ENTERPRISE BANCORP INC /MA/
Form 10-Q
May 10, 2011
Table of Contents

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 March 31, 2011

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 (State or other jurisdiction of incorporation or organization)	**04-3308902** (I.R.S. Employer Identification No.)
222 Merrimack Street, Lowell, Massachusetts (Address of principal executive offices)	**01852** (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 accelerated 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:

May 5, 2011 Common Stock - Par Value **$0.01: 9,390,712** shares outstanding.

Table of Contents

ENTERPRISE BANCORP, INC.

INDEX

Table of Contents

ENTERPRISE BANCORP, INC.

Consolidated Balance Sheets

(Dollars in thousands)	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 26,071	$ 30,541
Short-term investments	61,094	24,465
Total cash and cash equivalents	87,165	55,006
Investment securities at fair value	138,949	146,800
Loans, less allowance for loan losses of $20,273 at March 31, 2011, and $19,415 at December 31, 2010	1,131,381	1,123,931
Premises and equipment	25,525	24,924
Accrued interest receivable	5,669	5,532
Deferred income taxes, net	10,911	11,039
Bank-owned life insurance	14,535	14,397
Prepaid income taxes		379
Prepaid expenses and other assets	9,635	9,657
Core deposit intangible, net of amortization		
Goodwill	5,656	5,656
Total assets	$ 1,429,426	$ 1,397,321
Liabilities and Stockholders Equity		
Liabilities		
Deposits	$ 1,285,046	$ 1,244,071
Borrowed funds	5,542	15,541
Junior subordinated debentures	10,825	10,825
Accrued expenses and other liabilities	8,077	9,297
Income taxes payable	269	
Accrued interest payable	562	914
Total liabilities	1,310,321	1,280,648
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; 9,387,537 and 9,290,465 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	94	93
Additional paid-in capital	43,285	42,590
Retained earnings	73,487	72,000
Accumulated other comprehensive income	2,239	1,990
Total stockholders equity	119,105	116,673
Total liabilities and stockholders equity	$ 1,429,426	$ 1,397,321

See the accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ENTERPRISE BANCORP, INC.

Consolidated Statements of Income

Three months ended March 31, 2011 and 2010

(unaudited)

(Dollars in thousands, except per share data)	**Three Months Ended March 31, 2011**	**2010**
Interest and dividend income:		
Loans	$ 15,270	$ 14,769
Investment securities	959	1,090
Short-term investments	11	6
Total interest and dividend income	16,240	15,865
Interest expense:		
Deposits	1,915	2,331
Borrowed funds	22	57
Junior subordinated debentures	294	294
Total interest expense	2,231	2,682
Net interest income	14,009	13,183
Provision for loan losses	922	879
Net interest income after provision for loan losses	13,087	12,304
Non-interest income:		
Investment advisory fees	956	854
Deposit service fees	1,023	972
Income on bank-owned life insurance	162	156
Other than temporary impairment on investment securities		(1)
Net gains on sales of investment securities		501
Gains on sales of loans	220	81
Other income	419	528
Total non-interest income	2,780	3,091
Non-interest expense:		
Salaries and employee benefits	6,976	6,446
Occupancy and equipment expenses	1,444	1,307
Technology and telecommunications expenses	973	912
Advertising and public relations expenses	665	526
Deposit insurance premiums	489	460
Audit, legal and other professional fees	310	267
Supplies and postage expenses	218	196
Investment advisory and custodial expenses	104	136
Other operating expenses	1,021	883
Total non-interest expense	12,200	11,133
Income before income taxes	3,667	4,262
Provision for income taxes	1,203	1,376

Net income	$	2,464	$	2,886
Basic earnings per share	$	0.26	$	0.32
Diluted earnings per share	$	0.26	$	0.32
Basic weighted average common shares outstanding		9,318,522		9,124,696
Diluted weighted average common shares outstanding		9,356,479		9,129,024

See the accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ENTERPRISE BANCORP, INC.

Consolidated Statement of Changes in Stockholders Equity

(Unaudited)

Three months ended March 31, 2011

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2010	$ 93	$ 42,590	$ 72,000		$ 1,990	$ 116,673
Comprehensive income						
Net income			2,464	$ 2,464		2,464
Other comprehensive income, net				249	249	249
Total comprehensive income				$ 2,713		
Common stock dividend paid ($0.105 per share)			(977)			(977)
Common stock issued under dividend reinvestment plan		312				312
Stock-based compensation	1	382				383
Stock options exercised		1				1
Balance at March 31, 2011	$ 94	$ 43,285	$ 73,487		$ 2,239	$ 119,105

See the accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ENTERPRISE BANCORP, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)		**Three months ended March 31, 2011**		**2010**
Cash flows from operating activities:				
Net income	$	2,464	$	2,886
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		922		879
Depreciation and amortization		1,020		917
Amortization of intangible assets				33
Stock-based compensation expense		306		196
Mortgage loans originated for sale		(3,997)		(7,139)
Proceeds from mortgage loans sold		10,476		7,029
Gains on sales of loans		(220)		(81)
Gains on sales of OREO				(110)
Net gains on sales of investment securities				(501)
Other-than-temporary-impairment on investment securities				1
Income on bank-owned life insurance, net of costs		(138)		(136)
Changes in:				
Accrued interest receivable		(137)		(190)
Prepaid expenses and other assets		387		108
Accrued expenses and other liabilities		(874)		4
Accrued interest payable		(352)		(594)
Net cash provided by operating activities		9,857		3,302
Cash flows from investing activities:				
Proceeds from sales of investment securities available for sale				1,505
Proceeds from maturities, calls and pay-downs of investment securities		8,975		7,832
Purchase of investment securities		(840)		(13,125)
Net increase in loans		(14,631)		(10,117)
Additions to premises and equipment, net		(1,514)		(1,066)
Proceeds from OREO sales and payments				982
Net cash used in investing activities		(8,010)		(13,989)
Cash flows from financing activities:				
Net increase in deposits		40,975		43,253
Net decrease in borrowed funds		(9,999)		20,425
Cash dividends paid		(977)		(911)
Proceeds from issuance of common stock		312		300
Proceeds from the exercise of common stock options		1		
Net cash provided by financing activities		30,312		63,067
Net increase in cash and cash equivalents		32,159		52,380
Cash and cash equivalents at beginning of period		55,006		32,610
Cash and cash equivalents at end of period	$	87,165	$	84,990
Supplemental financial data:				
Cash Paid For: Interest	$	2,583	$	3,276
Income taxes		630		1,020
Supplemental schedule of non-cash investing activity:				
Purchase of investment securities not yet settled				2,001
Transfer from loans to other real estate owned				350

Transfer from loans to other assets	970

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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 or Enterprise) 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 and management, 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 Federal Deposit Insurance Corporation (the FDIC) and the Massachusetts Commissioner of Banks (the Commissioner) have regulatory authority over the Bank. The Bank is also subject to certain regulatory requirements of the Board of Governors of the Federal Reserve System (the Federal Reserve Board) and, with respect to its New Hampshire branch operations, the New Hampshire Banking Department. The business and operations of the Company are subject to the regulatory oversight of 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, 2010 audited consolidated financial statements and notes thereto contained in the Company s 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2011. 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 2010 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 amounts in the previous year footnotes to the consolidated financial statements have been reclassified to conform to the current year s 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 then ended. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates should the assumptions and estimates used change over time due to changes in circumstances. Changes in those estimates resulting from continuing changes in the economic environment and other factors will be reflected in the financial statements and results of operations in future periods.

As discussed in the Company s 2010 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. Refer to note 1 to the Company s

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

consolidated financial statements included in the Company s 2010 Annual Report on Form 10-K for significant accounting policies.

(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 summarizes the components of other comprehensive income for the three month periods ended March 31, 2011 and 2010.

(Dollars in thousands)	**2011**	**2010**
Gross unrealized holding gains on investments arising during the period	$ 376	$ 755
Income tax expense	(127)	(267)
Net unrealized holding gains, net of tax	249	488
Less: Reclassification adjustment for impairment included in net income:		
Other than temporary impairment loss arising during the period		(1)
Income tax benefit		
Reclassification adjustment for impairment realized, net of tax		(1)
Less: Reclassification adjustment for net gains (losses) included in net income		
Net realized gains on sales of securities during the period		501
Income tax expense		(175)
Reclassification adjustment for gains realized, net of tax		326
Other comprehensive income, net of reclassifications	$ 249	$ 163

(5) 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.

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 March 31, 2011	2010
Basic weighted average common shares outstanding	9,318,522	9,124,696
Dilutive shares	37,957	4,328
Diluted weighted average common shares outstanding	9,356,479	9,129,024
Basic earnings per share	$ 0.26	$ 0.32
Effect of dilutive shares	0.00	0.00
Diluted earnings per share	$ 0.26	$ 0.32

For the three months ended March 31, 2011, there was an additional 149,595 average stock options outstanding, which were excluded from the year-to-date 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 for the period. These options, which were not dilutive at that date, may potentially dilute earnings per share in the future.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

(6) Investment Securities

The amortized cost and carrying values of investment securities at the dates specified are summarized as follows:

	March 31, 2011			
(Dollars in thousands)	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Carrying Amount**
Federal agency obligations (1)	$ 36,108	$ 26	$ 207	$ 35,927
Federal agency mortgage backed securities (MBS) (1)	39,305	983	118	40,170
Non-agency CMO	2,127	63		2,190
Municipal securities	49,084	1,211	67	50,228
Total fixed income securities	126,624	2,283	392	128,515
Equity investments	4,113	1,590	9	5,694
Total available for sale securities, at fair value	130,737	3,873	401	134,209
FHLB Boston stock, at cost (2)	4,740			4,740
Total investment securities	$ 135,477	$ 3,873	$ 401	$ 138,949

	December 31, 2010			
(Dollars in thousands)	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Carrying Amount**
Federal agency Obligations(1)	$ 41,149	$ 55	$ 264	$ 40,940
MBS(1)	41,581	1,056	112	42,525
Non-agency MBS	2,386	53		2,439
Municipal securities	50,576	1,109	96	51,589
Total fixed income securities	135,692	2,273	472	137,493
Equity investments	3,273	1,300	6	4,567
Total available for sale securities, at fair value	138,965	3,573	478	142,060
FHLB stock, at cost(2)	4,740			4,740
Total investment securities	$ 143,705	$ 3,573	$ 478	$ 146,800

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

(2) The Bank is required to purchase FHLB stock in association with advances from the FHLB; this stock is classified as a restricted investment and carried at cost, which management believes approximates fair value.

Included in the carry amount of federal agency MBS category were Collateralized Mortgage Obligations (CMO s) totaling $24.7 million and $26.0 million at March 31, 2011 and December 31, 2010, respectively.

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

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. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on the fixed income portfolio is deemed to be other than temporary, the credit loss portion is charged to earnings and the noncredit portion is recognized in accumulated other comprehensive income.

As of March 31, 2011, the unrealized losses on the federal agency obligations and federal agency MBS investments were related to twelve individual securities, which 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 March 31, 2011, because the decline in market value is attributable to changes in interest rate volatility and not credit quality, additionally,

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

the Company does not intend to, and it is more likely than not that it will not be required to, sell those investments prior to a market price recovery or maturity.

As of March 31, 2011, the unrealized losses on the Company s municipal securities were related to eleven obligations and were attributed to market volatility and not a fundamental deterioration in the issuers. The Company does not consider these investments to be other-than-temporarily impaired at March 31, 2011 based on management s assessment of these investments including a review of market pricing and ongoing credit evaluations. In addition, the Company does not intend to, and it is more likely than not that it will not be required to, sell those investments prior to a market price 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. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on an equity security is deemed to be other than temporary prior to a sale, the loss is charged to earnings.

At March 31, 2011, the equity portfolio consisted primarily of investments in a diversified group of mutual funds, with a small portion of the portfolio (approximately 18%) invested in funds or individual common stock of entities in the financial services industry. At March 31, 2011, the Company had four investments in equity mutual funds or individual stocks having combined unrealized losses of $9 thousand which were short term in nature. 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. In determining the amount of the other than temporary impairment charge, management considers the severity of the declines and the uncertainty of recovery in the short-term for these equities. Based upon this review, the Company did not consider those equity funds to be other-than-temporarily impaired at March 31, 2011.

There were no fair value impairment charges or sales of previously impaired securities during the three months ended March 31, 2011. During the three months ended March 31, 2010, the Company recorded fair value impairment charges of $1 thousand, on a previously impaired equity investment; also during that period, the Company sold $1.0 million of previously impaired equity funds and recognized book gains of $501 thousand.

As a member of the FHLB, the Company is required to purchase certain levels of FHLB capital stock in association with the Bank s borrowing relationship from the FHLB. In recent years, the FHLB had suspended its quarterly dividend and placed a moratorium on the repurchase of excess capital stock from member banks, among other programs, to increase its capital levels. However, in the first quarter of 2011, the FHLB reported improved profitability and capital levels, and announced a fourth quarter dividend on capital stock balances that was paid in March 2011. The FHLB also noted that the board of directors anticipates continuing to declare modest cash dividends through 2011, but cautioned that negative events such as further credit losses, a decline in income or regulatory disapproval could lead them to reconsider this plan. The FHLB subsequently declared a first quarter dividend that was paid in May 2011. Although recent financial results of the FHLB have improved, if further deterioration in the FHLB financial condition or capital levels occurs, the Company s investment in FHLB capital stock may become other than temporarily impaired to some degree. At March 31, 2011, the Company s investment in FHLB capital stock amounted to $4.7 million. Based on management s review of this investment, FHLB stock was not other than temporarily impaired as of March 31, 2011.

From time to time the Company may pledge securities from its investment portfolio as collateral for various municipal deposit accounts and repurchase agreements. The fair value of securities pledged as collateral for these purposes was $41.4 million at March 31, 2011. In addition, securities designated as qualified collateral for FHLB borrowing capacity amounted to $33.8 million at March 31, 2011. Securities designated as qualified collateral for borrowing from the Federal Reserve Bank of Boston (the FRB) through its discount window amounted to $49.7 million at March 31, 2011.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

(7) Loans and Allowance for Loan Loss

Major classifications of loans and loans held for sale at the periods indicated, are as follows:

(Dollars in thousands)	March 31, 2011	December 31, 2010
Real estate:		
Commercial real estate	$ 598,076	$ 595,075
Commercial construction	117,881	111,681
Residential mortgages	87,009	86,560
Residential construction	2,693	2,874
Loans held for sale	149	6,408
Total real estate	805,808	802,598
Commercial and industrial	279,065	274,829
Home equity	64,677	63,108
Consumer	3,514	4,228
Gross loans	1,153,064	1,144,763
Deferred loan origination fees, net	(1,410)	(1,417)
Total loans	1,151,654	1,143,346
Allowance for loan losses	(20,273)	(19,415)
Net loans and loans held for sale	$ 1,131,381	$ 1,123,931

The Company manages its loan portfolio to avoid concentration by industry and loan size to minimize its credit risk exposure. In addition, the Company does not have a sub-prime mortgage program. However, inherent in the lending process is the risk of loss due to customer non-payment, or credit risk.

Loan Categories

Commercial loans:

Commercial real estate loans include loans secured by both owner-use and non-owner occupied real estate. These loans are typically secured by a variety of commercial and industrial property types including apartment buildings, office or mixed-use facilities, strip shopping centers, or other commercial property and are generally guaranteed by the principals of the borrower. Commercial real estate loans generally have repayment periods of approximately fifteen to twenty-five years. Variable interest rate loans have a variety of adjustment terms and indices, and are generally fixed for the first one to five years before periodic rate adjustments begin.

Commercial and industrial loans include seasonal revolving lines of credit, working capital loans, equipment financing (including equipment leases), and term loans. Also included in commercial and industrial loans are loans partially guaranteed by the Small Business Administration (SBA), loans under various programs issued in conjunction with the Massachusetts Development Finance Agency and other agencies. Commercial and industrial credits may be unsecured loans and lines to financially strong borrowers, secured in whole or in part by real estate unrelated to the principal purpose of the loan or secured by inventories, equipment, or receivables, and are generally guaranteed by the principals of the borrower. Variable rate loans and lines in this portfolio have interest rates that are periodically adjusted, with loans generally having fixed initial periods of one to three years. Commercial and industrial loans have average repayment periods of one to seven years.

Commercial construction loans include the development of residential housing and condominium projects, the development of commercial and industrial use property and loans for the purchase and improvement of raw land. These loans are secured in whole or in part by the underlying real estate collateral and are generally guaranteed by the principals of the borrowers. Construction lenders work to cultivate long-term relationships with established developers. The Company limits the amount of financing provided to any single developer for the construction of properties built on a speculative basis. Funds for construction projects are disbursed as pre-specified stages of construction are completed. Regular site inspections are performed, either by experienced construction lenders on staff or by independent outside inspection companies, at each construction phase, prior to advancing additional funds. Commercial construction loans generally have terms of one to three years.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

From time to time, Enterprise participates with other banks in the financing of certain commercial projects. In some cases, the Company may act as the lead lender, originating and servicing the loans, but participating out a portion of the funding to other banks. In other cases, the Company may participate in loans originated by other institutions. In each case, the participating bank funds a percentage of the loan commitment and takes on the related risk. In each case in which the Company participates in a loan, the rights and obligations of each participating bank is divided proportionately among the participating banks in an amount equal to their share of ownership and with equal priority among all banks. The balances participated out to other institutions are not carried as assets on the Company s financial statements. Loans originated by other banks in which the Company is the participating institution are carried in the loan portfolio at the Company s pro rata share of ownership. The Company performs an independent credit analysis of each commitment and a review of the participating institution prior to participation in the loan.

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 a loan is created for the customer, generally a commercial loan, with the same criteria associated with similar commercial loans.

Other loans:

Enterprise originates conventional mortgage loans on one-to-four family residential properties. These properties may serve as the borrower s primary residence, vacation homes or investment properties. Loan to value limits vary generally from 80% for adjustable rate and multi-family owner occupied properties, up to 97% for fixed rate loans on single family owner occupied properties, with mortgage insurance coverage required for loan-to-value ratios greater than 80% based on program parameters. In addition, financing is provided for the construction of owner occupied primary residences. Residential mortgage loans may have terms of up to 30 years at either fixed or adjustable rates of interest. Fixed and adjustable rate residential mortgage loans are generally originated using secondary market underwriting and documentation standards.

Depending on the current interest rate environment, management projections of future interest rates and the overall asset-liability management program of the Company, management may elect to sell those fixed and adjustable rate residential mortgage loans which are eligible for sale in the secondary market, or hold some or all of this residential loan production for the Company s portfolio. Mortgage loans are generally not pooled for sale, but instead sold on an individual basis. Enterprise may retain or sell the servicing when selling the loans. All loans sold are currently sold without recourse, subject to an early payment default period covering the first four payments for certain loan sales.

Home equity loans are originated for one-to-four family residential properties with maximum original loan to value ratios generally up to 80% of the assessed or appraised value of the property securing the loan. Home equity loan payments consist of monthly principal and interest based on amortization ranging from three to fifteen years. The rates may also be fixed for three to fifteen years.

The Company originates home equity lines for one-to-four family residential properties with maximum original loan to value ratios generally up to 80% of the assessed or appraised value of the property securing the loan. Home equity lines generally have interest rates that adjust monthly based on changes in the Prime Rate as published in the Wall Street Journal, although minimum rates may be applicable. Some home equity line rates may be fixed for a period of time and then adjusted monthly thereafter. The payment schedule for home equity lines for the first ten years of the lines are interest only payments. Generally at the end of ten years, the line is frozen to future advances, and principal plus interest payments are collected over a fifteen-year amortization schedule.

Consumer loans primarily consist of secured or unsecured personal loans and overdraft protection lines on checking accounts extended to individual customers.

Credit Quality Indicators

Adversely Classified Loans

The Company s loan risk rating system classifies loans depending on risk of loss characteristics. The classifications range from substantially risk free for the highest quality loans and loans that are secured by cash collateral, to the more severe adverse classifications of substandard , doubtful and loss based on criteria established under banking regulations.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

Loans classified as substandard include those loans characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. These loans are inadequately protected by the sound net worth and paying capacity of the borrower; repayment has become increasingly reliant on collateral liquidation or reliance on guaranties; credit weaknesses are well-defined; borrower cash flow is insufficient to meet required debt service specified in loan terms and to meet other obligations, such as trade debt and tax payments.

Loans classified as doubtful have all the weaknesses inherent in a substandard rated loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until more exact status may be determined.

Loans classified as loss are generally considered uncollectible at present, although long term recovery of part or all of loan proceeds may be possible. These loss loans would require a specific loss reserve or charge-off.

Adversely classified loans may be accruing or in non-accrual status and may be additionally designated as impaired or restructured, or some combination thereof. Loans which are evaluated to be of weaker credit quality are reviewed on a more frequent basis by management.

The following table presents the credit risk profile by internally assigned risk rating category at the periods indicated.

	March 31, 2011				
	Adversely Classified			Not Adversely	
(Dollars in thousands)	Substandard	Doubtful	Loss	Classified	Gross Loans
Cmml real estate	$ 19,535	$ 250	$	$ 578,291	$ 598,076
Cmml and industrial	7,305	159		271,601	279,065
Cmml construction	6,010			111,871	117,881
Residential	1,843			87,859	89,702
Home Equity	206			64,471	64,677
Consumer	12			3,502	3,514
Loans held for sale				149	149
Total gross loans	$ 34,911	$ 409	$	$ 1,117,744	$ 1,153,064

	December 31, 2010				
	Adversely Classified			Not Adversely	
(Dollars in thousands)	Substandard	Doubtful	Loss	Classified	Gross Loans
Cmml real estate	$ 12,885	$ 250	$	$ 581,940	$ 595,075
Cmml and industrial	6,765	47		268,017	274,829
Cmml construction	2,890			108,791	111,681

Residential	2,132			87,302	89,434
Home Equity	207			62,901	63,108
Consumer	18	4		4,206	4,228
Loans held for sale				6,408	6,408
Total gross loans	$ 24,897	$ 301	$	$ 1,119,565	$ 1,144,763

Total adversely classified loans amounted to $25.5 million at March 31, 2010. The increase in adversely classified loans as of March 31, 2011 was primarily due to the downgrade of two commercial real estate relationships and two construction relationships during the period. Management continues to closely monitor these relationships which were carried as accruing at March 31, 2011.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

Past Due and Non-Accrual Loans

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is generally discontinued when a loan becomes contractually past due, with respect to interest or principal, by ninety days, or when reasonable doubt exists as to the full and timely collection of interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest accruals are resumed on such loans only when payments are brought current and have remained current for a period of ninety days or when, in the judgment of management, the collectability of both principal and interest is reasonably assured. Interest payments received on loans in a non-accrual status are generally applied to principal.

The following table presents an age analysis of past due loans as of March 31, 2011.

(Dollars in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due (non-accrual)	Total Past Due Loans	Current Loans	Gross Loans
Cmml real estate	$ 6,970	$	$ 9,860	$ 16,830	$ 581,246	$ 598,076
Cmml and industrial	1,369	59	8,883	10,311	268,754	279,065
Cmml construction			2,817	2,817	115,064	117,881
Residential	1,130		1,380	2,510	87,192	89,702
Home Equity	72	40	133	245	64,432	64,677
Consumer	20	1	8	29	3,485	3,514
Loans held for sale					149	149
Total gross loans	$ 9,561	$ 100	$ 23,081	$ 32,742	$ 1,120,322	$ 1,153,064

The following table presents an age analysis of past due loans as of December 31, 2010.

(Dollars in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due (non-accrual)	Total Past Due Loans	Current Loans	Gross Loans
Cmml real estate	$ 4,363	$ 2,002	$ 8,065	$ 14,430	$ 580,645	$ 595,075
Cmml and industrial	816	317	7,573	8,706	266,123	274,829
Cmml construction	247		2,890	3,137	108,544	111,681
Residential	622		1,667	2,289	87,145	89,434
Home Equity	40		135	175	62,933	63,108

Consumer		24		5		11		40		4,188		4,228
Loans held for sale										6,408		6,408
Total gross loans	$	6,112	$	2,324	$	20,341	$	28,777	$	1,115,986	$	1,144,763

Total non-accrual loans amounted to $23.1 million at March 31, 2011, and $20.3 million at December 31, 2010 and $18.5 million at March 31, 2010. Non-accrual loans which were not adversely classified amounted to $2.5 million at March 31, 2011, and $2.4 million at both December 31, 2010 and March 31, 2010. These balances primarily represented the guaranteed portions of non-performing Small Business Administration loans.

The ratio of non- accrual loans to total loans amounted to 2.00%, 1.78% and 1.69% at March 31, 2011, December 31, 2010 and March 31, 2010, respectively.

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

The level of delinquent and non-performing assets is largely a function of economic conditions and the overall banking environment. Despite prudent loan underwriting, adverse changes within the Company s market area or further deterioration in the local, regional or national economic conditions could negatively impact the Company s level of non-performing assets in the future.

At March 31, 2011, additional funding commitments for loans on non-accrual status totaled $429 thousand. The Company s obligation to fulfill the additional funding commitments on non-accrual loans is generally contingent on the borrower s compliance with the terms of the credit agreement, or if the borrower is not in compliance additional funding commitments may be made at the Company s discretion.

The majority of the non-accrual loan balances were also carried as impaired loans during the periods, and are discussed further below.

Impaired Loans

Impaired loans are individually significant loans for which management considers it probable that not all amounts due in accordance with original contractual terms will be collected. The majority of impaired loans are included within the non-accrual balances; however, not every loan in non-accrual status has been designated as impaired. Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Management considers the payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be paid in accordance with its contractual terms.

Impaired loans exclude large groups of smaller-balance homogeneous loans, such as residential mortgage loans and consumer loans, which are collectively evaluated for impairment, loans that are measured at fair value and leases, unless the loan is amended in a troubled debt restructure (or TDR).

Loans are designated as a TDR when a concession is made on a credit as a result of financial difficulties of the borrower. Typically, such concessions consist of a reduction in interest rate to a below market rate, taking into account the credit quality of the note, or a deferment of payments, principal or interest, which materially alters the Bank s position or significantly extends the note s maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan s origination. Restructured loans are included in the impaired loan category.

Total impaired loans amounted to $47.4 million and $49.8 million at March 31, 2011 and December 31, 2010, respectively. Total accruing impaired loans amounted to $25.4 million and $30.7 million at March 31, 2011 and December 31, 2010, respectively, while non accrual impaired loans amounted to $22.0 million and $19.1 million as of March 31, 2011 and December 31, 2010, respectively. In management s opinion the majority of impaired loan balances at March 31, 2011 were supported by expected future cash flows or the net realizable value of the underlying collateral.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

The following table sets forth the recorded investment in impaired loans and the related specific allowance allocated as of March 31, 2011.

(Dollars in thousands)	Unpaid contractual principal balance	Related allowance	Recorded investment with allowance	Recorded investment with no allowance	Total recorded investment in impaired loans
Cmml real estate	$ 33,602	$ 620	$ 4,424	$ 27,821	$ 32,245
Cmml and industrial	11,063	1,818	4,452	5,391	9,843
Cmml construction	4,869	596	2,198	2,565	4,763
Residential	522	119	344	168	512
Home Equity	50			50	50
Consumer	19	19	19		19
Total	50,125	3,172	11,437	35,995	47,432

The following table presents the average recorded investment in impaired loans and the related interest recognized during the three months ended March 31, 2011.

(Dollars in thousands)	Average recorded investment	Interest income recognized
Cmml real estate	$ 34,180	$ 330
Cmml and industrial	9,351	15
Cmml construction	4,497	25
Residential	541	
Home Equity	37	1
Consumer	19	
Total	$ 48,625	$ 371

The following table sets forth the recorded investment in impaired loans and the related specific allowance allocated as of December 31, 2010.

(Dollars in thousands)	Unpaid contractual principal balance	Related allowance	Recorded investment with allowance	Recorded investment with no allowance	Total recorded investment in impaired loans
Cmml real estate	$ 37,331	$ 853	$ 10,626	$ 25,405	$ 36,031
Cmml and industrial	9,942	1,284	3,956	4,824	8,780
Cmml construction	4,419	414	2,229	2,135	4,364
Residential	646	121	347	283	630
Home Equity					

Consumer	19	19	19		19
Total	$ 52,357	$ 2,691	$ 17,177	$ 32,647	$ 49,824

Total TDR loans, included in the impaired loan figures above as of March 31, 2011 and December 31, 2010 were $35.7 million and $41.1 million, respectively. TDR loans on accrual status amounted to $24.8 million and $30.2 million at March 31, 2011 and December 31, 2010, respectively. Restructured loans included in non-performing loans amounted to $10.9 million and $10.8 million at March 31, 2011 and December 31, 2010, respectively.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

Allowance for probable loan losses methodology

On a quarterly basis, management prepares an estimate of the allowance necessary to cover estimated credit losses. The Company maintains the allowance at a level that it deems adequate to absorb all reasonably anticipated losses from specifically known and other credit risks associated with the portfolio. The Company uses a systematic methodology to measure the amount of estimated loan loss exposure inherent in the portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology makes use of specific reserves, for loans individually evaluated and deemed impaired and general reserves, for larger groups of homogeneous loans, which rely on a combination of qualitative and quantitative factors that could have an impact on the credit quality of the portfolio.

There have been no material changes in the Company s underwriting practices, credit risk management system, or to the allowance assessment methodology used to estimate loan loss exposure as reported in the Company s Annual Report on Form 10-K for the prior year. Refer to heading Allowance for probable loan losses methodology contained in Note 3 Loans and Allowance For Loan Losses , to the Company s consolidated financial statements contained in the Company s 2010 Annual Report on Form 10-K for further discussion of management s methodology used to estimated the loan loss exposure inherent in the portfolio for purposes of establishing a sufficient allowance.

Allowance for Loan Loss activity

The allowance for loan losses is established through a provision for loan losses, a direct charge to earnings. Loan losses are charged against the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged-off are credited to the allowance.

Changes in the allowance for loan losses for the three months ended March 31, are summarized as follows:

(Dollars in thousands)		**2011**		**2010**
Balance at beginning of year	$	19,415	$	18,218
Provision charged to operations		922		879
Loan recoveries		66		18
Less: Loans charged-off		130		625
Balance at end of year	$	20,273		18,490

Changes in the allowance for loan losses by segment for the three months ended March 31, 2011, are presented below:

(Dollars in thousands)	Cmml Real Estate	Cmml and Industrial	Cmml Constr	Resid. Mortgage	Home Equity	Consumer	Total
Beginning Balance	$ 9,769	$ 5,489	$ 2,609	$ 923	$ 512	$ 113	$ 19,415
Provision	(139)	680	451	(62)	14	(22)	922
Recoveries	14	43	4	2		3	66
Less: Charge offs		122				8	130
Ending Balance	9,644	6,090	3,064	863	526	86	20,273
Ending allowance balance allotted to:							
Loans individually evaluated for impairment	$ 620	$ 1,818	$ 596	$ 119	$	$ 19	$ 3,172
Loans collectively evaluated for impairment	9,024	4,272	2,468	744	526	67	17,101

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

The balances of loans as of March 31, 2011 by segment and evaluation method are summarized as follows:

(Dollars in thousands)	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total Loans
Cmml real estate	$ 32,245	$ 565,831	$ 598,076
Cmml and industrial	9,843	269,222	279,065
Cmml construction	4,763	113,118	117,881
Residential	512	89,190	89,702
Home Equity	50	64,627	64,677
Consumer	19	3,495	3,514
Loans held for sale		149	149
Deferred Fees		(1,410)	(1,410)
Total loans	$ 47,432	$ 1,104,222	$ 1,151,654

The balances of loans as of December 31, 2010 by segment and evaluation method are summarized as follows:

(Dollars in thousands)	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total Loans
Cmml real estate	$ 36,031	$ 559,044	$ 595,075
Cmml and industrial	8,780	266,049	274,829
Cmml construction	4,364	107,317	111,681
Residential	630	88,804	89,434
Home Equity		63,108	63,108
Consumer	19	4,209	4,228
Loans held for sale		6,408	6,408
Deferred Fees		(1,417)	(1,417)
Total loans	$ 49,824	$ 1,093,522	$ 1,143,346

Loans serviced for others

At March 31, 2011 and December 31, 2010, the Company was servicing residential mortgage loans owned by investors amounting to $26.6 million and $27.2 million, respectively. Additionally, the Company was servicing commercial loans participated out to various other institutions amounting to $37.0 million and $36.6 million at March 31, 2011 and December 31, 2010, respectively.

Loans Serving as Collateral

Loans designated as qualified collateral and pledged to the FHLB for borrowing capacity are summarized below:

	March 31, 2011	December 31, 2010
Commercial real estate	$ 223,221	$ 227,926
Residential mortgages	64,883	63,166
Home equity	24,533	24,417
Total loans pledged to FHLB	$ 312,637	$ 315,509

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

(8) Stock-Based Compensation

The Company currently has three individual stock incentive plans. The Company has not changed the general terms and conditions of these plans from those disclosed in the Company s 2010 Annual Report on Form 10-K.

The Company s stock-based compensation expense includes restricted stock awards and stock option awards to officers, other employees and directors, and stock compensation in lieu of cash fees to directors. Total stock-based compensation expense was $306 thousand for the three months ended March 31, 2011 compared to $196 thousand for the three months ended March 31, 2010.

Stock Option Awards

The Company recognized stock-based compensation expense related to stock option awards of $51 thousand for the three months ended March 31, 2011 compared to $65 thousand for the three months ended March 31, 2010.

There were 82,075 and 63,775 stock option awards granted to employees in the first quarter of 2011 and 2010, respectively. These options generally become exercisable at the rate of 25% per year on or about the anniversary date of the original grant. The 2011 awards allow for accelerated vesting on a portion of unvested options upon the date of retirement, if during the normal vesting period.   Options granted prior to 2011 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 options granted in 2011 and 2010.

	2011	**2010**
Options granted	82,075	63,775
Average assumptions used in the model:		
Expected volatility	44%	43%
Expected dividend yield	2.92%	2.98%
Expected life in years	5.5	5.5

Risk-free interest rate		2.17%		2.66%
Market price on date of grant	$	14.85	$	12.51
Per share weighted average fair value	$	5.27	$	4.35
Percentage of market value at grant date		35%		35%

Refer to note 9 Stock Based Compensation Plans in the Company s 2010 Annual Report on Form 10-K for a further description of the assumptions used in the valuation model.

Restricted Stock Awards

Stock-based compensation expense recognized in association with restricted stock awards amounted to $198 thousand for the three months ended March 31, 2011 compared to $92 thousand for the three months ended March 31, 2010.

During the first quarter of 2011, the Company granted 63,765 shares of common stock in the form of restricted stock awards comprised of 53,475 shares awarded to employees, generally vesting over four years, 3,500 shares awarded to an executive officer vesting immediately, and 6,790 shares awarded to directors vesting over two years. The grant date fair value of the restricted stock awarded was $14.85 per share, which reflects the market value of the common stock on the grant date. The unvested 2011 awards generally vest, in each case, in equal portions beginning one full year from the date of the award. During the first quarter of 2010, the Company granted 77,963 shares of common stock in the form of restricted stock awards comprised of 70,475 shares awarded to employees, vesting over four years, and 7,488 shares awarded to directors vesting over two years. The grant date fair value of the restricted stock awarded was $12.51 per share, which reflects the market value of the common stock on the grant date. The 2010 awards generally vest, in each case, in equal portions starting on the first anniversary date of the award.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the 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.

If a grantee s employment or other service relationship, such as service as a director, is terminated for any reason, then any shares of restricted stock that have not vested as of the time of such termination must be forfeited, unless the Compensation Committee or the Board of Directors, as the case may be, waives such forfeiture requirement, or in the case of the 2011 awards, the employee meets certain retirement criteria.

Stock in Lieu of Directors Fees

In addition to restricted stock awards discussed above, the members of the Company s Board of Directors may opt to receive newly issued shares of the Company s common stock in lieu of cash compensation for attendance at Board and Board Committee meetings. 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 $57 thousand for the three months ended March 31, 2011 compared to $39 thousand for the three months ended March 31, 2010. In January 2011, 12,046 shares of common stock were issued to directors in lieu of cash fees related to 2010 annual directors stock-based compensation expense of $134 thousand.

(9) Supplemental Retirement Plan and Other Postretirement Benefit Obligations

Supplemental Retirement Plan (SERPs)

The Company has salary continuation agreements with two of its executive officers, and one former executive officer, who currently works on a part time basis. These salary continuation agreements 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. Each officer has attained their individually defined retirement age and all participants are fully vested under the plan.

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

	Three months ended March 31,			
(Dollars in thousands)		**2011**		**2010**
Service Cost	$		$	41
Interest Cost		43		46

Net periodic benefit cost	$	43	$	87

Benefits paid amounted to $69 thousand for the three months ended March 31, 2011, compared to $45 thousand for the three months ended March 31, 2010. The Company anticipates accruing an additional $128 thousand to the plan during the remainder of 2011.

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 March 31, 2011 and December 31, 2010 amounted to $14.5 million and $14.4 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 supplemental life insurance which provides a death benefit to the officer s designated beneficiaries.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

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

	Three months ended March 31,	
(Dollars in thousands)	**2011**	**2010**
Service Cost	$ 6	$ (11)
Interest Cost	18	17
Net periodic post retirement benefit cost	$ 24	$ 6

(10) 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 recognized for the future tax attributable to differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The 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.

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 March 31, 2011. The Company s tax years beginning after December 31, 2005 are open to federal and state income tax examinations.

(11) Fair Value Measurements

The Financial Accounting Standard Board (FASB) defines the fair value of an asset or liability to be the price which a seller would receive in an orderly transaction between market participants (an exit price) and 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 markets 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 tables summarize significant assets and liabilities carried at fair value at the dates specified:

(Dollars in thousands)		**March 31, 2011 Fair Value**		**Fair Value Measurements using: (level 1)**		**(level 2)**		**(level 3)**
Assets measured on a recurring basis:								
Fixed income securities	$	128,515	$		$	128,515	$	
Equity securities		5,694		5,694				
FHLB Stock		4,740						4,740
Assets measured on a non-recurring basis:								
Impaired loans		8,254						8,254
Other real estate owned		825						825

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

(Dollars in thousands)	December 31, 2010 Fair Value	Fair Value Measurements using: (level 1)	(level 2)	(level 3)
Assets measured on a recurring basis:				
Fixed income securities	$ 137,493	$	$ 137,493	$
Equity securities	4,567	4,567		
FHLB Stock	4,740			4,740
Assets measured on a non-recurring basis:				
Impaired loans	13,969			13,969
Other real estate owned	825			825

During the three months ended March 31, 2011 the Company did not have cause to transfer any assets between the fair value measurement levels.

Investment securities that are considered available for sale are carried at fair value. The fixed income category above includes, federal agency obligations, federal agency MBS, non-agency MBS, and municipal securities, as held at those dates. The Company utilizes third-party pricing vendors to provide valuations on its fixed income securities. Fair values provided by the vendors were generally determined based upon pricing matrices utilizing observable market data inputs for similar or benchmark securities 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. Therefore, 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.

The Company s equity portfolio fair value is measured based on quoted market prices for the shares, therefore these securities are categorized as Level 1 within the fair value hierarchy.

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 FHLB stock at par value in association with advances from the FHLB; this stock is classified as a restricted investment and carried at cost which management believes approximates fair value, therefore these securities are categorized as Level 3 measures. See the discussion regarding FHLB stock in Note 6, Investment Securities, above, for further information regarding the Company s fair value assessment of FHLB capital stock.

Impaired loan balances in the table above represent those collateral dependent impaired commercial loans where management has estimated the credit loss by comparing the loan s carrying value against the expected realizable fair value of the collateral (appraised value less estimated cost to sell, adjusted as necessary for changes in relevant valuation factors subsequent to the measurement date). Certain inputs used in appraisals, and possible subsequent adjustments, are not always observable, and therefore, collateral dependent impaired loans are categorized as Level 3 within the fair value hierarchy. A specific allowance is assigned to the collateral dependent impaired loan for the amount of management s estimated credit loss. The specific allowances assigned to the collateral dependent impaired loans at March 31, 2011 amounted to $2.8 million compared to $2.2 million at December 31, 2010, a net increase of $670 thousand.

Real estate acquired by the Company through foreclosure proceedings or the acceptance of a deed in lieu of foreclosure is classified as Other Real Estate Owned (OREO). When property is acquired, it is generally recorded at the lesser of the loan s remaining principal balance, net of unamortized deferred fees, or the estimated fair value of the property acquired, less estimated costs to sell. The estimated fair value is based on market appraisals and the Company s internal analysis. Certain inputs used in appraisals are not always observable, and therefore, OREO may be categorized as Level 3 within the fair value hierarchy. The carrying value of OREO at March 31, 2011 and December 31, 2010 was $825 thousand and consisted of two properties. There was no activity in the quarter.

Other 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 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 FASB Level 2 measurements. In accordance with the FASB, the estimated fair values of these commitments are carried on the balance sheet as a liability and amortized to income over the life of

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

the letters of credit, which are typically one year. The estimated fair value of these commitments carried on the balance sheet was $24 thousand and $40 thousand at March 31, 2011 and December 31, 2010, respectively, and were deemed immaterial.

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 is quoted on the origination of the loan. 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 FASB guidance. The fair values of the Company s derivative instruments are deemed to be FASB Level 2 measurements. At March 31, 2011 and December 31, 2010, the estimated fair value of the Company s derivative instruments was considered to be immaterial.

Estimated Fair Values of Assets and Liabilities

In addition to disclosures regarding the measurement of assets and liabilities carried at fair value on the balance sheet, the Company is also required to disclose 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. See the discussion regarding fair value of investment securities above for further information regarding the Company s fair value measurements of investments.

The carrying amount of FHLB stock reported approximates fair value. See the discussion regarding FHLB stock in Note 6, Investment Securities, above, for further information regarding the Company s fair value assessment of FHLB capital stock.

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. This method of estimating fair value does not incorporate the exit price concept of fair value.

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 March 31, 2011 and December 31, 2010 for similar instruments. The fair value of junior subordinated debentures was estimated using discounted cash flow analysis using a market rate of interest at March 31, 2011 and December 31, 2010.

Limitations: The estimates of fair value of financial instruments were based on information available at March 31, 2011 and December 31, 2010 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.

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.

Table of Contents

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Financial Statements

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 carrying values and estimated fair values of the Company s financial instruments at the dates indicated are summarized as follows:

	March 31, 2011		December 31, 2010	
(Dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 87,165	$ 87,165	$ 55,006	$ 55,006
Investment securities	138,949	138,949	146,800	146,800
Loans, net	1,131,381	1,125,977	1,123,931	1,117,031
Accrued interest receivable	5,669	5,669	5,532	5,532
Financial liabilities:				
Non-interest demand deposits	221,748	221,748	231,121	231,121
Interest bearing checking, savings, money market accounts (1)	784,771	784,771	736,443	736,443
Certificates of deposit (1)	278,527	279,123	276,507	277,109
Borrowed funds	5,542	5,618	15,541	15,623
Junior subordinated debentures	10,825	10,825	10,825	10,825
Accrued interest payable	562	562	914	914

(1)-Includes brokered deposit balances

(12) Recent Accounting Pronouncements

In July 2010, the Financial Accountings Standard Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which required additional disclosures at a portfolio segment level by creditors, such as the Company, concerning credit quality, including information about troubled debt restructurings. Pursuant to ASU No. 2010-20, for public companies, the new disclosures were required for interim and annual periods ending on or after December 15, 2010. As

ASU No. 2010-20 only dealt with new disclosure requirements, the adoption at December 31, 2010 had no impact on the Company financial statements.

In January 2011, the FASB issued ASU No 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, to allow the FASB time to complete its deliberations and issue amended guidance on what constitutes a troubled debt restructuring. However, ASU No. 2011-01 did not defer the effective date for public companies of the other disclosure requirements in ASU No. 2010-20 regarding credit quality and the allowance for credit losses.

In April 2011, the FASB issued ASU No. 2011-02 A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring , which offers additional guidance and clarification to help creditors determine if the two criteria for classifying a restructure as a trouble debt restructuring have been met. In addition, the previously deferred paragraphs of ASU 2010-20, requiring disclosures by portfolio segment of qualitative and quantitative information regarding troubled debt restructures during the period, are to be implemented as of the effective date of ASU No. 2011-02, which is the first interim or annual period beginning after June 15, 2011. The adoption of ASU No. 2011-02 in July 2011 is not expected to have a material impact on the Company s financial statements.

Table of Contents

ENTERPRISE BANCORP, INC.

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 (also referred to herein as Enterprise , us , we or our) consolidated financial statements and notes thereto contained in this report and the Company s 2010 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, including without limitation the implementation by the federal regulatory agencies of the various requirements contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), 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 2010 Annual Report on Form 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

Enterprise reported solid financial results and continued growth for the quarter ended March 31, 2011.

Net income amounted to $2.5 million for the three months ended March 31, 2011, compared to $2.9 million for the three months ended March 31, 2010, a decrease of 15%. Diluted earnings per share were $0.26 for the three months ended March 31, 2011 compared to $0.32 for the same period in 2010, a decrease of 19%. Operating income was comparable to prior year levels, as the $422 thousand decrease in net income, compared to the same quarter in 2010, was primarily due to the level of gains realized in 2010 on sales of both investment securities and foreclosed real estate. The Company did not have sales of these assets in the 2011 period.

Deposits, excluding brokered deposits, have grown $41.1 million, or 3%, since December 31, 2010, or 13% on an annualized basis. While many banks continue to experience declining loan portfolios, our loan balances grew $8.3 million, or 1% since December 31, 2010, 3% on an annualized basis. This increase was comprised of a $13.4 million increase in commercial loan balances, partially offset by a decrease of $5.1 million in consumer loans (including residential mortgages) primarily due to

Table of Contents

residential loan sales in the first quarter. During the first quarter, we opened our third Southern New Hampshire location in Hudson, and are very pleased with the reception we have received in the Hudson market. We also recently announced our planned expansion in early 2012 into the Town of Pelham, NH**.**

In 2011, our focus remains on increasing market share and on growing all of our business lines, including quality lending, deposits, investment assets managed and insurance services through continued organic growth and strategic expansion, as we seek to take advantage of market opportunities that continue to be presented to strong community banks. We remain committed to making investments in our branch network, technology, and our employees, customers and communities, while positioning the Company for long-term growth. We believe that the current banking environment continues to provide many opportunities for strong community banks, including Enterprise Bank, as customers continue to migrate from larger, national banks to local community banks, choosing to do their banking business with local professional bankers.

Composition of Earnings

For the quarter ended March 31, 2011, the Company s growth contributed to increases in net interest income and the level of operating expenses. The $422 thousand decrease in net income for the three months ended March 31, 2011, as compared to the same period in 2010, was primarily due to $501 thousand of gains on investment securities sales and approximately $110 thousand in gains on the sale of foreclosed real estate realized in 2010. The Company did not have sales of these assets in the 2011 period.

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 March 31, 2011 amounted to $14.0 million, an increase of $826 thousand, or 6%, compared to the March 2010 quarter. The increase in net interest income over the comparable 2010 period was due primarily to loan growth. For the three months ended March 31, 2011, average loan balances were $59.5 million higher than the same three months in 2010. Tax equivalent net interest margin, however, slightly decreased to 4.43%, as compared to 4.44% for the quarter ended March 31, 2010, but has increased since December 31, 2010 when the quarterly margin was 4.31%.

The provision for loan losses amounted to $922 thousand for the three months ended March 31, 2011 compared to $879 thousand for the same period in 2010. The provision for loan losses during any period is a function of the level of loan growth and trends in asset quality, taking into consideration net charge-offs, the level of non-performing and adversely classified loans, and reserves for specific impaired loans. Loan growth during the first quarter of 2011 amounted to $8.3 million compared to $8.4 million for the same period in 2010. For the year-to-date period ended March 31, 2011, the Company recorded net charge-offs of $64 thousand, compared to net charge-offs of $607 thousand for the comparable period ended March 31, 2010. Annualized net charge-offs to average loans for the three months ended March 31, 2011 amounted to 0.02% compared to 0.23% in 2010. Total non-performing assets to total assets were 1.67% at March 31, 2011, compared to 1.36% at March 31, 2010. Management continues to closely monitor the non-performing assets, charge-offs and necessary allowance levels, including specific reserves, and believes that current loan quality statistics are a function of the lagging effects of the recent economic environment. The allowance for loan losses to total loans ratio was 1.76% at March 31, 2011, compared to 1.70% at December 31, 2010 and 1.69% at March 31, 2010.

Non-interest income for the three months ended March 31, 2011 amounted to $2.8 million, a decrease of $311 thousand, or 10%, compared to the first quarter of 2010. The decrease in non-interest income in the current year primarily resulted from decreases in gains on sales of investment securities and gains on sales of OREO, which is included in Other Income, partially offset by increases in gains on loan sales and investment advisory fees.

Non-interest expense for the three months ended March 31, 2011, amounted to $12.2 million, an increase of $1.1 million, or 10%, compared to the same period in the prior year. We continue to expand the branch network and invest in our infrastructure, communities, and employees to position Enterprise for continued long-term growth. These efforts resulted in general increases in non-interest expense including compensation-related costs, technology, and advertising and philanthropic costs. Occupancy expense also increased over the prior year as a result of the unusually harsh weather conditions in New England in the first quarter of 2011.

Table of Contents

Income tax expense for the three months ended March 31, 2011 decreased $173 thousand, or 13%, compared to the first quarter of 2010 primarily due to the lower levels of taxable income in the current period.

Sources and Uses of Funds

The Company s primary sources of funds are deposits, brokered deposits, FHLB borrowings, current earnings and proceeds from the sales, maturities and pay-downs on loans and investment securities. These funds are used to originate loans, purchase investment securities, conduct operations, expand the branch network, and pay dividends to shareholders.

Total assets amounted to $1.43 billion at March 31, 2011, an increase of 2% since December 31, 2010. The Company s core asset strategy is to grow loans, primarily high quality commercial loans. Total loans increased $8.3 million, or 1%, since December 31, 2010 and amounted to $1.15 billion, or 81% of total assets, at March 31, 2011. Total commercial loans amounted to $995.0 million, or 86% of gross loans, which was consistent with the composition at December 31, 2010.

The investment portfolio is the other key component of earning assets and is primarily used to invest excess funds, provide liquidity and to manage the Company s asset-liability position. The carrying value of total investments amounted to $138.9 million at March 31, 2011, or 10% of total assets, and was comparable to the ratio of 11% at December 31, 2010.

Management s preferred strategy for funding asset growth is to grow low cost deposits (comprised of demand deposit accounts, interest 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 savings accounts and certificates of deposit), wholesale funding (brokered deposits and borrowed funds), and investment portfolio cash flow.

At March 31, 2011, deposits, excluding brokered deposits, amounted to $1.29 billion, representing $41.1 million, or 3%, in growth over December 31, 2010 balances. At March 31, 2011, higher cost savings and money market account balances increased $55.1 million, or 10%, primarily in commercial accounts, while checking account balances decreased $16.0 million, or 4%, compared to balances at December 31, 2010. The deposit growth is attributed to expansion and sales efforts to attract relationship customers seeking a competitive, but secure, alternative to the larger regional and national banks, mutual funds and lower yielding investment alternatives.

Wholesale funding amounted to $5.5 million at March 31, 2011, compared to $15.6 million at December 31, 2010. At March 31, 2011, there were minimal brokered deposits and $5.5 million in borrowed funds, primarily FHLB borrowings. At December 31, 2010, wholesale funding included $82 thousand in brokered deposits and borrowed funds of $15.5 million, of which $10 million were overnight borrowings.

Opportunities and Risks

The Company faces strong competition from multiple sources within its market area. National and larger regional banks have a local presence in the Company s market area. These established larger banks, as well as recent larger entrants into the local market area, have certain competitive advantages, including the ability to make larger loans to a single borrower than is possible for the Company, and greater financial resources. Numerous local savings banks, commercial banks, cooperative banks and credit unions also compete in the Company s market area. The expanded commercial lending capabilities of credit unions and the shift to commercial lending by traditional savings banks allow them to compete for the Company s targeted commercial customers. In addition, the non-taxable status of credit unions allows them certain advantages as compared to taxable institutions such as Enterprise. Competition for loans, investment advisory assets, deposits and insurance services also comes from other businesses that provide financial services, including consumer finance companies, mortgage brokers, private lenders, insurance companies, securities brokerage firms, institutional mutual funds, registered investment advisors, non-bank electronic delivery channels and internet based banks.

While the current economic environment continues to present significant challenges for all companies, management also believes that it has created opportunities for growth and customer acquisition. Notwithstanding the competition discussed above, management believes that customers continue to migrate from larger, national banks to local, stable community banks, choosing to do business with local professional bankers who can offer them the flexibility, responsiveness and personalized service that a community bank such as Enterprise provides. Management views the Company s product offerings, its customer service culture, and its investments in the communities we serve, as key elements in positioning Enterprise to take advantage of these market opportunities to grow deposits, loans, investment assets under management, and insurance services with a focus on the needs of growing and established local businesses, professionals, non-profits and high net worth individuals.

Table of Contents

The Company seeks to increase deposit share, in both existing and new markets, with continuous review of deposit product offerings targeted to customer needs, with focused and dynamic marketing strategies, and with carefully planned expansion into neighboring markets and new branch development. In the past year, the Company has increased its branch network with the opening of the Hudson, NH office, relocated the Derry NH branch to a larger facility, and made strategic investments in renovations and improvement to existing branch locations, in addition, the Company recently announced plans to open a branch in the Town of Pelham, New Hampshire in early 2012.

Management believes that Enterprise is also well equipped to capitalize on market potential to grow both the commercial and residential loan portfolios, by utilizing a disciplined and consistent lending approach and conservative credit review practices, which have served to provide quality asset growth over varying economic cycles during the Company s twenty-two year history. The Company has a skilled lending sales force with a broad breadth of business knowledge and depth of lending experience to draw upon.

The Company s ability to achieve its long-term growth and market share objectives will depend upon the Company s continued success in differentiating itself in the market place. The Company has built a reputation within its market area based on customer service and supporting the local communities, differentiating itself through its people, who act as trusted advisors to clients, possess strong technical skills, deliver a superior level of customer service, and uphold the Company s core values, including significant community involvement, which has led to a strong network with local business and community leaders. Management believes the Enterprise business model of providing a full range of diversified financial products, services and technology, delivered through consistent, responsive and superior personalized customer service by experienced local banking professionals, with in-depth knowledge of our markets and a trusted reputation within the community, creates opportunities for the Company to be the leading provider of banking and investment management services in its growing market area. Management believes that Enterprise is uniquely positioned, both financially and strategically, to take full advantage of the opportunities created by the current challenging banking landscape and recent industry consolidation within the local market.

Management continues to undertake significant strategic initiatives, including investments in employee training and development, marketing and public relations, technology and electronic product delivery, branch expansion and ongoing updates and renovations of existing branches and operations facilities. While management recognizes that such investments increase expenses in the short-term, it believes that such initiatives are an investment in the long-term growth and earnings of the Company and are reflective of the opportunities in the current marketplace for community banks such as Enterprise.

Notwithstanding the market opportunities that management believes the current economic environment has created, any long-term consequences of the nationwide or regional recession that ended in mid-2009, or possible lagging effects, could further weaken the local New England economy, and have adverse repercussions on local industries leading to increased unemployment and foreclosures, further deterioration of local commercial real estate values, or other unforeseen consequences, which could have a severe negative impact on the Company s financial condition, capital position, liquidity, and performance. In addition, the loan portfolio consists primarily of commercial real estate, commercial and industrial, and construction loans. These types of loans are typically larger and are generally viewed as having more risk of default than owner occupied residential real estate loans or consumer loans. The underlying commercial real estate values, customer cash flow and payment expectations and, in the case of commercial construction loans, the actual costs necessary to complete a construction project, can be more easily influenced by adverse conditions in the local or national economy, the real estate market, or the related industries. Any significant deterioration in the commercial loan portfolio or underlying collateral values due to a continuation or worsening of the current economic environment could have a material adverse effect on the Company s financial condition and results of operations.

The value of the investment portfolio as a whole, or individual securities held, including bonds issued by government agencies or municipalities and restricted FHLB capital stock, could be negatively impacted by any renewed volatility in the financial markets, tightening of credit markets, and any possible subsequent effects of the recent economic recession, which could possibly result in the recognition of additional other-than-temporary-impairment (OTTI) charges in the future.

In addition, any further changes in government regulation or oversight, including the implementation by the federal regulatory agencies of the various requirements contained in the Dodd-Frank Act, could affect the Company in substantial and unpredictable ways, including, but not limited to, subjecting the Company to additional operating, governance and compliance costs or potential loss of revenue due to the impact of an enhanced regulatory structure on the banking industry. Although several significant aspects of the Dodd-Frank Act expressly apply only to larger, systemically significant institutions, other parts of the legislation apply either directly, or potentially indirectly, to activities of community banks, such as Enterprise. The full extent of the regulatory impact resulting from the Dodd-Frank Act will not be known for some time, as the various federal regulatory agencies are responsible for ultimately implementing over 240 new regulations over a period of years and the Government Accounting Office and other federal agencies are required to complete nearly 70 additional studies regarding various financial services industry issues that were raised during the legislative process.

Table of Contents

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

The re-pricing frequency of interest earning 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 under Item 3, Quantitative and Qualitative Disclosures About Market Risk, below.

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 further below in this Item 2 under the heading Liquidity.

Federal banking agencies require the Company and the Bank to meet minimum capital requirements. At March 31, 2011, the Company was categorized as well capitalized ; however future unanticipated charges against capital could impact that regulatory capital designation. Moreover, the revisions to international capital standards contained in the so-called Basell III accords could eventually result in enhanced capital requirements for all U.S. banking organizations, including community banks, such as Enterprise Bank. For information regarding the capital requirements applicable to the Company and the Bank and their respective capital levels at March 31, 2011, 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, third-party vendor management and business continuity.

Management utilizes a combination of third party information security assessments, key technologies and ongoing internal evaluations in order to protect non-public personal 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 information security assessments on the Company s systems on a regular basis. These third parties conduct penetration testing and vulnerability scans to test the network configuration and security controls, and assess internal practices aimed at protecting the Company s operating systems. In addition, an outside service provider monitors usage patterns and identifies unusual activity on bank issued debit/ATM cards. The Company also utilizes firewall technology and a combination of software and third-party monitoring to detect intrusion, protect against unauthorized access and continuously scan for computer viruses on the Company s information systems.

The Company may enter into third-party relationships by outsourcing certain operational functions or by using third parties to provide certain products and services to the Bank s customers. The Company is responsible for ensuring that activities conducted through third-party relationships are conducted in a safe and sound manner and in accordance with applicable laws and regulations, just as if the activity was performed by the Company itself. Management has a third-party vendor management program in order to identify and control the risks arising from conducting activities through third party relationships. These risks may include operational risk and the failure to deliver a particular product or service; non-compliance with applicable laws and regulations; loss of non-public personal information; vendor business decisions that are inconsistent with the Company s strategic goals; or damage to the Company s reputation; among others. The Company s risk-based, third-party vendor management program is designed to provide a mechanism to enable management to determine what risk, if any, a particular vendor exposes the Company to, and to mitigate that risk by properly performing initial and ongoing due diligence when selecting or maintaining a relationship with significant third-party providers.

The Company s Business Continuity Plan consists of the information and procedures required to enable rapid recovery from an occurrence that would disable the Company for an extended period. The plan addresses issues and concerns regarding the loss of personnel, loss of information and/or loss of access to information under various scenarios including: the inability of staff or customers to travel to or to access bank offices, the serious threat of widespread public health or safety concerns, and the physical destruction or damage of facilities, infrastructure or systems. The plan, which is reviewed annually, establishes responsibility for assessing a disruption of business, contains alternative strategies for the continuance of critical business functions during an emergency situation, assigns responsibility for restoring services, and sets priorities by which critical services will be restored. The recent construction of a secondary off-site data center eliminated the need to outsource this function and provides the Company more control and auxiliary network processing capabilities. Any contingency plan, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the plan will be met as the assumptions used change over time or due to changes in circumstances and events.

Table of Contents

In addition to the risks discussed above, numerous other factors that could adversely affect the Company s reputation, its future results of operations and financial condition are addressed in Item 1A, Risk Factors , included in the Company s 2010 Annual Report on Form 10-K. This Opportunities and Risks discussion should be read in conjunction with Item 1A of the 2010 Annual Report.

Financial Condition

Total assets increased $32.1 million, or 2%, since December 31, 2010, to $1.43 billion at March 31, 2011. The balance sheet composition and changes since December are discussed below.

Short-term investments

As of March 31, 2011, short-term investments amounted to $61.1 million, or 4% of total assets, an increase of $36.6 million compared to December 31, 2010. Short-term investments are carried as cash equivalents and consist of overnight and term federal funds sold and money market mutual funds. The balance of these investments will fluctuate depending on the timing of deposit, borrowing and loan inflows and outflows, investment purchases and sales proceeds and the immediate liquidity needs of the Company. The increase in short term investments has resulted primarily from the increase in deposit proceeds in excess of loan growth in the first quarter of 2011.

Investments

At March 31, 2011, the carrying value of the investment portfolio amounted to $138.9 million and declined by $7.9 million, or 5%, compared to December 31, 2010. The following table summarizes investments at the dates indicated:

(Dollars in thousands)		**March 31, 2011**		**December 31, 2010**		**March 31, 2010**
Federal agency obligations (1)	$	35,927	$	40,940	$	29,780
Federal agency mortgage backed securities (MBS) (1)		40,170		42,525		38,503
Non-agency CMO		2,190		2,439		3,165
Municipal securities		50,228		51,589		59,836
Total fixed income securities	$	128,515	$	137,493	$	131,284
Equity investments		5,694		4,567		3,846
Total available for sale securities at fair value	$	134,209	$	142,060	$	135,130
Federal Home Loan Bank stock (2)		4,740		4,740		4,740
Total investment securities	$	138,949	$	146,800	$	139,870

(1) Investments issued or 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 investments owned by the Company are backed by residential mortgages.

(2) The Bank is required to purchase stock of the Federal Home Loan Bank of Boston (the FHLB) in association with advances from the FHLB; this stock is classified as a restricted investment and carried at cost, which management believes approximates fair value.

Included in the federal agency MBS categories above were Collateralized Mortgage Obligations (CMO s) totaling \$24.7 million, \$26.0 million and \$23.9 million at March 31, 2011, December 31, 2010 and March 31, 2010, respectively.

During the three months ended March 2011, the total principal pay downs, calls and maturities on fixed income securities amounted to \$9.0 million. These portfolio cash inflows were used to purchase \$840 thousand in equity securities.

Net unrealized gains amounted to \$3.5 million at March 31, 2011 compared to \$3.1 million at December 31, 2010 and \$3.5 million at March 31, 2010. See Note 6, Investment Securities, and Note 11, Fair Value Measurements, to the Company s unaudited consolidated financial statements contained in Item 1 above for further information regarding the Company s unrealized gain and losses on debt and equity securities, 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.

Table of Contents

From time to time the Company may pledge securities from its investment portfolio as collateral for various municipal deposit accounts and repurchase agreements. The fair value of securities pledged as collateral for these purposes was $41.4 million at March 31, 2011. In addition, securities designated as qualified collateral for FHLB borrowing capacity amounted to $33.9 million at March 31, 2011. Securities designated as qualified collateral for borrowing from the Federal Reserve Bank of Boston (the FRB) through its discount window amounted to $49.7 million at March 31, 2011.

Loans

Total loans increased $8.3 million, or 1%, since December 31, 2010, and amounted to 81% of total assets at March 31, 2011, compared with 82% of total assets, at December 31, 2010. The Company attributes the increase to its seasoned lending team, its sales and service culture and geographic market expansion. The Company has continued to selectively develop relationships with strong, credit-worthy customers. The mix of loans within the portfolio remained relatively unchanged with commercial loans amounting to approximately 86% of gross loans, reflecting a continued focus on commercial loan development.

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.

	March 31, 2011		December 31, 2010		March 31, 2010	
(Dollars in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Commercial real estate	$ 598,076	51.9%	$ 595,075	52.0%	$ 566,053	51.8%
Commercial and industrial	279,065	24.2%	274,829	24.0%	270,075	24.7%
Commercial construction	117,881	10.2%	111,681	9.7%	97,209	8.9%
Total commercial loans	995,022	86.3%	981,585	85.7%	933,337	85.4%
Residential mortgages	87,009	7.5%	86,560	7.6%	88,948	8.1%
Residential construction	2,693	0.2%	2,874	0.2%	5,798	0.5%
Home equity	64,677	5.6%	63,108	5.5%	59,969	5.5%
Consumer	3,514	0.3%	4,228	0.4%	3,883	0.4%
Loans held for sale	149	0.1%	6,408	0.6%	569	0.1%
Gross loans	1,153,064	100.0%	1,144,763	100.0%	1,092,504	100.0%
Deferred fees, net	(1,410)		(1,417)		(1,293)	
Total loans	1,151,654		1,143,346		1,091,211	
Allowance for loan losses	(20,273)		(19,415)		(18,490)	
Net loans	$ 1,131,381		$ 1,123,931		$ 1,072,721	

During 2011, commercial real estate loans increased $3.0 million, or 0.5%. Commercial real estate loans are typically secured by apartment buildings, office or mixed-use facilities, strip shopping centers or other commercial or industrial property.

Commercial and industrial loans increased by $4.2 million, or 1.5%, since December 31, 2010. These loans include seasonal revolving lines of credit, working capital loans, equipment financing (including equipment leases), and term loans. Also included in commercial and industrial loans are loans under various U.S. Small Business Administration programs.

Commercial construction loans increased by $6.2 million, or 5.6%, compared to December 31, 2010. Commercial construction loans include the development of residential housing and condominium projects, the development of commercial and industrial use property and loans for the purchase and improvement of raw land.

Residential mortgages and residential construction combined, increased by $268 thousand, or 0.3%, while home equity mortgages and consumer loans combined, increased by $855 thousand, or 1.3%, since December 31, 2010.

During the three months ended March 31, 2011, the Company originated $4.0 million in residential loans designated for sale, compared to $7.1 million for the same period in the prior year. During the 2011 period, loans sold amounted to $10.3 million, compared to $6.9 million in the 2010 period. These loan sales generated gains on sales of $220 thousand and $81 thousand for the 2011 and 2010 periods, respectively.

Table of Contents

At March 31, 2011, commercial loan balances participated out to various banks amounted to $37.0 million, compared to $36.6 million at December 31, 2010. These balances participated out to other institutions are not carried as assets on the Company s financial statements. Loans originated by other banks in which the Company is the participating institution are carried at the pro-rata share of ownership and amounted to $25.5 million and $32.7 million at March 31, 2011 and December 31, 2010, respectively. In each case, the participating bank funds a percentage of the loan commitment and takes on the related risk. In each case in which the Company participates in a loan, the rights and obligations of each participating bank is divided proportionately among the participating banks in an amount equal to their share of ownership and with equal priority among all banks.

Credit Risk/Asset Quality

The Company manages its loan portfolio to avoid concentration by industry and loan size to minimize its credit risk exposure. In addition, the Company does not have a sub-prime mortgage program. However, inherent in the lending process is the risk of loss due to customer non-payment, or credit risk. The Company s commercial lending focus may entail significant additional risks compared to long term financing on existing, owner-occupied residential real estate. These types of loans are typically larger and are generally viewed as having more risk of default than owner-occupied residential real estate loans or consumer loans. The underlying commercial real estate values, customer cash flow and payment expectations and, in the case of commercial construction loans, the actual costs necessary to complete a construction project, can be more easily influenced by adverse conditions in the local or national economy, the real estate market, or the related industries. As such, an extended downturn in the national or local economy or real estate markets, among other factors, could have a material impact on the borrowers ability to repay outstanding loans and on the value of the collateral securing these loans. While the Company endeavors to minimize this risk through the risk management function, management recognizes that loan losses will occur and that the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio and economic conditions.

The credit risk management function focuses on a wide variety of factors, including, among others, current and expected economic conditions, the real estate market, the financial condition of borrowers, the ability of borrowers to adapt to changing conditions or circumstances affecting their business and the continuity of borrowers management teams. Early detection of credit issues is critical to minimize credit losses. Accordingly, management regularly monitors these factors, among others, through ongoing credit reviews by the Credit Department, an external loan review service, reviews by members of senior management and the Loan Committee of the Board of Directors. This review includes the assessment of internal credit quality indicators such as the risk classification of loans, adversely classified loans, past due and non-accrual loans, impaired and restructured loans, and the level of foreclosure activity. See Note 7, Loans and Allowance for Loan Losses to the Company s unaudited consolidated financial statements, contained in Item1 above, for further information regarding the loan portfolio and these credit qualities indicators.

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

Non-performing assets are comprised of non-accrual loans, deposit account overdrafts that are more than 90 days past due and OREO. The designation of a loan or other asset as non-performing does not necessarily indicate that loan principal and interest will ultimately be uncollectible. However, management recognizes the greater risk characteristics of these assets and therefore considers the potential risk of loss on assets included in this category in evaluating the adequacy of the allowance for loan losses. Despite prudent loan underwriting, adverse changes within the Company s market area, or deterioration in local, regional or national economic conditions, could negatively impact the Company s level of non-performing assets in the future.

The following table sets forth information regarding non-performing assets, restructured loans and delinquent loans 60-89 days past due as to interest or principal, held by the Company at the dates indicated:

Table of Contents

The following table sets forth information regarding non-performing assets and past due loans at the dates indicated:

(Dollars in thousands)	March 31, 2011	December 31, 2010	March 31, 2010
Commercial real estate	$ 9,860	$ 8,065	$ 10,890
Commercial and industrial	8,883	7,573	3,063
Commercial construction	2,817	2,890	3,362
Residential	1,380	1,667	1,067
Home Equity	133	135	68
Consumer	8	10	4
Total non-accrual loans	23,081	20,340	18,454
Overdrafts > 90 days past due		1	3
Total non-performing loans	23,081	20,341	18,457
Other real estate owned (OREO)	825	825	161
Total non-performing assets	$ 23,906	$ 21,166	$ 18,618
Total Loans	$ 1,151,654	$ 1,143,346	$ 1,091,211
Accruing restructured loans not included above	24,781	30,225	24,804
Delinquent loans 60 89 day past due	100	2,324	122
Non-performing loans to total loans	2.00%	1.78%	1.69%
Non-performing assets to total assets	1.67%	1.51%	1.36%
Loans 60-89 days past due to total loans	0.01%	0.20%	0.01%
Adversely classified loans to total loans	3.07%	2.20%	2.33%
Allowance for loan losses	$ 20,273	$ 19,415	$ 18,490
Allowance for loan losses: Non-performing loans	87.83%	95.45%	100.18%
Allowance for loan losses: Total loans	1.76%	1.70%	1.69%

At March 31, 2011, the Company had adversely classified loans (loans carrying substandard , doubtful or loss classifications) amounting to $35.3 million, compared to $25.2 million at December 31, 2010. There were no loans classified as Loss at March 31, 2011 or December 31, 2010. The increase in adversely classified loans as of March 31, 2011 was primarily due to the downgrade of two commercial real estate relationship and two construction relationships during the period. Management continues to closely monitor these relationships which were carried as accruing at March 31, 2011. Adversely classified loans which were performing but possessed potential weaknesses and, as a result, could ultimately become non-performing loans amounted to $14.8 million and $7.2 million, at March 31, 2011 and December 31, 2010, respectively. The remaining balances of adversely classified loans were non-accrual loans, amounting to $20.5 million and $18.0 million at March 31, 2011 and December 31, 2010, respectively. Non-accrual loans which were not adversely classified amounted to $2.5 million and $2.4 million at March 31, 2011 and December 31, 2010, respectively, and primarily represented the guaranteed portions of non-performing Small Business Administration loans.

Non-performing statistics have trended upward since 2009, as would be expected given the historically low level of these statistics in prior recent years, and are consistent with the regional economic environment and its lagging impact on the local commercial markets. Management believes that the current levels of non-performing statistics are reflective of normalized commercial credit statistics compared to the historic lows seen in recent years. Management does not consider the increase to be indicative of significant deterioration in the credit quality of the general loan portfolio at March 31, 2011, as indicated by the following factors: the reasonable ratio of non-performing loans to total loans given the size and mix of the Company s loan portfolio; the minimal level of OREO; and the low levels of loans 60-89 days delinquent.

The $2.7 million net increase in total non-performing loans, and the resulting increase in the ratio of non-performing loans as a percentage of total loans outstanding since December 31, 2010, was primarily due to net additions within the non-performing commercial real estate ($1.8 million) and commercial and industrial ($1.3 million) categories, partially offset by a reduction in the

Table of Contents

non-performing residential portfolio ($287 thousand). The majority of non-accrual loans were also carried as impaired loans during the periods, and are discussed further below.

Total impaired loans amounted to $47.4 million and $49.8 million at March 31, 2011 and December 31, 2010, respectively. Total accruing impaired loans amounted to $25.4 million and $30.7 million at March 31, 2011 and December 31, 2010, respectively, while non accrual impaired loans amounted to $22.0 million and $19.1 million as of March 31, 2011 and December 31, 2010, respectively. In management s opinion the majority of impaired loan balances at March 31, 2011 were supported by expected future cash flows or the net realizable value of the underlying collateral. Based on management s assessment at March 31, 2011, impaired loans totaling $36.0 million required no specific reserves and impaired loans totaling $11.4 million required specific reserve allocations of $3.2 million. At December 31, 2010, impaired loans totaling $32.6 million required no specific reserves and impaired loans totaling $17.2 million required specific reserve allocations of $2.7 million. Management closely monitors these relationships for collateral or credit deterioration.

Total TDR loans, included in the impaired loan figures above as of March 31, 2011 and December 31, 2010 were $35.7 million and $41.1 million, respectively. The decrease was impacted by paydowns and in particularly, the payoff of one larger commercial real estate TDR relationship. TDR loans on accrual status amounted to $24.8 million and $30.2 million at March 31, 2011 and December 31, 2010, respectively. Restructured loans included in non-performing loans amounted to $10.9 million and $10.8 million at March 31, 2011 and December 31, 2010, respectively. The Company continues to work with commercial relationships and enters into loan modifications to the extent deemed to be necessary or appropriate to ensure the best mutual outcome given the current economic environment.

The carrying value of OREO at March 31, 2011 was $825 thousand and consisted of the same two properties held at December 31, 2010. There were no gains or losses on OREO sales during the three months ended March 31, 2011. During the three months ended March 31, 2010, five properties were sold and the Company realized gains on these sales of $110 thousand.

Allowance for Loan Losses

On a quarterly basis, management prepares an estimate of the allowance necessary to cover estimated credit losses. The allowance for loan losses is an estimate of probable credit risk inherent in the loan portfolio as of the specified balance sheet dates. The Company maintains the allowance at a level that it deems adequate to absorb all reasonably anticipated losses from specifically known and other credit risks associated with the portfolio.

In making its assessment on the adequacy of the allowance, management considers several quantitative and qualitative factors that could have an effect on the credit quality of the portfolio including individual assessment of larger and high risk credits, delinquency trends and the level of non-performing loans, net charge-offs, the growth and composition of the loan portfolio, expansion in geographic market area, the strength of the local and national economy, and comparison to industry peers, among other factors. Except for loans specifically identified as impaired, as discussed above, the estimate is a two-tiered approach that allocates loan loss reserves to adversely classified loans by credit rating and to non-classified loans by credit type. The general loss allocations take into account the historic loss experience as well as the quantitative and qualitative factors identified above. The allowance for loan losses is established through a provision for loan losses, a direct charge to earnings. Loan losses are charged against the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

Management closely monitors the credit quality of individual delinquent and non-performing relationships, industry concentrations, the local and regional real estate market and current economic conditions. The level of delinquent and non-performing assets is largely a function of economic conditions and the overall banking environment. Despite prudent loan underwriting, adverse changes within the Company s market area, or further deterioration in the local, regional or national economic conditions could negatively impact the Company s level of non-performing assets in the future.

The allowance for loan losses to total loans ratio was 1.76% at March 31, 2011 compared to 1.70% at December 31, 2010. Based on the foregoing, as well as management s judgment as to the existing credit risks inherent in the loan portfolio, the Company s allowance for loan losses is deemed adequate to absorb probable losses from specifically known and other credit risks associated with the portfolio as of March 31, 2011.

Table of Contents

The following tables summarize the activity in the allowance for loan losses for the periods indicated:

(Dollars in thousands)	Three months ended March 31, 2011	2010
Balance at beginning of year	$ 19,415	$ 18,218
Charged-off loans:		
Commercial real estate		(552)
Commercial and industrial	(122)	(53)
Commercial construction		
Residential		(1)
Home equity		
Consumer	(8)	(19)
Total Charged off	(130)	(625)
Recoveries on charged-off loans:		
Commercial real estate	14	
Commercial and industrial	43	11
Commercial construction	4	
Residential	2	
Home equity		
Consumer	3	7
Total recoveries	66	18
Net loans charged-off	(64)	(607)
Provision charged to operations	922	879
Balance at March 31,	$ 20,273	$ 18,490
Annualized net loans charged-off: Average loans outstanding	0.02%	0.23%

The allowance reflects management s estimate of loan loss reserves necessary to support the level of credit risk inherent in the portfolio during the period. Refer to Credit Risk/Asset Quality and Allowance for Loan Losses contained in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, included in the Company s 2010 Annual Report on Form 10-K for additional information regarding the Company s credit risk management process and allowance for loan losses.

FDIC Deposit Insurance Assessment

The Company s deposit accounts are insured by the FDIC s Deposit Insurance Fund (the DIF) up to the maximum amount provided by law. In order to restore the DIF reserves, the FDIC required all insured institutions to make a one-time prepayment, on December 30, 2009, of estimated insurance assessments for 2010, 2011 and 2012. At March 31, 2011, the Company carried the remaining balance of its prepaid assessment totaling approximately $3.7 million as a prepaid asset on its balance sheet.

The FDIC has redefined its deposit insurance premium assessment base to be an institution s average consolidated total assets minus average tangible equity, as required by the Dodd-Frank Act, and revised its deposit insurance assessment rate schedule in light of this change to the assessment base. The revised rate schedule and other revisions to the assessment rules, which were adopted by the FDIC Board of Directors on February 7, 2011, became effective on April 1, 2011 and will be used to calculate the June 30, 2011 insurance premium assessments.

We anticipate that our deposit insurance expense will decrease as a result of the changes to the Bank s deposit insurance premium assessment base implemented by the FDIC pursuant to the Dodd-Frank Act.

Table of Contents

Deposits

Total deposits increased $41.0 million, or 3 %, compared to December 31, 2010, and increased $96.8 million, or 8%, since March 31, 2010.

The following table sets forth the deposit balances by certain categories at the dates indicated and the percentage of each category to total deposits.

	March 31, 2011		December 31, 2010		March 31, 2010	
(Dollars in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Non-interest bearing demand deposits	$ 221,748	17.3%	$ 231,121	18.6%	$ 199,230	16.8%
Interest bearing checking	168,381	13.1%	175,056	14.1%	176,586	14.8%
Total checking	390,129	30.4%	406,177	32.7%	375,816	31.6%
Retail savings/money markets	262,562	20.4%	254,567	20.5%	230,603	19.4%
Commercial savings/money markets	353,823	27.5%	306,738	24.6%	304,249	25.6%
Total savings/money markets	616,385	47.9%	561,305	45.1%	534,852	45.0%
Certificates of deposit	278,527	21.7%	276,507	22.2%	277,533	23.4%
Total non-brokered deposits	1,285,041	100.0%	1,243,989	100.0%	1,188,201	100.0%
Brokered Deposits(1)	5	0.0%	82	0.0%		0.0%
Total deposits	$ 1,285,046	100.0%	$ 1,244,071	100.0%	$ 1,188,201	100.0%

(1) Brokered deposits include time deposits originated through the Certificate of Deposit Account Registry (CDAR) nationwide network, and money market deposits originated through the Demand Deposit Marketplace .

Excluding brokered deposits, deposit balances increased $41.1 million, or 3%, since December 31, 2010. At March 31, 2011, higher cost savings and money market account balances increased $55.1 million, or 10%, primarily in commercial accounts, while checking account balances decreased $16.0 million, or 4%, over this period. The deposit growth is attributed to expansion and sales efforts to attract relationship customers seeking a competitive, but secure, alternative to the larger regional and national banks, mutual funds and lower yielding investment alternatives. This deposit growth has provided the Company with the ability to continue to grow loans and reduce wholesale funding balances.

From time to time, management utilizes both brokered deposits and borrowed funds (as discussed below) as cost effective alternative wholesale funding sources for continued loan growth. The balances in brokered deposits at both March 31, 2011 and December 31, 2010 were immaterial.

Borrowed Funds

Borrowed funds, consisting of securities sold under agreements to repurchase (repurchase agreements), FHLB borrowings and other borrowings decreased $10.0 million, or 64.3%, since December 31, 2010. The Company s primary borrowing source is the FHLB, but the Company may choose to borrow from other established business partners. Other borrowings represents overnight advances from the FRB or borrowings from correspondent banks. The majority of the balance at December 31, 2010 consisted of an overnight borrowing. Since March 31, 2010, the balance of total borrowed funds has decreased $40.0 million, or 88%, due primarily to the strong deposit growth during the period.

The following table sets forth the borrowed funds by categories at the dates indicated and the percentage of each category to total borrowed funds.

	March 31, 2011		December 31, 2010		March 31, 2010	
(Dollars in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
FHLB borrowings	$ 4,780	86.3%	$ 4,779	30.8%	$ 43,885	96.9%
Other borrowings			10,000	64.3%		
Repurchase Agreements	762	13.7%	762	4.9%	1,416	3.1%
Total borrowed funds	$ 5,542	100.0%	$ 15,541	100.0%	$ 45,301	100.0%

Table of Contents

At March 31, 2011, the Bank had the capacity to borrow additional funds from the FHLB of up to $192.3 million and capacity to borrow from the FRB of $47.2 million.

Investment assets under management

The Company provides a wide range of investment advisory and management services, including brokerage, trust, and investment management (together, investment advisory services). The market values of these components are affected by fluctuations in the financial markets.

Also included in the investment assets under management total are commercial sweep accounts that are invested in third party money market mutual funds.

The following table sets forth the fair market value of investment assets under management by certain categories at the dates indicated.

(Dollars in thousands)	March 31, 2011	December 31, 2010	March 31, 2010
Investment advisory assets	$ 499,671	$ 484,667	$ 439,451
Commercial sweep accounts	8,594	8,411	8,735
Investment assets under management	$ 508,265	$ 493,078	$ 448,186

Investment advisory assets increased $15.0 million, or 3%, since December 31, 2010 and $60.2 million, or 14%, since March 31, 2010. The increase is attributable primarily to asset growth, both from new business and market value appreciation.

Total assets under management, which includes total assets, investment assets under management, and loans serviced for others amounted to $2.00 billion at March 31, 2011, $1.95 billion at December 31, 2010, and $1.87 billion at March 31, 2010.

Accounting Policies/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. The Company has not changed its significant accounting and reporting policies from those disclosed in its 2010 Annual Report on Form 10-K.

As discussed in the Company s 2010 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. Refer to note 1 to the Company s consolidated financial statements included in the Company s 2010 Annual Report on Form 10-K for significant accounting policies.

Liquidity

Liquidity is the ability to meet cash needs arising from, among other things, fluctuations in loans, investments, deposits and borrowings. Liquidity management is the coordination of activities so that cash needs are anticipated and met readily and efficiently. The Company s liquidity policies are set and monitored by the Company s Asset-Liability Committee of the Board of Directors. The Company s asset-liability objectives are to engage in sound balance sheet management strategies, maintain liquidity, provide and enhance access to a diverse and stable source of funds, provide competitively priced and attractive products to customers and conduct funding at a low cost relative to current market conditions. Funds gathered are used to support current commitments, to fund earning asset growth, and to take advantage of selected leverage opportunities.

The Company s liquidity is maintained by projecting cash needs, balancing maturing assets with maturing liabilities, monitoring various liquidity ratios, monitoring deposit flows, maintaining cash flow within the investment portfolio, and maintaining wholesale funding resources. The Company s wholesale funding sources include borrowing capacity in the brokered deposit

Table of Contents

markets, at the FHLB, through the FRB Discount Window, and through fed fund purchase arrangements with correspondent banks.

Management believes that the Company has adequate liquidity to meet its obligations. The Company currently funds earning assets primarily with deposits, brokered deposits, repurchase agreements, FHLB borrowings, junior subordinated debentures, proceeds from stock offerings and earnings.

Capital Resources

The Company believes its current capital is adequate to support ongoing operations. As of March 31, 2011, both the Company and the Bank qualify as well capitalized under applicable regulations of the Federal Reserve Board and the FDIC. To be categorized as well capitalized, the Company and the Bank must maintain minimum total, Tier 1 and, in the case of the Bank, leverage capital ratios as set forth in the table below.

The Company s actual capital amounts and ratios are presented as of March 31, 2011 in the table below. The Bank s capital amounts and ratios do not differ materially from the amounts and ratios presented for the Company.

	Actual		Minimum Capital for Capital Adequacy Purposes		Minimum Capital To Be Well Capitalized	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital (to risk weighted assets)	$ 137,300	11.40%	$ 96,322	8.00%	$ 120,402	10.00%
Tier 1 Capital (to risk weighted assets)	$ 121,474	10.09%	$ 48,161	4.00%	$ 72,241	6.00%
Tier 1 Capital (to average assets)	$ 121,474	8.79%	$ 55,298	4.00%	$ 69,122	5.00%*

* This requirement does not apply to the Company and is reflected in the table merely for informational purposes with respect to the Bank. For the Bank to qualify as well capitalized , it must also maintain a leverage capital ratio (Tier 1 capital to average assets) of at least 5%.

The Company maintains a dividend reinvestment plan (the DRP). The DRP enables stockholders, at their discretion, to elect to reinvest dividends paid on their shares of the Company s common stock by purchasing additional shares of common stock from the Company at a purchase price equal to fair market value. Shareholders utilized the DRP to invest $312 thousand of the $977 thousand cash dividend paid through March 31, 2011, into 21,161 shares of the Company s common stock.

As previously announced on April 19, 2011, the Company declared a quarterly dividend of $0.105 per share to be paid on June 1, 2011 to shareholders of record as of May 11, 2011. The quarterly dividend represents a 5.0% increase over the 2010 dividend rate.

Results of Operations

Three months Ended March 31, 2011 vs. Three months Ended March 31, 2010

Unless otherwise indicated, the reported results are for the three months ended March 31, 2011 with the comparable period , and prior period being the three months ended March 31, 2010. Average yields are presented on a tax equivalent basis.

The Company reported first quarter 2011 net income of $2.5 million compared to $2.9 million for the same period in 2010, a decrease of 15%. Diluted earnings per common share were $0.26 for the three months ended March 31, 2011 and $0.32 for the comparable period, a decrease of 19%.

The Company s growth contributed to both increased net interest income and an increase in the level of operating expenses. The $422 thousand decrease in net income for the three months ended March 31, 2011, as compared to the same period in 2010, was primarily due to $501 thousand of gains on investment securities sales and approximately $110 thousand in gains on the sale of foreclosed real estate realized in 2010. The Company did not have sales of these assets in the 2011 period.

Table of Contents

Net Interest Income

The Company s net interest income for the quarter ended March 31, 2011 amounted to $14.0 million, compared to $13.2 million in the March 2010 quarter, an increase of $826 thousand, or 6%. The increase in net interest income over the comparable period was due primarily to loan growth.

Net Interest Margin

The Company s tax equivalent net interest margin (margin) was relatively flat at 4.43% for the three months ended March 31, 2011, compared to 4.44% in the comparable 2010 period.

Rate / Volume Analysis

The following table sets forth the extent to which changes in interest rates and changes in the average balances of interest-earning assets and interest-bearing liabilities have affected interest income and expense during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) volume (change in average portfolio balance multiplied by prior period average rate); (2) interest rate (change in average interest rate multiplied by prior period average balance); and (3) rate and volume (the remaining difference).

		Increase (decrease) due to		
(Dollars in thousands)	**Net Change**	**Volume**	**Rate**	**Rate/ Volume**
Interest Income				
Loans	$ 501	$ 807	$ (246)	$ (60)
Investments (1)	(126)	170	(315)	19
Total interest earnings assets	375	977	(561)	(41)
Interest Expense				
Int chkg, savings and money market	(119)	146	(229)	(36)
Certificates of deposit	(280)	26	(298)	(8)
Brokered certificates of deposit	(17)	(17)		
Total Certificates of Deposit	(297)	9	(298)	(8)
Borrowed funds	(35)	(49)	122	(108)
Junior subordinated debentures				
Total interest-bearing deposits, borrowed funds and debentures	(451)	106	(405)	(152)
Change in net interest income	$ 826	$ 871	$ (156)	$ 111

(1) Investments include investment securities and short-term investments.

Table of Contents

The following table presents the Company s average balance sheet, net interest income and average rates for the three months ended March 31, 2011 and 2010.

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

	Three months Ended March 31, 2011			Three months Ended March 31, 2010		
(Dollars in thousands)	Average Balance	Interest	Average Yield(1)	Average Balance	Interest	Average Yield(1)
Assets:						
Loans (2)	$ 1,144,908	$ 15,270	5.45%	$ 1,085,394	$ 14,769	5.55%
Investments (3)	168,378	970	2.84%	149,936	1,096	3.68%
Total interest earnings assets	1,313,286	16,240	5.12%	1,235,330	15,865	5.32%
Other assets	78,739			75,114		
Total assets	$ 1,392,025			$ 1,310,444		
Liabilities and stockholders equity:						
Int chkg, savings and money market	$ 750,071	1,016	0.55%	$ 664,445	1,135	0.69%
Certificates of deposit	281,309	899	1.30%	275,185	1,179	1.74%
Brokered certificates of deposit				8,587	17	0.80%
Borrowed funds	6,131	22	1.46%	45,747	57	0.50%
Junior subordinated debentures	10,825	294	10.88%	10,825	294	10.88%
Total interest-bearing funding	1,048,336	2,231	0.86%	1,004,789	2,682	1.08%
Net interest rate spread			4.26%			4.24%
Demand deposits	216,681			186,597		
Total deposits, borrowed funds and debentures	1,265,017	2,231	0.71%	1,191,386	2,682	0.91%
Other liabilities	9,309			9,990		
Total liabilities	1,274,326			1,201,376		
Stockholders equity	117,699			109,068		
Total liabilities and stockholders equity	$ 1,392,025			$ 1,310,444		
Net interest income		$ 14,009			$ 13,183	
Net interest margin (tax equivalent)			4.43%			4.44%

(1) Average yields are presented on a tax equivalent basis. The tax equivalent effect associated with loans and investments, which was not included in the interest amount above, was $366 thousand and $374 thousand for the periods ended March 31, 2011 and March 31, 2010 respectively.

(2) Average loans include non-accrual loans and are net of average deferred loan fees.

(3) Average investment balances are presented at average amortized cost and include investment securities and short-term investments.

Interest Income

For the first quarter of 2011, total interest income amounted to $16.2 million, an increase of $375 thousand, or 2%, compared to the prior period. The increase resulted primarily from an increase of $78.0 million, or 6%, in the average balance of interest earning assets for the quarter ended March 31, 2011 compared to the first quarter of 2010, primarily loans, partially offset by a 20 basis point decline in the yield on interest earning assets due to the lower interest rate environment during the period.

Interest income on loans, which accounts for the majority of interest income, amounted to $15.3 million for the quarter ended March 31, 2011, an increase of $501 thousand, or 3%, over the comparable period, due primarily to loan growth. The average loan balances increased $59.5 million, or 5%, for the three months ended March 31, 2011 compared to the same period in 2010, while the average yield on loans declined 10 basis points compared to the prior period and amounted to 5.45% for the three months ended March 31, 2011.

Table of Contents

Total investment income, which represents the remainder of interest income, amounted to $970 thousand for the three months ended March 31, 2011, a decrease of $126 thousand, or 11%, compared to the prior period. The decrease resulted from the impact of an 84 basis point decrease in the average yield on investment securities and an increase of $12.7 million, or 79%, in the average balance of short term investments (primarily fed funds) for the first quarter of 2011 compared to the first quarter of 2010, partially offset by an increase of $5.7 million, or 4%, in the average balances of investments (other than short term investments) over the comparable period.

Interest Expense

For the three months ended March 31, 2011, total interest expense amounted to $2.2 million, a decrease of $451 thousand, or 17%, compared to the prior period. The decrease resulted primarily from a 20 basis point decrease in the average cost of funding due primarily to the reduction in deposit market interest rates over the period and increases in the average balances of non-interest bearing deposits. This decrease was partially offset by the expense associated with the $43.5 million, or 4%, increase in the average balance of interest bearing funding sources for the first quarter of 2011 compared to the first quarter of 2010, primarily attributed to expansion and sales efforts to attract deposit relationship customers seeking a competitive, but secure, alternative to the larger regional and national banks, mutual funds and lower yielding investment alternatives. This deposit growth has provided the Company with the ability to reduce wholesale funding balances.

Interest expense on interest checking, savings and money market accounts amounted to $1.0 million for the quarter ended March 31, 2011, a decrease of $119 thousand, or 10%, compared to the same quarter in the prior period. The average cost of these accounts decreased 14 basis points to 0.55%, while the average balances increased $85.6 million, or 13%, for the three months ended March 31, 2011 compared to three months ended March 31, 2010. Average balance increases were noted primarily in money market accounts. Included in average money market balances is $59 thousand in brokered deposits associated with a brokered money market product introduced in 2010.

Interest expense on total CDs (brokered and non-brokered) decreased $297 thousand, or 25%, compared to the prior period and amounted to $899 thousand for the three months ended March 31, 2011.

- *Non-Brokered CDs:*

For the first quarter of 2011, interest expense on non-brokered CDs amounted to $899 thousand, a decrease of $280 thousand, or 24%, over the comparable period. The average cost of non-brokered CDs decreased 44 basis points, to 1.30%, for the three months ended March 31, 2011, while average balances increased $6.1 million, or 2%, compared to the quarter ended March 31, 2010.

- *Brokered CDs:*

There were no brokered CD balances in the first quarter of 2011, therefore the interest expense on brokered CDs decreased $17 thousand, or 100%, over the comparable period. The average balance decreased $8.6 million, or 100%, compared to the first quarter of 2010.

Interest expense on borrowed funds, consisting of FHLB borrowings and repurchase agreements, amounted to $22 thousand for the first quarter of 2011, a decrease of $35 thousand, or 61%, over the same period last year. The decrease was primarily attributed to the reduction in average balances of approximately $39.6 million, or 87%, for the quarter ended March 31, 2011 compared to the same period in 2010, partially offset by a 96 basis point increase in the average cost compared to the prior period. Average balances have declined as deposit balances have risen.

The interest expense and average rate on junior subordinated debentures remained the same at $294 thousand and 10.88% for both the three months ended March 31, 2011 and March 31, 2010.

The average balance of non-interest bearing demand deposits, for the three months ended March 31, 2011, increased $30.1 million, or 16%, as compared to the same period in 2010. Non-interest bearing demand deposits are an important component of the Company s core funding strategy. This non-interest bearing funding source represented 17% and 16% of total average deposit balances for the three months ended March 31, 2011 and 2010, respectively.

Provision for Loan Loss

The provision for loan losses increased $43 thousand compared to the same period last year and amounted to $922 thousand for three months ended March 31, 2011. For further discussion regarding the provision for loan losses and management s assessment of the adequacy of the allowance for loan losses see Financial Condition Loans - Credit Risk/Asset Quality and Loans -

Table of Contents

Allowance for Loan Losses in this Item 2 above and Risk Elements/Asset Quality and Allowance for Loan Losses in the Financial Condition section of Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2010 Annual Report on Form 10-K.

There have been no material changes to the Company s underwriting practices or to the allowance for loan loss methodology used to estimate loan loss exposure as reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The provision for loan losses is a significant factor in the Company s operating results.

Non-Interest Income

Non-interest income for the three months ended March 31, 2011 amounted to $2.8 million, a decrease of $311 thousand, or 10%, as compared to the three months ended March 31, 2010. The significant changes are discussed below.

Investment advisory income increased $102 thousand, or 12%, in the three months ended March 31, 2011 compared to the same period in the prior year. The increase in investment advisory income primarily relates to net asset growth, both from market appreciation and new business, achieved since the end of the comparable period in 2010.

There were no gains on investment security sales in the first quarter of 2011. Net gains on security sales were $501 thousand in the first quarter of 2010 resulting from the sales of $1 million in equity securities.

Net gain on loan sales increased $139 thousand, or 172%, for the three months ended March 31, 2011 when compared to the same period in 2010 and resulted from the increased volume of residential loan production originated during the fourth quarter of 2010 that subsequently was sold in the first quarter of 2011.

Other income decreased $109 thousand, or 21%, due primarily to the gain on OREO sales realized in 2010.

Non-Interest Expense

Non-interest expense for the three months ended March 31, 2011 amounted to $12.2 million, an increase of $1.1 million, or 10%, compared to the same period in 2010. The significant changes are discussed below.

Salaries and employee benefits increased $530 thousand, or 8%. The increase was primarily due to the personnel costs necessary to support the Company s strategic growth initiatives, as well as, salary adjustments since the prior period.

Occupancy and equipment expenses increased $137 thousand, or 10%, due primarily to the unusually harsh New England weather conditions in 2011.

Technology and telecommunications expenses increased $61 thousand, or 7%, primarily due to growth and expansion costs to support the Company s strategic initiatives. The Company continually invests in technology initiatives to provide our customers with new product features, in addition to investments to maintain data security and improve overall efficiency.

Advertising and public relations increased $139 thousand, or 26% primarily due to costs which supported the Company s expansion and business development efforts, including philanthropic activity, partially offset by decreases in costs incurred with the Bank s annual community event, which recognizes local businesses and individuals for their commitment to the communities we serve. This event was held in May last year and in 2011 it is scheduled to be held in November.

Income Tax Expense

Income tax expense for the three months ended March 31, 2011 and 2010 was $1.2 million and $1.4 million, respectively. The effective tax rate for the three months ended March 31, 2011 and 2010 was 32.8% and 32.3%, respectively.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The Company s primary market risk is interest rate risk. Oversight of interest rate risk management is centered on the Company s Asset-Liability Committee (the committee). The committee is comprised of six outside directors of the Company and three executive officers of the Company, who are also members of the Board of Directors. In addition, several directors who are not on the committee rotate in on a regular basis. Annually, the committee reviews and approves the Company s asset-liability management policy, which provides management with guidelines for controlling interest rate risk, as measured through net

Table of Contents

interest income sensitivity to changes in interest rates, within certain tolerance levels. The committee also establishes and monitors guidelines for the Company s liquidity and capital ratios.

The Company s asset-liability management strategies and guidelines are reviewed on a periodic basis by management and presented and discussed with the committee on at least a quarterly basis. These strategies and guidelines are revised based on changes in interest rate levels, general economic conditions, competition in the marketplace, the current interest rate risk position of the Company, anticipated growth and other factors.

One of the principal factors in maintaining planned levels of net interest income is the ability to design effective strategies to manage the impact of interest rate changes on future net interest income. Quarterly, management completes a net interest income sensitivity analysis, which is presented to the committee. This analysis includes a simulation of the Company s net interest income under various interest rate scenarios. Variations in the interest rate environment affect numerous factors, including prepayment speeds, reinvestment rates, maturities of investments (due to call provisions), and interest rates on various asset and liability accounts.

The Company can be subject to net interest margin (margin) compression depending on the economic environment and the shape of the yield curve. Under the Company s current balance sheet position, the Company s margin generally performs slightly better over time in a rising rate environment and a parallel yield curve shift, while it generally decreases when the yield curve is flattening, inverted or declining.

Under a flattening yield curve scenario, margin compression occurs as the spread between the cost of funding and the yield on interest earning assets narrows. Under this scenario the degree of margin compression is highly dependent on the Company s ability to fund asset growth through lower cost deposits. However, if the curve is flattening, while short-term rates are rising, the adverse impact on margin may be somewhat delayed, as increases in the Prime Rate will initially result in the Company s asset yields re-pricing more quickly than funding costs.

Under an inverted yield curve situation, shorter-term rates exceed longer-term rates, and the impact on margin is similar but more adverse than the flat curve scenario. Again, however, the extent of the impact on margin is highly dependent on the Company s balance sheet mix.

Under a declining yield curve scenario, margin compression will eventually occur as the yield on interest earning assets decreases more rapidly than decreases in funding costs. The primary causes would be the impact of interest rate decreases (including decreases in the Prime Rate) on adjustable rate loans and the fact that decreases in deposit rates may be limited or lag decreases in the Prime Rate. The Company experienced margin compression due to the effects of a declining rate environment into early 2009 as the Federal Reserve Board reduced its Fed Funds Target Rate late in the fourth quarter of 2008 to a range of 0.0% to 0.25%. The Fed Funds Target Rate and the Prime Rate have remained unchanged since 2008.

The Company s margin improved during the latter half of 2009 and in 2010, as cost of funds continued to decline due to the extended duration of the low rate environment, while the yield on certain assets tied to the Prime Rate had already repriced downward in 2008 and early 2009. Net interest margin has stabilized in 2011 as the cost of funds is approaching a floor.

There have been no material changes in the results of the Company s net interest income sensitivity analysis as reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. At March 31, 2011, management continues to consider the Company s primary interest rate risk exposure to be margin compression that may result from changes in interest rates and/or changes in the mix of the Company s balance sheet components. Specifically, these components include fixed versus variable rate loans and investments on the asset side, and higher cost deposits and borrowings versus lower cost deposits on the liability side.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures and internal controls designed to ensure that the information required to be disclosed in reports that it files or submits to the United States Securities and Exchange commission (the SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

The Company carried out an evaluation as of the end of the period covered by this report under the supervision and with the participation of the Company s management, including its chief executive officer and chief financial officer, of the effectiveness

Table of Contents

of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Company s chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There has been no change in the Company s internal control over financial reporting that has occurred during the Company s most recent fiscal quarter (i.e., the three months ended March 31, 2011) that has materially affected, or is reasonably likely to materially affect, such internal controls.

PART II OTHER INFORMATION

Item 1 - Legal Proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries are a party, other than ordinary routine litigation incidental to the business of the Company. Management does not believe resolution of any present litigation will have a material adverse effect on the consolidated financial condition or results of operations of the Company.

Item 1A Risk Factors

Management believes that there have been no material changes in the Company s risk factors as reported in the Annual Report on Form 10-K for the year ended December 31, 2010.

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

The Company has not sold any equity securities that were not registered under the Securities Act of 1933 during the three months ended March 31, 2011. Neither the Company nor any affiliated purchaser (as defined in the SEC s Rule 10b-18(a)(3)) has repurchased any of the Company s outstanding shares, nor caused any such shares to be repurchased on its behalf, during the three months ended March 31, 2011.

Item 3 - Defaults upon Senior Securities

Not Applicable

Item 4 [Removed and Reserved]

Item 5 - Other Information

Not Applicable

Item 6 - Exhibits

Exhibit No. and Description

31.1 Certification of Principal Executive Officer under Securities Exchange Act Rule 13a-14(a)

31.2 Certification of Principal Financial Officer under Securities Exchange Act Rule 13a-14(a)

32 Certification of Principal Executive Officer and Principal Financial Officer under 18 U.S.C. § 1350 Furnished Pursuant to Securities Exchange Act Rule 13a-14(b)

Table of Contents

SIGNATURES

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

	ENTERPRISE BANCORP, INC.	
DATE: May 10, 2011	By:	/s/ James A. Marcotte James A. Marcotte Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)