ENTERPRISE BANCORP INC /MA/
Form 10-Q
November 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended September 30, 2015

Commission File Number: 001-33912
Enterprise Bancorp, Inc.
(Exact name of registrant as specified in its charter)

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

(978) 459-9000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) x Yes o No

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	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). ¨ Yes x No

As of November 2, 2015, there were 10,360,876 shares of the issuer's common stock outstanding- Par Value $0.01 per share

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PART I-FINANCIAL INFORMATION

Item 1 - Financial Statements
ENTERPRISE BANCORP, INC.
Consolidated Balance Sheets

(Dollars in thousands)	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents:		
Cash and due from banks	$35,093	$30,044
Interest-earning deposits	20,693	10,102
Total cash and cash equivalents	55,786	40,146
Investment securities at fair value	281,027	245,065
Federal Home Loan Bank Stock	4,239	3,357
Loans held for sale	1,325	2,371
Loans, less allowance for loan losses of $28,130 at September 30, 2015 and $27,121 at December 31, 2014	1,762,478	1,645,483
Premises and equipment	30,153	30,370
Accrued interest receivable	7,734	6,733
Deferred income taxes, net	13,684	12,852
Bank-owned life insurance	28,063	16,315
Prepaid income taxes	—	770
Prepaid expenses and other assets	5,169	13,110
Goodwill	5,656	5,656
Total assets	$2,195,314	$2,022,228
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$1,963,615	$1,768,546
Borrowed funds	24,171	58,900
Subordinated debt	14,819	10,825
Accrued expenses and other liabilities	15,440	16,441
Income taxes payable	313	—
Accrued interest payable	252	566
Total liabilities	$2,018,610	$1,855,278
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; 10,359,395 shares issued and outstanding at September 30, 2015 (including 145,762 shares of unvested participating restricted awards), and 10,207,943 shares issued and outstanding at December 31, 2014 (including 157,694 shares of unvested participating restricted awards)	104	102
Additional paid-in-capital	60,042	57,130
Retained earnings	113,515	105,951
Accumulated other comprehensive income	3,043	3,767
Total stockholders' equity	$176,704	$166,950
Total liabilities and stockholders' equity	$2,195,314	$2,022,228

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except per share data)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Interest and dividend income:				
Loans and loans held for sale	$19,584	$18,234	$57,115	$53,117
Investment securities	1,377	1,131	3,825	3,204
Other interest-earning assets	62	29	137	84
Total interest and dividend income	21,023	19,394	61,077	56,405
Interest expense:				
Deposits	1,022	1,005	3,033	3,031
Borrowed funds	10	3	32	33
Subordinated debt	232	294	837	883
Total interest expense	1,264	1,302	3,902	3,947
Net interest income	19,759	18,092	57,175	52,458
Provision for loan losses	250	765	2,100	1,165
Net interest income after provision for loan losses	19,509	17,327	55,075	51,293
Non-interest income:				
Investment advisory fees	1,182	1,202	3,568	3,451
Deposit and interchange fees	1,207	1,268	3,575	3,727
Income on bank-owned life insurance, net	157	99	358	313
Net gains on sales of investment securities	7	215	1,363	830
Gains on sales of loans	89	135	373	283
Other income	743	621	2,073	1,679
Total non-interest income	3,385	3,540	11,310	10,283
Non-interest expense:				
Salaries and employee benefits	10,255	9,454	29,934	27,852
Occupancy and equipment expenses	1,775	1,588	5,484	4,881
Technology and telecommunications expenses	1,428	1,248	4,223	3,844
Advertising and public relations expenses	641	575	2,180	1,932
Audit, legal and other professional fees	564	453	1,305	1,294
Deposit insurance premiums	299	297	889	851
Supplies and postage expenses	226	257	736	776
Investment advisory and custodial expenses	102	143	237	409
Other operating expenses	1,258	1,100	4,037	3,546
Total non-interest expense	16,548	15,115	49,025	45,385
Income before income taxes	6,346	5,752	17,360	16,191
Provision for income taxes	2,054	1,921	5,933	5,540
Net income	$4,292	$3,831	$11,427	$10,651
Basic earnings per share	$0.41	$0.38	$1.11	$1.05
Diluted earnings per share	$0.41	$0.37	$1.10	$1.05
Basic weighted average common shares outstanding	10,349,232	10,143,055	10,308,310	10,099,593
Diluted weighted average common shares outstanding	10,414,254	10,228,501	10,373,464	10,184,264

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Net income	$4,292	$3,831	$11,427	$10,651
Other comprehensive (loss) income, net of taxes:				
Gross unrealized holding gains (losses) on investments arising during the period	1,065	(283)	234	2,905
Income tax (expense) benefit	(388)	113	(70)	(1,049)
Net unrealized holding gains (losses), net of tax	677	(170)	164	1,856
Less: Reclassification adjustment for net gains included in net income				
Net realized gains on sales of securities during the period	7	215	1,363	830
Income tax expense	(2)	(75)	(475)	(294)
Reclassification adjustment for gains realized, net of tax	5	140	888	536
Total other comprehensive income (loss)	672	(310)	(724)	1,320
Comprehensive income	$4,964	$3,521	$10,703	$11,971

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2014	$ 102	$ 57,130	$ 105,951	$ 3,767	$ 166,950
Net income			11,427		11,427
Other comprehensive income (loss), net				(724)	(724)
Tax benefit from exercise of stock options		4			4
Common stock dividend paid ($0.375 per share)			(3,863)		(3,863)
Common stock issued under dividend reinvestment plan	1	956			957
Common stock issued other	—	129			129
Stock-based compensation	1	1,416			1,417
Stock options exercised, net	—	407			407
Balance at September 30, 2015	$ 104	$ 60,042	$ 113,515	$ 3,043	$ 176,704

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	Nine months ended September 30, 2015	2014
Cash flows from operating activities:		
Net income	$11,427	$10,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,100	1,165
Depreciation and amortization	4,162	4,089
Stock-based compensation expense	1,365	1,325
Mortgage loans originated for sale	(18,013)	(13,948)
Proceeds from mortgage loans sold	19,432	13,841
Net gains on sales of loans	(373)	(283)
Net gains on sales of OREO	(154)	—
Net gains on sales of investments	(1,363)	(830)
Income on bank-owned life insurance, net	(358)	(313)
Changes in:		
Accrued interest receivable	(1,001)	(498)
Prepaid expenses and other assets	7,807	(1,726)
Deferred income taxes	(427)	527
Accrued expenses and other liabilities	1,700	5,083
Subordinated debt issuance costs	(190)	—
Accrued interest payable	(314)	(314)
Net cash provided by operating activities	25,800	18,769
Cash flows from investing activities:		
Proceeds from sales of investment securities available-for-sale	13,677	24,329
Net (purchases) proceeds from FHLB capital stock	(882)	967
Proceeds from maturities, calls and pay-downs of investment securities	21,276	30,311
Purchase of investment securities	(73,940)	(74,752)
Net increase in loans	(119,095)	(90,316)
Additions to premises and equipment, net	(2,970)	(2,949)
Proceeds from OREO sales and payments	1,015	—
Purchase of OREO	—	(457)
Purchase of bank-owned life insurance	(11,390)	—
Net cash used in investing activities	(172,309)	(112,867)
Cash flows from financing activities:		
Net increase in deposits	195,069	132,804
Net decrease in borrowed funds	(34,729)	(35,530)
Repayment of subordinated debt	(10,825)	—
Proceeds from issuance of subordinated debt	15,000	—
Cash dividends paid	(3,863)	(3,632)
Proceeds from issuance of common stock	1,086	917
Proceeds from the exercise of stock options, net	407	570
Tax benefit from the exercise of stock options	4	3
Net cash provided by financing activities	162,149	95,132
Net increase in cash and cash equivalents	15,640	1,034
Cash and cash equivalents at beginning of period	40,146	53,733

Cash and cash equivalents at end of period	$55,786	$54,767
Supplemental financial data:		
Cash Paid For: Interest	$4,216	$4,261
Cash Paid For: Income Taxes	5,291	6,175
Supplemental schedule of non-cash investing activity:		
Transfer from loans to other real estate owned	—	290
Transfer from loans to other assets	—	205
Capital expenditures incurred not yet paid	—	276

See accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
Notes to the Unaudited Consolidated Interim Financial Statements

(1) Summary of Significant Accounting Policies

(a) Organization of Holding Company and Basis of Presentation

The accompanying unaudited consolidated interim financial statements and these notes should be read in conjunction with the December 31, 2014 audited consolidated financial statements and notes thereto contained in the 2014 Annual Report on Form 10-K of Enterprise Bancorp, Inc. (the "Company" or "Enterprise"), a Massachusetts corporation, as filed with the Securities and Exchange Commission (the "SEC") on March 13, 2015. The Company has not changed its accounting policies from those disclosed in its 2014 Annual Report on Form 10-K.

The Company's unaudited consolidated interim financial statements 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 and its subsidiaries.

The Bank's subsidiaries include Enterprise Insurance Services, LLC and Enterprise Investment Services, LLC, organized under the laws of the State of Delaware for the purposes of engaging in insurance sales activities and offering non-deposit investment products and services, respectively. In addition, the Bank has the following subsidiaries that are incorporated in the Commonwealth of Massachusetts and classified as security corporations in accordance with applicable Massachusetts General Laws: Enterprise Security Corporation; Enterprise Security Corporation II; and Enterprise Security Corporation III. The security corporations, which hold various types of qualifying securities, are limited to conducting securities investment activities that the Bank itself would be allowed to conduct under applicable laws.

The Company has 22 full service branches serving the greater Merrimack Valley and North Central regions of Massachusetts and Southern New Hampshire. The Company also plans to open its second Nashua, NH branch in the second quarter of 2016, pending regulatory approval. Through the Bank and its subsidiaries, the Company offers a range of commercial and consumer loan products, and deposit and cash management services. The Company also offers investment advisory and wealth management, trust and insurance services. The services offered through the Bank and its subsidiaries are managed as one strategic unit and represent the Company's only reportable operating segment.

Pursuant to the Accounting Standards Codification ("ASC") Topic 810 "Consolidation of Variable Interest Entities," issued by the Financial Accounting Standards Board ("FASB"), at December 31, 2014, the Company carried Junior Subordinated Debentures as a liability on its consolidated financial statements, along with the related interest expense. The debentures were issued by a statutory business trust (the "Trust") created by the Company in March 2000 under the laws of the State of Delaware, and the trust preferred securities issued by the Trust, and the related non-interest expense, were excluded from the Company's consolidated financial statements. In March 2015, the Company redeemed in full the Junior Subordinated Debentures, which in turned allowed the Trust to redeem in full the trust preferred securities. The Company also dissolved the Trust in April 2015. See Note 5, "Borrowed Funds and Subordinated Debt," below for further information on the Company's subordinated debt.

The Federal Deposit Insurance Corporation (the "FDIC") and the Massachusetts Division of Banks (the "Division") 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 Division also retains supervisory jurisdiction over the Company.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions for Form 10-Q through the rules and interpretive releases of the SEC under federal securities law. In the opinion of management, the accompanying unaudited consolidated interim 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 unaudited consolidated interim financial statements. Interim results are not necessarily indicative of results to be expected for the entire year.

(b) Critical Accounting Estimates

In preparing the unaudited consolidated interim financial statements in conformity with GAAP, management is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. These assumptions and estimates affect the reported values of assets and liabilities as of the balance sheet date and income 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 change 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 2014 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,"Summary of Significant Accounting Policies," to the Company's consolidated financial statements included in the Company's 2014 Annual Report on Form 10-K for significant accounting policies. The Company has not changed its significant accounting policies from those disclosed in its 2014 Annual Report filed on Form 10-K.

(c) Reporting Comprehensive Income

Comprehensive income is defined as all changes to stockholders' 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. Pursuant to Accounting Standards Update ("ASU") No. 2013-02, Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income, the Company initially excludes these unrealized holding gains and losses from net income; however, they are later reported as reclassifications out of accumulated other comprehensive income into net income when the securities are sold. When securities are sold, the reclassification of realized gains and losses on available-for-sale securities are included on the Consolidated Statements of Income under the "non-interest income" subheading on the line item "net gains on sales of investment securities" and the related income tax expense is included in the line item "provision for income taxes," both of which are also detailed on the Consolidated Statements of Comprehensive Income under the subheading "reclassification adjustment for net gains included in net income."

(d) Restricted Investments

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Company is required to purchase certain levels of FHLB capital stock at par value in association with the Company's borrowing relationship from the FHLB. This stock is classified as a restricted investment and carried at cost, which management believes approximates fair value. FHLB stock represents the only restricted investment held by the Company.

In conjunction with the other-than-temporary-impairment ("OTTI") review on available-for-sale investments (See Note 2, "Investments," for additional information), management also regularly reviews its holdings of FHLB stock for OTTI. Based on management's periodic review, the Company has not recorded any OTTI charges on this investment to date. If it was determined that a write-down of FHLB stock was required, impairment would be recognized through a charge to earnings.

(e) 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 income tax provisions will differ from the expense that would result from applying the federal statutory rate to income before taxes, due primarily to the impact of tax exempt interest from certain investment securities, loans and bank-owned life insurance.

The Company did not have any unrecognized tax benefits accrued as income tax liabilities or receivables or as deferred tax items at September 30, 2015. The Company is subject to U.S. federal and state income tax examinations by taxing authorities for the 2013 through 2015 tax years.

(f) Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. Entities are required to apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued. The Company early adopted this ASU as of January 1, 2015 in relation to the Company's Fixed-to-Floating Rate Subordinated Notes issued in January 2015. This adoption did not have a material impact on the Company's financial statements or results of operations.

In January 2014, the FASB issued ASU No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments are intended to reduce diversity of practice by clarifying when a creditor should be considered to have received physical possession of residential real estate property collateralizing a residential mortgage loan, such that the loan should be removed, and the real estate property recognized, on the financial statements. Additionally, the amendments require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in collateralized residential mortgage loans that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods beginning after December 15, 2014. As this ASU primarily offers clarification of existing standards and added disclosures, the adoption of this ASU in the first quarter of 2015 did not have a material impact on the Company's financial statements or results of operations.

In January 2014, the FASB issued ASU No. 2014-01, Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this ASU apply to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow through entities for tax purposes. The amendments in this ASU eliminate the effective yield election and permit reporting entities to make an accounting policy election to account for such investments using the proportional amortization method if certain conditions are met. The investor must recognize any subsequent impairment loss when it is more likely than not that the carrying amount of the investment will not be realized. Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The decision to apply the proportional amortization method of accounting is an accounting policy decision that must be applied consistently to all qualifying affordable housing project investments rather than a decision to be applied to individual investments. A reporting entity must disclose information that enables users of its financial statements to understand the nature of such investments and the effect of the measurement, and the related tax credits, on its financial position and results of operations. The amendments in this ASU are to be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods beginning after December 15, 2014. The adoption of this ASU in the first quarter of 2015 did not have a material impact on the Company's financial statements or results of operations.

For information regarding recent accounting pronouncements not yet adopted by the Company, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Recent Accounting Pronouncements."

(2)Investments

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

	September 30, 2015			
(Dollars in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations (1)	$68,507	$845	$—	$69,352
Federal agency mortgage backed securities (MBS) (1)	95,833	1,103	320	96,616
Municipal securities	89,343	1,725	166	90,902
Corporate bonds	9,272	65	28	9,309
Certificates of deposits (2)	3,834	—	12	3,822
Total fixed income securities	266,789	3,738	526	270,001
Equity investments	9,543	1,884	401	11,026
Total available-for-sale securities, at fair value	$276,332	$5,622	$927	$281,027

	December 31, 2014			
(Dollars in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations(1)	$59,518	$318	$24	$59,812
Federal agency mortgage backed securities (MBS) (1)	88,303	1,015	516	88,802
Municipal securities	72,113	2,157	66	74,204
Corporate bonds	7,937	61	26	7,972
Total fixed income securities	227,871	3,551	632	230,790
Equity investments	11,370	3,071	166	14,275
Total available-for-sale securities, at fair value	$239,241	$6,622	$798	$245,065

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(1) These categories may include investments issued or guaranteed by government sponsored enterprises such as Fannie Mae (FNMA), Freddie Mac (FHLMC), Federal Farm Credit Bank, or one of several Federal Home Loan Banks, as well as, investments guaranteed by Ginnie Mae (GNMA), a wholly-owned government entity.
(2) Certificates of deposit ("CDs") represent term deposits issued by banks that are subject to FDIC insurance and purchased on the open market.

At September 30, 2015, the carrying amount of the federal agency MBS category consisted of $67.4 million in pass-through securities backed by residential mortgages, $16.5 million in collateralized mortgage obligations ("CMOs") backed by residential mortgages and $12.7 million in CMOs backed by commercial mortgages. At December 31, 2014, all of the federal agency MBS investments were backed by residential mortgages, consisting of $75.5 million in pass through securities and $13.3 million in CMOs.

At September 30, 2015, the equity portfolio consisted primarily of investments in a diversified group of mutual funds, with a portion of the portfolio (approximately 16%) invested in individual common stock of entities in the financial services industry.

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 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, or if the issuer is credit impaired. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on a fixed income investment 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.

The net unrealized gain or loss on equity securities will fluctuate based on changes in the market value of the mutual 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.

Management regularly reviews the portfolio for securities with unrealized losses that are other-than-temporarily impaired. During the nine months ended September 30, 2015 and 2014, the Company did not record any fair value impairment charges on its investments. As of September 30, 2015, there were a total of 66 investments (fixed income and equity, excluding CDs), with a fair market value of $50.3 million, in an unrealized loss position totaling $915 thousand, including unrealized losses of $309 thousand that have been temporarily impaired for 12 months or longer. Management attributes these unrealized losses to increases in market yields compared to the yields at the time the investments were purchased by the Company and the impact of market value fluctuations on the equity portion of our portfolio. Management does not consider these investments to be other-than-temporarily impaired at September 30, 2015, because (1) the decline in market value is not attributable to credit quality for fixed income securities or a fundamental deterioration in the equity fund or issuers, and (2) 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.

In assessing the Company's investments in federal agency mortgage-backed securities and federal agency obligations, the contractual cash flows of these investments are guaranteed by the respective government sponsored enterprise (FHLMC, FNMA, FFCB, or FHLB) or wholly-owned government corporation (GNMA). Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Company's investments. Management's assessment of other fixed income investments within the portfolio includes reviews of market pricing, ongoing credit quality evaluations, assessment of the investments' materiality, and duration of the investments' unrealized loss position. In addition, the Company utilizes an outside registered investment adviser to manage the corporate and municipal bond portfolios, within prescribed guidelines set by management, and to provide assistance in assessing the credit risk of those portfolios. At September 30, 2015, the Company's corporate and municipal bond portfolios did not contain any securities below investment grade, as reported by major credit rating agencies. For equities and funds, management's assessment includes the severity of the declines, whether it is unlikely that the security or fund will completely recover its unrealized loss within a reasonable time period and if the equity security or fund exhibits fundamental deterioration.

As noted in the table above, a small portion of the portfolio invested in short-term CDs was also in an unrealized loss position at September 30, 2015 due to market rates. The unrealized loss was not considered to be materia