, the Company will receive an amount equal to the par value of the stock. The FHLB is currently operating with retained earnings below its target level. The FHLB has instituted a plan to increase retained earnings which includes suspending its quarterly dividend and a moratorium on the repurchase of excess capital stock from member banks, among other programs. If further deterioration in the FHLB financial condition or capital levels occurs, the FHLB capital stock may become other-than-temporarily impaired to some degree.

Loans: The fair value of loans was determined using discounted cash flow analysis, using interest rates currently being offered by the Company. The incremental credit risk for non-accrual loans was considered in the determination of the fair value of the loans.

Commitments: The fair values of the unused portion of lines of credit and letters of credit were estimated to be the fees currently charged to enter into similar agreements. Commitments to originate non-mortgage loans were short-term and were at current market rates and estimated to have no significant change in fair value.

Financial liabilities: The fair values of certificates of deposit and FHLB borrowings were estimated using discounted cash flow analysis using rates offered by the Bank, or advance rates offered by the FHLB on June 30, 2009 and December 31, 2008 for similar instruments. The fair value of junior subordinated debentures was estimated using discounted cash flow analysis using a market rate of interest at June 30, 2009 and December 31, 2008.

Limitations: The estimates of fair value of financial instruments were based on information available at June 30, 2009 and December 31, 2008 and are not indicative of the fair market value of those instruments as of the date of this report. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument.

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Because no active market exists for a portion of the Company s financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates were based on existing on- and off-balance sheet financial instruments without an attempt to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments, including premises and equipment and foreclosed real estate.

In addition, the tax ramifications related to the realization of the unrealized appreciation and depreciation can have a significant effect on fair value estimates and have not been considered in any of the estimates. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The carry value and estimating fair values of the Company s financial instruments as of June 30, 2009, and December 31, 2008 are summarized as follows:

	June 30, 2009		December 31, 2008	
(Dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 54,665	$ 54,665	$ 25,276	$ 25,276
Investment securities	127,490	127,490	159,373	159,373
Loans, net	1,002,713	1,010,370	933,372	955,010
Accrued interest receivable	5,154	5,154	5,357	5,357
Financial liabilities:				
Non-interest demand deposits	174,369	174,369	166,430	166,430
Interest bearing checking, savings, money market accounts	574,601	574,601	452,023	452,023
Certificates of deposit (including brokered)	336,220	337,425	329,450	330,184
Borrowed funds	44,746	44,794	121,250	121,274
Junior subordinated debentures	10,825	10,825	10,825	10,825
Accrued interest payable	1,713	1,713	1,849	1,849

(12) Recent Accounting Pronouncements

In April 2009, the FASB issued Staff Position No. 157-4, (FSP 157-4) Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP 157-4 provides additional guidance for determining fair value in accordance with FAS 157, and affirms the objective of fair value when a market is not active, clarifies and includes additional factors for determining whether there has been a significant decrease in market activities, eliminates the presumption that all transactions are distressed unless proven otherwise, and requires disclosures when a change in inputs or valuation technique have been made during the period. FSP 157-4 is effective for interim and annual periods ending after June 15, 2009. The implementation of FSP 157-4 did not have an impact on the Company s financial position or results of operations.

In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, (FSP 115-2 and 124-2), Recognition and Presentation of Other-Than-Temporary Impairments . This FSP amends the other-than-temporary impairment (OTTI) guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP establishes new criteria for the recognition of other than temporary impairment on debt securities and requires additional disclosures of OTTI on debt and equity securities in the financial statements. If the Company does not intend to sell the security and it is more-likely-than-not that it will not be required to sell the security prior to recovery, the Company is required to recognize the amount of the OTTI loss related to credit in earnings, and the remaining loss will be recognized in other comprehensive income, net of tax. FSP 115-2 and 124-2 are effective for interim and annual periods ending after June 15, 2009. The implementation of FSP 115-2 and 124-2 did not have an impact on the Company s financial position or results of operations.

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In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166 (SFAS No. 166), Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. This statement amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities to address certain practices that have developed that the FASB determined are not consistent with the original intent and key requirement of SFAS No. 140, and to address concerns that financial assets that have been derecognized should continue to be reported in the financial statements of the transferors. SFAS No. 166 eliminates the concept of qualifying special-purpose entity (QSPE) and removes the exception from applying the consolidation rules of SFAS No. 46R Consolidation of Variable Interest Entities to variable interest entities that are QSPEs. SFAS No. 166 is intended to improve the information that a reporting entity provides in its financial reports about the transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows. Under SFAS 166, the appropriateness of derecognition is evaluated based on whether or not the transferor has surrendered control of the transferred assets. The evaluation must consider any continuing involvement by the transferor in the financial assets. SFAS No 166 disclosure requirements must be applied to transfers that occurred both before and after the effective date of this Statement. SFAS No. 166 is effective for the first interim and annual periods that begin after November 15, 2009 and for interim and annual periods thereafter. Earlier application is prohibited. The implementation of SFAS No. 166 is not expected to have a material impact on the Company s financial position or results of operations.

In June 2009 the FASB issued SFAS No. 167 Amendments to FASB Interpretation No. 46(R) Consolidation of Variable Interest Entities. SFAS 167 amends FIN 46R to require a reporting entity to perform an analysis to determine if its variable interests give it a controlling financial interest in a variable interest entity (VIE). The analysis required under SFAS 167 identifies the primary beneficiary of a VIE as the entity having both of the following: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. In addition, SFAS 167 requires ongoing reassessments of whether a reporting entity is the primary beneficiary of a VIE. SFAS No. 167 is effective for the first interim and annual periods that begin after November 15, 2009 and for interim and annual periods thereafter. Earlier application is prohibited. The implementation of SFAS No. 167 is not expected to have a material impact on the Company s financial position or results of operations.

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. SFAS 168 establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles to be applied in the preparation of financial statements in conformity with GAAP. SFAS 168 becomes effective for interim and annual periods ending after September 15, 2009. At that date, all then-existing non-SEC accounting and reporting standards will be superseded by the Codification. The Company will adopt SFAS 168 for the interim period ending September 30, 2009. Adoption is not expected to have any effect on the Company s accounting policies or financial statement presentation. However, because the Codification will change the basis for reference to authoritative GAAP guidance, upon adoption the Company s footnote disclosures that reference such guidance will change to reflect appropriate references to the Codification.

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

Management s discussion and analysis should be read in conjunction with the Company s consolidated financial statements and notes thereto contained in this report and the Company s 2008 Annual Report on Form 10-K.

Special Note Regarding Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning plans, objectives, future events or performance and assumptions and other statements that are other than statements of historical fact. Forward-looking statements may be identified by reference to a future period or periods or by use of forward-looking terminology such as anticipates , believes , expects , intends , may , plans , pursue , views and similar terms or expressions. Various stat contained in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 3 Quantitative and Qualitative Disclosures About Market Risk, including, but not limited to, statements related to management s views on the banking environment and the economy, competition and market expansion opportunities, the interest rate environment, credit risk and the level of future non-performing assets and charge-offs, potential asset and deposit growth, future non-interest expenditures and non-interest income growth, and borrowing capacity are forward-looking statements. The Company wishes to caution readers that such forward-looking statements reflect numerous assumptions and involve a number of risks and uncertainties that may adversely affect the Company s future results. The following important factors, among others, could cause the Company s results for subsequent periods to differ materially from those expressed in any forward-looking statement made herein: (i) changes in interest rates could negatively impact net interest income; (ii) changes in the business cycle and downturns in the local, regional or national economies, including deterioration in the local real estate market, could negatively impact credit and/or asset quality and result in credit losses and increases in the Company s allowance for loan losses; (iii) changes in consumer spending could negatively impact the Company s credit quality and financial results; (iv) increasing competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services could adversely affect the Company s competitive position within its market area and reduce demand for the Company s products and services; (v) deterioration of securities markets could adversely affect the value or credit quality of the Company s assets and the availability of funding sources necessary to meet the Company s liquidity needs; (vi) changes in technology could adversely impact the Company s operations and increase technology-related expenditures; (vii) increases in employee compensation and benefit expenses could adversely affect the Company s financial results; (viii) changes in laws and regulations that apply to the Company s business and operations could increase the Company s regulatory compliance costs and adversely affect the Company s business environment, operations and financial results; (ix) changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies, the Financial Accounting Standards Board (the FASB) or the Public Company Accounting Oversight Board could negatively impact the Company s financial results; and (x) some or all of the risks and uncertainties described in Item 1A of the Company s 2008 Annual Report on From 10-K could be realized, which could have a material adverse effect on the Company s business, financial condition and results of operation. Therefore, the Company cautions readers not to place undue reliance on any such forward-looking information and statements.

Overview

The current banking environment continues to provide many opportunities for a local community commercial bank like Enterprise Bank (the Bank) as customers seek out community based alternatives to the larger, national and regional banks. For the first time in the Company s history, deposits and loans both exceeded $1 billion. Deposits, excluding brokered deposits, totaled $1.025 billion at June 30, 2009, an increase of $152.3 million, or 17.5%, since December 31, 2008, representing an annualized growth rate of 35%. Loans outstanding totaled $1.019 billion at June 30, 2009, an increase of $70.8 million, or 7.5%, since December 31, 2008, representing an annualized growth rate of 15%. Management believes that loan quality remains solid, as we continue to apply our consistent and disciplined lending strategy to our expanding customer base. The Company continues to pursue a strategy of expanding our branch network and investing in our infrastructure and our employees

while seeking to grow local community-based deposits and quality commercial loan relationships.

The current quarter and year-to-date net income results were impacted by an increase in FDIC insurance premiums as the government replenishes the insurance fund, increases in non-interest expenses partially due to the recent opening and staffing of three branch offices, systems and facilities upgrades, and an increase in the provision for loan losses.

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• Results of Operations

Net income for the three months ended June 30, 2009 amounted to $1.4 million compared to $1.8 million for the quarter ended June 30, 2008. Diluted earnings per share were $0.17 for the second quarter compared to $0.22 for the same period in 2008. The quarterly results represented decreases of 23% in both net income and diluted EPS compared to the same period in the prior year.

Net income for the six months ended June 30, 2009 amounted to $2.9 million compared to $3.8 million for the same period in 2008. Diluted earnings per share were $0.36 for the six months ended June 30, 2009 compared to $0.48 for the comparable 2008 period. The year-to-date results represented decreases of 24% and 25% in net income and diluted EPS, respectively, compared to the same period in the prior year.

• Net interest income and margin

The Company s earnings are largely dependent on its net interest income, which is the difference between interest earned on loans and investments and the cost of funding (primarily deposits and borrowings). Net interest income expressed as a percentage of average interest earning assets is referred to as net interest margin. The re-pricing frequency of the Company s assets and liabilities are not identical, and therefore subject the Company to the risk of adverse changes in interest rates. This is often referred to as interest rate risk and is reviewed in more detail in Item 3, Quantitative and Qualitative Disclosures About Market Risk, of this Form 10-Q.

Net interest income for the quarter ended June 30, 2009 amounted to $11.6 million, an increase of $1.5 million, or 14%, compared to the June 2008 quarter. Net interest income for the six month ended June 30, 2009 amounted to $22.8 million, an increase of $2.7 million, or 14%, over the prior year-to-date period. The increase in net interest income over the comparable prior-year periods was due primarily to strong loan growth as the reduction in asset yields mitigated the decrease in the cost of funding and held the net interest margin relatively flat compared to the prior periods.

Net interest margin was 4.19% for the quarter ended June 30, 2009 compared to 4.18% for the comparable 2008 quarter and 4.17% for the quarter ended March 31, 2009. Net interest margin was 4.18% for both the six months ended June 30, 2009 and 2008, and 4.23% for the year ended December 31, 2008.

• Provision for loan losses and Credit Quality

The provision for loan losses amounted to $864 thousand for the three months ended June 30, 2009, compared to $550 thousand for the same period in 2008. The provision for loan losses amounted to $2.0 million and $867 thousand for the six months ended June 30, 2009 and June 30, 2008, respectively. The increased provision was due to several factors: 2009 year-to-date net charge-offs of $525 thousand compared to $213 thousand for the same period last year; an increase in specific reserves on impaired loans; and the loan growth during the period. Total loans have increased $70.8 million, or 7.5%, since December 31, 2008. In light of the current economic environment, management believes that

overall asset quality remains solid, with annualized year-to-date net charge-offs amounting to only 0.11% of average total loans, and non-performing assets to total assets of 1.09% at June 30, 2009 compared to 0.73% and 0.57% at December 31, 2008 and June 30, 2008, respectively. The allowance for loan losses to total loans ratio was 1.64% at June 30, 2009 and March 31, 2009 compared to 1.61% at December 31, 2008 and 1.60% at June 30, 2008.

• Non-interest income and expense

Non-interest income for both the three months ended June 30, 2009 and June 30, 2008 amounted to $2.4 million. Non-interest income for the six months ended June 30, 2009 and June 30, 2008 amounted to $4.7 million and $4.8 million, respectively. Investment advisory income decreased $315 thousand in the year-over-year period due to the decline in the value of assets under management resulting primarily from investment market conditions. Gains realized on the sales of loans increased $318 thousand over the comparable year-to-date period due to the increase in volume of residential loan production as a result of the favorable market interest rates in 2009. During the six months ended June 2009, net gains on security sales were offset in part by the other than temporary impairment on certain equity securities and resulted in net gains of $197 thousand, which was an increase of $150 thousand compared to the six months ended June 30, 2008.

Non-interest expense for the three months ended June 30, 2009, amounted to $11.2 million, an increase of 17%, compared to the same quarter last year. Non-interest expense for the six months ended June 30, 2009, amounted to $21.6 million, an increase of 16%, compared to the same period in the prior year. The increase in non-interest expense was related primarily to increases in FDIC insurance assessments and the Company s strategic growth initiatives resulting in increases in the areas of compensation-related costs, occupancy, and advertising and public relations expenses. The Company s deposit insurance premiums increased $984 thousand compared to the 2008 year-to-date period, due to changes in the FDIC insurance assessment rates and a special

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June assessment which applied to all insured banks. These actions were undertaken by the FDIC in order to replenish the FDIC s deposit insurance reserves.   Included in the current quarter s FDIC insurance expense was the estimated June special assessment charge of $576 thousand, to be collected in September.   The FDIC may also impose additional special assessments for the third and fourth quarters of 2009 if the reserves are estimated to fall to a level that would be inadequate to support their objectives.

• Effective tax rates

The effective tax rate for the six months ended June 30, 2009 was 27.97% compared to 29.03% in the 2008 period. The decrease in the effective tax rate was primarily due to the impact of the level of non-taxable income on lower earnings.

• Sources and Uses of Funds

The Company s primary sources of funds are customer deposits, brokered certificates of deposit (brokered CDs), borrowings from the Federal Home Loan Bank of Boston (the FHLB), repurchase agreements, current earnings and proceeds from the sales, maturities and paydowns on loans and investment securities. The Company uses these funds to originate loans, purchase investment securities, conduct operations, expand the branch network, and pay dividends to shareholders.

Total assets amounted to $1.25 billion at June 30, 2009, an increase of 6% since December 31, 2008. The Company s core asset strategy is to grow loans, primarily high quality commercial loans. Total loans increased 7.5%, or $70.8 million, since December 31, 2008 and amounted to $1.02 billion, or 82% of total assets. Commercial loans amounted to $864.2 million, or 85% of gross loans, which was consistent with the December 31, 2008 composition.

The investment portfolio is the other key component of the Company s earning assets and is primarily used to invest excess funds, provide liquidity and to manage the Company s asset-liability position. The fair value of total investments amounted to $127.5 million at June 30, 2009. The majority of the $31.9 million decline since December 31, 2008 was due to net sales activity. The sales proceeds that have not yet been fully redeployed are carried temporarily in short-term money market mutual funds.

Management s preferred strategy for funding asset growth is to grow low cost deposits (comprised of demand deposit, interest checking and business checking accounts and traditional savings accounts). Asset growth in excess of low cost deposits is typically funded through higher cost deposits (comprised of money market accounts, commercial tiered rate or investment savings accounts and certificates of deposit, or CDs), customer repurchase agreements, wholesale funding (brokered CDs and FHLB borrowings), and investment portfolio cash flow.

Deposits, excluding brokered CDs, amounted to $1.02 billion, and increased $152.3 million or 17.5%, since December 31, 2008, representing an annualized growth rate of 35%. Strong deposit growth was noted in all categories; with low cost deposit balances increasing 11% and higher cost deposit balances increasing 23%, since December 31, 2008. The deposit growth is attributed to the Company s expansion and sales efforts to attract relationship customers seeking a competitive, but secure, alternative to the larger regional and national banks and mutual funds, as well

as the migration of off-balance sheet sweep accounts to on-balance sheet accounts.

At June 30, 2009, total deposits, which include brokered CDs, amounted to $1.09 billion, representing 14.5% growth over December 31, 2008.

Wholesale funding amounted to $103.7 million at June 30, 2009, compared to $195.2 million at December 31, 2008. At June 30, 2009, wholesale funding included $60.4 million in brokered CDs, a reduction of $15 million, or 20%, since December 31, 2008, and FHLB borrowings amounting to $43.3 million, a decrease of $76.5 million, or 64%, since December 31, 2008. The declines in wholesale funding were achieved due to the strong deposit growth during the period.

• Opportunities and Risks

While the current economic environment presents significant challenges for all companies, management also believes that it creates opportunities for growth and expansion. The Company s lending and credit review practices, investment strategies and strategic growth initiatives that have been in place since the Company was established twenty years ago, have served to provide quality asset growth over varying economic cycles. Management believes that the Company is well positioned to expand its lending while larger regional and national banks tighten their underwriting standards. This has been demonstrated by the Company s strong loan growth, particularly by the 14% loan growth in 2008 and a 15% annualized loan growth rate for the six months ended June 30, 2009. The Company has concentrated on community lending with traditional mortgages and commercial loans to local businesses, professionals, non-profit organizations and individuals. Any long-term continuation of the nationwide recession or possible lagging effects, however, could further weaken the local economy leading to increased unemployment or further deterioration of commercial real estate values and have a severe impact on the Company s financial condition, capital position, liquidity, and performance.

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The Company continues to seek to position itself to increase market share, with carefully planned expansion into neighboring markets through new branch development. The Company opened a Methuen, Massachusetts branch in May 2008, a new Acton, Massachusetts branch on January 12, 2009, and a loan production office in Derry, New Hampshire in March 2009, which began operating as a temporary full-service branch on August 3rd, and will continue as such until the permanent Derry facility is opened, which is anticipated for 2010. Management continues to undertake many significant initiatives, including investments in employee training and professional development, marketing and public relations, technology and facilities. While management recognizes that such investments will increase expenses in the short-term, before the long-term benefits are fully realized, the Company believes that such initiatives are an investment in the long-term growth and value of the Company and are reflective of the opportunities in the marketplace for community banks such as Enterprise.

Notwithstanding the market opportunities that management believes the current economic environment has created, the Company s primary market area will continue to be marked by substantial competition from multiple sources, including the expanded commercial lending capabilities of credit unions, the shift to commercial lending by traditional savings banks, the continuing presence of large regional and national commercial banks, the products offered by non-bank financial services competitors and increased competition for investment advisory assets and deposit resources within the Company s market area. While the recent tightening of credit markets and contraction of liquidity for larger regional and national banks has resulted in some banks restricting their lending activity, it has also increased competition and rates for deposit resources within the Company s market area. This competition has an impact on the Company s deposit strategy, as the Company may or may not choose to compete on rates depending on its funding needs and asset-liability position at any given time. The Company will continue to face significant business risk in seeking to achieve its long-term growth objectives, which will continue to depend upon the Company s success in differentiating itself from competitors, developing strong relationships with business and community leaders, and providing a superior customer experience through a full range of diversified financial products and services, delivered through consistent, responsive and personal service based on an understanding of the financial needs of customers.

In addition, any continued volatility in the financial markets, tightening of credit markets, and any possible subsequent effects of the current economic recession, could have a negative impact on the value of the Company s investment portfolio as a whole, or on individual securities held, including bonds issued by government agencies or municipalities and restricted FHLB capital stock, which could possibly result in the recognition of additional OTTI charges in the future.

Any further changes in government regulation or oversight, including responses to the recent financial crisis, could affect the Company in substantial and unpredictable ways, including, but not limited to, subjecting the Company to additional operating and compliance costs. As discussed above, changes in the FDIC s deposit insurance rates applicable to all insured banks and the Company s participation in the FDIC s TAGP have already increased the Company s ongoing FDIC-related costs, and the FDIC s ability to impose additional future special assessments to restore the DIF would further increase these costs.

Management believes the Company s business model, strong service and technology cultures, experienced banking professionals, in-depth knowledge of our markets and trusted reputation within the community create opportunities for the Company to be the leading provider of banking and investment management services in its growing market area and that the Company is well positioned, both financially and strategically, to capitalize on opportunities created by the current challenging banking landscape.

Additional significant challenges facing the Company continue to be the effective management of interest rate and credit risk, liquidity management and capital adequacy, and operational risk.

The re-pricing frequency of interest earning assets and liabilities are not identical, and therefore subjects the Company to the risk of adverse changes in interest rates. This is often referred to as interest rate risk and is reviewed in more detail under Item 3, Quantitative and Qualitative Disclosures About Market Risk.

The risk of loss due to customers non-payment of loans or lines of credit is called credit risk. Credit risk management is reviewed below in this Item 2 under the heading Credit Risk/Asset Quality and the Allowance for Loan Losses.

Liquidity management is the coordination of activities so that cash needs are anticipated and met, readily and efficiently. Liquidity management is reviewed under this Item 2 under the heading Liquidity below.

Federal banking agencies require the Company and the Bank to meet minimum capital requirements. At June 30, 2009, the Company and the Bank were categorized as well capitalized ; however future unanticipated charges against capital could impact these regulatory capital designations. In addition, although the Company believes its current capital is adequate to support

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ongoing operations, additional capital may be required in the future to support the Company s current growth rates. For information regarding the capital requirements applicable to the Company and the Bank and their respective capital levels at June 30, 2009, see the section entitled Capital Resources contained in this Item 2 below.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk management is also a key component of the Company s risk management process, particularly as it relates to technology administration, information security, and business continuity.

Management utilizes a combination of third party security assessments, key technologies and ongoing internal evaluations in order to protect non-public customer information and continually monitor and safeguard information on its operating systems and those of third party service providers. The Company contracts with outside parties to perform a broad scope of both internal and external security assessments on the Company s systems on a regular basis. These third parties test the Company s network configuration and security controls, and assess internal practices aimed at protecting the Company s operating systems.

In addition, the Company contracts with an outside service provider to monitor usage patterns and identify unusual activity on debit/ATM cards issued by the Bank. The Company also utilizes firewall technology and a combination of software and third-party monitoring to detect intrusion, protect against unauthorized access and continuously scans for computer viruses on the Company s information systems.

The Company has a Business Continuity Plan that consists of the information and procedures required to enable rapid recovery from an occurrence that would disable the Company or cause a loss of personnel for an extended period. The plan establishes responsibility for assessing a disruption of business, contains alternative strategies for the continuance of critical business functions, assigns responsibility for restoring services, and sets priorities by which critical services will be restored.

In addition to the risks discussed above numerous other factors that could adversely affect the Company s future results of operations and financial condition are addressed in Item 1A, Risk Factors included in the Company s 2008 Annual Report on Form 10-K.

Financial Condition

Total assets increased $67.8 million, or 6%, since December 31, 2008, to $1.25 billion at June 30, 2009. The increase was primarily attributable to increases in total loans, funded primarily through deposit growth.

Short-term investments

As of June 30, 2009, short-term investments amounted to $24.8 million, an increase of $21 million compared to December 31, 2008. Short-term investments carried as cash equivalents consist of overnight and term federal funds sold and money market mutual funds. The balance of these investments will fluctuate depending on the short-term deposit inflows, investment sales proceeds and the immediate liquidity needs of the Company.

Investments

At June 30, 2009, the investment portfolio s fair market value was $127.5 million, representing a decline of $31.9 million since December 31, 2008. The decline was due primarily to the sale activity referred to below. The carrying value of the investment portfolio represented 10% of total assets at June 30, 2009 and 14% at December 31, 2008. As of the dates indicated below, all investment securities (other than FHLB stock) were classified as available for sale and were carried at fair market value.

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The following table summarizes the fair market value of investments at the dates indicated:

(Dollars in thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Federal agency obligations (1)	$ 12,984	$	$
Mortgage backed securities (MBS) (1)	42,921	82,936	63,951
Non-agency MBS	4,008	4,316	4,512
Municipal securities	57,484	61,386	61,249
Fixed income securities	$ 117,397	$ 148,638	$ 129,712
Equity securities	5,353	4,740	8,710
Federal Home Loan Bank stock (2)	4,740	5,995	3,895
Total investments	$ 127,490	$ 159,373	$ 142,317

(1) Investments guaranteed by government enterprises such as Fannie Mae, Freddie Mac, Ginnie Mae and the FHLB.
(2) This stock is classified as a restricted investment and carried at cost.

See Note 10, Investment Securities and Note 11, Fair Value Measurements to the Company s unaudited consolidated financial statements contained in this Form 10-Q for further information regarding the Company s available-for-sale debt and equity securities held, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized and the Company s fair value measurements for available-for-sale securities.

The Company has not purchased sub-prime mortgage-backed securities and has never invested in the stock of Fannie Mae or Freddie Mac or purchased any corporate debt.

During the six months ended June 30, 2009, the Company sold $38.5 million in federal agency, MBS obligations and equity mutual funds, and recognized net gains of $971 thousand. During the same period, the total principal paydowns, calls and maturities amounted to $22.7 million. These portfolio cash flows were partially utilized to purchase $29.8 million in securities and fund cash management operations, with the remainder placed temporarily in short-term investments.

From time to time the Company may pledge investments from the portfolio as collateral for various municipal deposit accounts, repurchase agreements and treasury, tax and loan deposits. The fair value of securities pledged as collateral was $28.8 million at June 30, 2009. Securities designated as qualified collateral for FHLB borrowing capacity amounted to $30.8 million at June 30, 2009. Securities designated as qualified collateral for borrowing from the Federal Reserve Bank of Boston (the FRB) through its discount window amounted to $55.7 million at June 30, 2009.

Loans

The Company specializes in lending to business entities, non-profit organizations, professionals and individuals. The Company s primary lending focus is on the development of high quality commercial relationships achieved through active business development efforts, strong community involvement and focused marketing strategies. Loans made by the Company to businesses include commercial mortgage loans, construction and land development loans, secured and unsecured commercial loans and lines of credit, and standby letters of credit. The Company also originates equipment lease financing for businesses. Loans made to individuals include conventional residential mortgage loans, home equity loans, residential construction loans on primary residences, secured and unsecured personal loans and lines of credit. The Company does not have a sub-prime mortgage program.

Total loans amounted to $1.02 billion at June 30, 2009, an increase of $70.8 million, or 7.5%, compared to December 31, 2008, and 15% since June 30, 2008. Total loans represented 82% of total assets at June 30, 2008 and 80% at December 31, 2008. The majority of the growth since December has been focused in the commercial portfolio, as total commercial loans have increased $61.8 million over the period.

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The following table sets forth the loan balances by certain loan categories at the dates indicated and the percentage of each category to gross loans.

(Dollars in thousands)	June 30, 2009 Amount	Percent	December 31, 2008 Amount	Percent	June 30, 2008 Amount	Percent
Commercial real estate	$ 522,197	51.2%	$ 472,279	49.7%	$ 432,474	48.8%
Commercial and industrial	243,991	23.9%	231,815	24.4%	211,329	23.8%
Commercial construction	98,049	9.6%				