

ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
August 10, 2009

**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 June 30, 2009.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

**Incorporated in the State of Delaware
I.R.S. Employer Identification # 43-1706259
Address: 150 North Meramec
Clayton, MO 63105
Telephone: (314) 725-5500**

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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-7 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 definitions of []large accelerated filer[], []accelerated filer[] and []smaller reporting company[] in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act
Yes No

As of August 7, 2009, the Registrant had 12,833,777 shares of outstanding common stock.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
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PART 1 □ ITEM 1 □ FINANCIAL STATEMENTS
ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Balance Sheets

	Unaudited At June 30, 2009	Audited At December 31, 2008
<i>(In thousands, except share and per share data)</i>		
Assets		
Cash and due from banks	\$ 41,490	\$ 25,626
Federal funds sold	4,252	2,637
Interest-bearing deposits	2,893	14,384
Total cash and cash equivalents	48,635	42,647
Securities available for sale	155,794	96,431

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Other investments	13,515	11,884
Loans held for sale	2,004	2,632
Portfolio loans	1,905,340	1,977,175
Less: Allowance for loan losses	42,635	31,309
Portfolio loans, net	1,862,705	1,945,866
Other real estate	16,053	13,868
Fixed assets, net	23,872	25,158
Accrued interest receivable	7,369	7,557
State tax credits, held for sale, including \$36,026 and \$39,142 carried at fair value, respectively	42,609	39,142
Goodwill	3,134	48,512
Intangibles, net	2,955	3,504
Other assets	36,284	32,973
Total assets	\$ 2,214,929	\$ 2,270,174

Liabilities and Shareholders' Equity

Deposits:		
Demand deposits	\$ 238,139	\$ 247,361
Interest-bearing transaction accounts	129,680	126,644
Money market accounts	610,226	702,886
Savings	9,460	7,826
Certificates of deposit:		
\$100k and over	456,596	520,197
Other	315,163	187,870
Total deposits	1,759,264	1,792,784
Subordinated debentures	85,081	85,081
Federal Home Loan Bank advances	139,520	119,957
Other borrowings	55,474	46,160
Accrued interest payable	2,260	2,473
Other liabilities	7,106	5,931
Total liabilities	2,048,705	2,052,386

Shareholders' equity:

Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 35,000 shares issued and outstanding	31,463	31,116
Common stock, \$0.01 par value; 30,000,000 shares authorized; 12,909,777 and 12,876,981 shares issued, respectively	129	129
Treasury stock, at cost; 76,000 shares	(1,743)	(1,743)
Additional paid in capital	116,032	115,111
Retained earnings	19,292	71,927
Accumulated other comprehensive income	1,051	1,248
Total shareholders' equity	166,224	217,788
Total liabilities and shareholders' equity	\$ 2,214,929	\$ 2,270,174

See accompanying notes to consolidated financial statements.

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<i>(In thousands, except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Interest income:				
Interest and fees on loans	\$ 26,463	\$ 27,857	\$ 52,590	\$ 56,733
Interest on debt securities:				
Taxable	1,202	1,213	2,317	2,288
Nontaxable	5	7	13	16
Interest on federal funds sold	1	18	1	179
Interest on interest-bearing deposits	14	24	34	42
Dividends on equity securities	73	164	129	273
Total interest income	27,758	29,283	55,084	59,531
Interest expense:				
Interest-bearing transaction accounts	171	366	342	942
Money market accounts	1,512	3,286	3,023	8,123
Savings	9	14	18	36
Certificates of deposit:				
\$100 and over	3,925	4,263	8,380	8,380
Other	2,019	1,601	3,710	3,335
Subordinated debentures	1,312	799	2,661	1,747
Federal Home Loan Bank advances	1,187	1,817	2,318	3,529
Notes payable and other borrowings	125	335	283	497
Total interest expense	10,260	12,481	20,735	26,589
Net interest income	17,498	16,802	34,349	32,942
Provision for loan losses	8,000	3,200	23,100	5,525
Net interest income after provision for loan losses	9,498	13,602	11,249	27,417
Noninterest income:				
Wealth Management revenue	2,249	2,682	5,520	5,266
Service charges on deposit accounts	1,249	1,202	2,544	2,139
Other service charges and fee income	250	230	472	501
Sale of branches/charter	-	(19)	-	560
Sale of other real estate	(2)	351	57	342
State tax credit activity, net	109	(29)	63	984
Sale of investment securities	636	73	952	73
Miscellaneous income (loss)	325	(46)	104	115
Total noninterest income	4,816	4,444	9,712	9,980
Noninterest expense:				
Employee compensation and benefits	7,255	7,575	14,345	15,914
Occupancy	1,261	977	2,428	2,060
Furniture and equipment	359	355	723	719
Data processing	516	560	1,046	1,085
Meals and entertainment	400	385	649	706
Amortization of intangibles	273	369	550	754
Goodwill impairment charge	-	-	45,377	-
Other	5,254	2,502	9,707	5,318
Total noninterest expense	15,318	12,723	74,825	26,556
(Loss) income before income tax (benefit) expense	(1,004)	5,323	(53,864)	10,841
Income tax (benefit) expense	(1,390)	1,823	(3,633)	3,778
Net income (loss)	\$ 386	\$ 3,500	\$ (50,231)	\$ 7,063
Net (loss) income available to common shareholders	\$ (216)	\$ 3,500	\$ (51,432)	\$ 7,063

(Loss) earnings per common share:

Basic	\$	(0.02)	\$	0.28	\$	(4.01)	\$	0.57
Diluted	\$	(0.02)	\$	0.27	\$	(4.01)	\$	0.56

See accompanying notes to consolidated financial statements.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity (Unaudited)

<i>(in thousands, except per share data)</i>	Preferred	Common Stock	Treasury	Additional paid in capital	Retained earnings
Balance December 31, 2008	\$ 31,116	\$ 129	\$ (1,743)	\$ 115,111	\$ 71,923
Net loss	-	-	-	-	(50,231)
Change in fair value of available for sale securities, net of tax	-	-	-	-	-
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	-	-	-	-	-
Reclassification of cash flow hedge, net of tax	-	-	-	-	-
Total comprehensive loss	-	-	-	-	(50,231)
Cash dividends paid on common shares, \$0.105 per share	-	-	-	-	(1,343)
Dividends paid on preferred stock	-	-	-	-	(70)
Preferred stock amortization of discount and issuance cost	347	-	-	(130)	(34)
Issuance under equity compensation plans, net, 32,796 shares	-	-	-	352	-
Share-based compensation	-	-	-	1,036	-
Excess tax expense on additional share-based compensation in connection with acquisition of Clayco Banc Corporation	-	-	-	(364)	-
Excess tax benefit related to equity compensation plans	-	-	-	27	-
Balance June 30, 2009	\$ 31,463	\$ 129	\$ (1,743)	\$ 116,032	\$ 19,292

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

<i>(in thousands)</i>	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 386	\$ 3,500	\$ (50,231)	\$ 7,063
Other comprehensive income:				
Unrealized gain (loss) on investment securities arising during the period, net of tax	34	(934)	491	(16)
Less reclassification adjustment for realized gain on sale of securities included in net income, net of tax	(407)	-	(609)	-
Reclassification of cash flow hedge, net of tax	(39)	(47)	(79)	(47)
Total other comprehensive loss	(412)	(981)	(197)	(63)
Total comprehensive (loss) income	\$ (26)	\$ 2,519	\$ (50,428)	\$ 7,000

See accompanying notes to consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)

<i>(in thousands)</i>	Six months ended June	
	2009	2008
Cash flows from operating activities:		
Net (loss) income	\$ (50,231)	\$ 7,100
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation	1,735	1,100
Provision for loan losses	23,100	5,500
Deferred income taxes	(5,767)	(1,100)
Net amortization of debt securities	379	1,100
Amortization of intangible assets	549	1,100
Gain on sale of investment securities	(952)	1,100
Mortgage loans originated	(59,215)	(3,100)
Proceeds from mortgage loans sold	59,367	3,100
Gain on sale of other real estate	(57)	1,100
Gain on state tax credits, net	(63)	1,100
Excess tax expense on additional share-based compensation from acquisition of Clayco	364	1,100
Excess tax benefits of share-based compensation	(27)	1,100
Share-based compensation	1,141	1,100
Gain on sale of branches/charter	-	1,100
Goodwill impairment charge	45,377	1,100
Changes in:		
Accrued interest receivable and income tax receivable	2,238	1,100
Accrued interest payable and other liabilities	(1,215)	(3,100)
Other, net	3,868	1,100
Net cash provided by operating activities	20,591	12,100
Cash flows from investing activities:		
Cash paid in sale of branch/charter, net of cash and cash equivalents received	-	(6,100)
Net decrease (increase) in loans	48,100	(22,100)
Proceeds from the sale/maturity/redemption/recoveries of:		
Debt and equity securities, available for sale	63,918	36,100
State tax credits held for sale	2,420	1,100
Other real estate	9,701	4,100
Loans previously charged off	131	1,100
Payments for the purchase/origination of:		
Available for sale debt and equity securities	(123,138)	(73,100)
Limited partnership interests	(512)	(4,100)
State tax credits held for sale	(6,583)	(13,100)
Fixed assets	(334)	(4,100)
Net cash used in investing activities	(6,297)	(28,100)
Cash flows from financing activities:		
Net decrease in noninterest-bearing deposit accounts	(9,222)	(3,100)
Net (decrease) increase in interest-bearing deposit accounts	(24,299)	12,100
Proceeds from Federal Home Loan Bank advances	18,615	73,100
Repayments of Federal Home Loan Bank advances	(437)	(68,100)

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Net proceeds from federal funds purchased	2,250	
Net increase in other borrowings	7,064	42
Proceeds from notes payable	-	15
Repayments on notes payable	-	(3)
Cash dividends paid on common stock	(1,348)	(3)
Excess tax expense on additional share-based compensation from acquisition of Clayco	(364)	
Excess tax benefits of share-based compensation	27	
Dividends paid on preferred stock	(709)	
Preferred stock issuance cost	(130)	
Proceeds from the exercise of common stock options	247	2
Net cash (used) provided by financing activities	(8,306)	200
Net increase (decrease) in cash and cash equivalents	5,988	(70)
Cash and cash equivalents, beginning of period	42,647	153
Cash and cash equivalents, end of period	\$ 48,635	\$ 83
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 20,948	\$ 27
Income taxes	310	4
Noncash transactions:		
Transfer to other real estate owned in settlement of loans	12,475	10

See accompanying notes to consolidated financial statements.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Notes to Consolidated Unaudited Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies used by the Company in the preparation of the consolidated financial statements are summarized below:

Basis of Financial Statement Presentation

Enterprise Financial Services Corp (the "Company" or "EFSC") is a financial holding company that provides a full range of banking and wealth management services to individuals and corporate customers located in the St. Louis and Kansas City metropolitan markets through its banking subsidiary, Enterprise Bank & Trust ("Enterprise"). Enterprise also operates a loan production office in Phoenix, Arizona. In addition, the Company owns 100% of Millennium Brokerage Group, LLC ("Millennium"). Millennium is headquartered in Nashville, Tennessee and operates life insurance advisory and brokerage operations from fourteen offices serving life agents, banks, CPA firms, property and casualty groups, and financial advisors in 49 states. On July 31, 2008, the Company sold its remaining interests in Great American Bank ("Great American"). See Note 2 in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for more information.

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and footnotes required by U.S. GAAP for complete financial statements. The consolidated financial statements include the accounts of the Company, Enterprise, Millennium and Great American (through the date of disposition.) Acquired businesses are included in the consolidated financial statements from the date of acquisition. All material intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Certain reclassifications have been made to prior year balances to conform to the current year presentation. Such reclassifications had no effect on previously reported consolidated net income or shareholders' equity.

Income Taxes

Historically, the Company has recorded its income tax provision or benefit in interim periods based on an estimated annual effective tax rate as required by Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*. FASB Interpretation No. 18 (FIN 18), *Accounting for Income Taxes in Interim Periods* and an interpretation of APB No. 28, provides that, when a reliable estimate of the annual effective tax rate cannot be made, the actual effective tax rate for the year-to-date period may be used. During the second quarter of 2009, the Company concluded that minor changes in the Company's estimated 2009 pre-tax results and projected permanent items produced significant variability in the estimated annual effective tax rate, and thus, the estimated rate may not be reliable. Accordingly, the Company has determined that the actual effective tax rate for the year-to-date period is the best estimate of the effective tax rate. The effective tax rate for subsequent 2009 periods could differ significantly from the effective tax rate for the first half of 2009.

The actual effective tax rate differs from the expected effective tax rate primarily due to the nondeductible goodwill impairment charge and other permanent differences related to tax exempt interest and federal tax credits.

The Company is permitted to recognize deferred tax assets only to the extent that they are expected to be used to reduce amounts that have been paid or will be paid to tax authorities. Management believes, based on all positive and negative evidence, that the deferred tax asset is more likely-than-not-to be realized.

New Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued FASB No. 141(R) *Business Combinations* a replacement of FASB No. 141 (FASB 141R). FASB 141R replaces FASB 141 *Business Combinations* (FASB 141) and applies to all transaction and other events in which one entity obtains control over one or more other businesses. FASB 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt.

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This fair value approach replaces the cost-allocation process required under FASB 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. FASB 141R requires acquirors to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under FASB 141. Under FASB 141R, the requirements of FASB 146, *Accounting for Costs Associated with Exit or Disposal Activities*, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of FASB 5, *Accounting for Contingencies*. FASB 141R is expected to have an impact on the Company's accounting for business combinations closing on or after January 1, 2009.

In December 2007, the FASB issued FASB No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (FASB 160). FASB 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FASB 160 also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. FASB 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Prior to FASB 160, net income attributable to the noncontrolling interest generally was reported as an expense or other deduction in arriving at consolidated net income. Additional disclosures are required as a result of FASB 160 to clearly identify

and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. FASB 160 is effective for fiscal years beginning after December 15, 2008. As of June 30, 2009, the Company had no noncontrolling interests. FASB 160 will impact our consolidated financial statements if noncontrolling interests are acquired in the future.

On January 1, 2009, the Company adopted FASB No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (an Amendment of FASB Statement No. 133) (FASB 161). FASB 161 expands disclosure requirements regarding an entity's derivative instruments and hedging activities. Expanded qualitative disclosures required under FASB 161 include: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under FASB 133, *Accounting for Derivative Instruments and Hedging Activities*, and related interpretations; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FASB 161 also requires several added quantitative disclosures in financial statements.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed application of FASB 157, *Fair Value Measurements*, for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. As a result, the Company adopted FSP FAS 157-2 on January 1, 2009.

In response to constituent feedback and financial statement user demand, in April 2009, the FASB issued three FASB Staff Positions (FSP) that address areas of accounting guidance that have received considerable scrutiny as global financial markets have struggled. The FSPs are: FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, FSP FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* and FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. The Company adopted these FSPs on April 1, 2009.

- **FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*** (FSP 157-4). This FSP addresses concerns that FASB 157, *Fair Value Measurements*, emphasized the use of an observable market transaction even when that transaction may not have been orderly or the market for that transaction may not have been active. FSP 157-4 provides additional guidance on: (a) determining when the volume and level of activity for the asset or liability has significantly decreased; (b) identifying circumstances in which a transaction is not orderly; and (c) understanding the fair value measurement implications of both (a) and (b). The objectives of fair value measurement under FASB 157 have not changed.

FSP 157-4 requires several new disclosures, including the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, in both interim and annual periods. The adoption of FSP 157-4 did not have a material impact on our consolidated financial statements or the disclosures presented in our consolidated financial statements.

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- **FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*** (FSP 115-2 and 124-2). This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. The most significant change FSP 115-2 and 124-2 brings is a revision to the amount of other-than-temporary loss of a debt security recorded in earnings.

FSP 115-2 and 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security, or (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of

the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. In assessing whether the entire cost basis of the security will be recovered, a comparison must be made of the present value of the cash flows expected to be collected from the security to the amortized cost basis of the security. In addition, if it is more likely than not the entity will be required to sell the security before recovery of its cost basis, an other-than-temporary impairment is deemed to have occurred.

FSP 115-2 and 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the statement of earnings. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to credit issues in the debt security and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to credit issues is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. We adopted the provisions of FSP 115-2 and 124-2 during the second quarter of 2009 which did not have a material impact on our consolidated financial statements.

This FSP also expands and increases the frequency of certain existing disclosures related to other-than-temporary impairments. The interim disclosures required by FSP 115-2 and 124-2 are reported in Note 3 to our consolidated financial statements.

- **FSP FAS 107-1 and APB 28-1**, *Interim Disclosures About Fair Value of Financial Instruments* (FSP 107-1) which amends FASB 107, *Disclosures about Fair Value of Financial Instruments* to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. APB 28-1 amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009 and is applied prospectively. The interim disclosures required by FSP 107-1 and APB-1 are reported in Note 8 to our consolidated financial statements.

In May 2009, the FASB issued FASB No. 165, *Subsequent Events* (FASB 165) which established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. FASB 165 is effective for interim and annual periods ending after June 15, 2009. The Company adopted FASB 165 in the second quarter of 2009 and has evaluated all subsequent events through August 7, 2009 (the date the Company's second quarter Form 10Q was issued). The adoption of FASB 165 did not have a material impact on our financial position, results of operations, cash flows or disclosures.

In June 2009, the FASB issued FASB No. 166, *Accounting for Transfers of Financial Assets* (an amendment of FASB Statement No. 140) (FASB 166) which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. FASB 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. FASB 166 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact that the adoption of FASB 166 will have on our financial position, results of operations, cash flows or disclosures.

In June 2009, the FASB issued FASB No. 167, *Amendments to FASB Interpretation No. 46(R)* (FASB 167). FASB 167 amends Interpretation No. 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, FASB 167 requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in variable interest entities. FASB 167 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact that the adoption of FASB 167 will have on our financial position, results of operations, cash flows or disclosures.

In June 2009, the FASB issued FASB No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FASB 168). This FASB instituted a major change in the way

accounting standards are organized. After final approval by the FASB, the accounting standards Codification will become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). Only this one level of authoritative GAAP will exist, other than guidance issued by the Securities and Exchange Commission. All other literature will be non-authoritative. FASB 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. The Codification is effective for us during our interim period ending September 30, 2009 and will not have an impact on our financial position, results of operations or cash flows.

NOTE 2 EARNINGS (LOSS) PER SHARE

Basic (loss) earnings per common share data is calculated by dividing net (loss) income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted (loss) earnings per common share gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and the if-converted method for convertible securities related to an issuance of trust preferred securities. The following table presents a summary of per common share data and amounts for the periods indicated.

<i>(in thousands, except per share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income (loss), as reported	\$ 386	\$ 3,500	\$ (50,231)	\$ 7,063
Preferred stock dividend	(438)	-	(875)	-
Amortization of preferred stock discount	(164)	-	(326)	-
Net (loss) income available to common shareholders	\$ (216)	\$ 3,500	\$ (51,432)	\$ 7,063
Weighted average common shares outstanding	12,833	12,545	12,831	12,492
Additional dilutive common stock equivalents	-	215	-	225
Diluted common shares outstanding	12,833	12,760	12,831	12,717
Basic (loss) earnings per common share	\$ (0.02)	\$ 0.28	\$ (4.01)	\$ 0.57
Diluted (loss) earnings per common share	\$ (0.02)	\$ 0.27	\$ (4.01)	\$ 0.56

For the three months ended June 30, 2009 and 2008, there were 2.5 million and 304,000 of weighted average common stock equivalents excluded from the per share calculations because their effect was anti-dilutive. For the six months ended June 30, 2009 and 2008, there were 2.4 million and 323,000 of weighted average common stock equivalents excluded from the per share calculation because their effect was anti-dilutive. In addition, at June 30, 2009, the Company had outstanding warrants to purchase 324,074 shares of common stock associated with the U.S. Treasury Capital Purchase Program which were excluded from the per common share calculation because their effect was also anti-dilutive.

NOTE 3 INVESTMENTS

The following table presents the amortized cost, gross unrealized gains and losses and fair value of securities available-for-sale:

<i>(in thousands)</i>	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale securities:				
Obligations of U.S. Government agencies	\$ 24,883	\$ 367	\$ -	\$ 25,250
Obligations of U.S. Government sponsored agencies	7,998	46	-	8,044
Obligations of states and political subdivisions	569	6	-	575
Residential mortgage-backed securities	121,230	1,209	(514)	121,925

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\$ 154,680 \$ 1,628 \$ (514) \$ 155,794

<i>(in thousands)</i>	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for sale securities:				
Obligations of states and political subdivisions	\$ 765	\$ 7	\$ -	\$ 772
Residential mortgage-backed securities	94,368	1,438	(147)	95,659
	\$ 95,133	\$ 1,445	\$ (147)	\$ 96,431

At June 30, 2009 and December 31, 2008, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity. Debt securities having a carrying value of \$59.0 million and \$73.0 million at June 30, 2009 and December 31, 2008, respectively, were pledged as collateral to secure public deposits and for other purposes as required by law or contract provisions.

The amortized cost and estimated fair value of debt securities classified as available for sale at June 30, 2009, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(in thousands)</i>	Amortized Cost	Fair Value
Due in one year or less	\$ 14,081	\$ 14,264
Due from one to five years	73,843	75,074
Due from five to ten years	58,814	58,635
Due after ten years	7,942	7,821
Total	\$ 154,680	\$ 155,794

The following table represents a summary of available-for-sale investment securities that had an unrealized loss:

<i>(in thousands)</i>	June 30, 2009					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Residential mortgage-backed securities	\$ 71,728	\$ 514	\$ -	\$ -	\$ 71,728	\$ 514

<i>(in thousands)</i>	December 31, 2008					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Residential mortgage-backed securities	\$ 21,709	\$ 144	\$ 628	\$ 3	\$ 22,337	\$ 147

The unrealized losses at both June 30, 2009 and December 31, 2008, were attributable to changes in market interest rates since the securities were purchased. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers, (3) structure of the security and (4) the intent to sell the security or whether it more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. At June 30, 2009, management performed its quarterly analysis of all securities with an unrealized loss and concluded no material individual securities were other-than-temporarily impaired.

The gross gains and gross losses realized from sales of available-for-sale for the three and six months ended June 30, 2009 were as follows:

<i>(in thousands)</i>	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Gross gains realized	\$ 636	\$ 138	\$ 952	\$ 138
Gross losses realized	-	65	-	65
Net gains realized	\$ 636	\$ 73	\$ 952	\$ 73

NOTE 4 GOODWILL AND INTANGIBLE ASSETS

FASB 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested for impairment annually and more frequently if events or changes in circumstances indicate that the asset might be impaired. Historically the Banking reporting unit has been tested for goodwill impairment at December 31 and the Millennium reporting unit has been tested for impairment at September 30.

At March 31, 2009, the Company recorded an impairment charge of \$45.4 million which eliminated all goodwill at the Banking reporting unit. The impairment charge was primarily driven by the deterioration in the general economic environment and the resulting decline in the Company's share price and market capitalization in the first quarter of 2009.

There were no events or circumstances that required an interim impairment test for the Millennium reporting unit for the quarter ended June 30, 2009.

The table below summarizes the changes to goodwill for the periods presented.

<i>(in thousands)</i>	Reporting Unit		
	Millennium	Banking	Total
Balance at December 31, 2008	\$ 3,134	\$ 45,378	\$ 48,512
Goodwill impairment related to Banking segment	-	(45,378)	(45,378)
Balance at June 30, 2009	\$ 3,134	\$ -	\$ 3,134

The table below summarizes the changes to intangible asset balances. Customer and trade name intangibles are related to the Millennium reporting unit and Core deposit intangibles are related to the Banking reporting unit.

<i>(in thousands)</i>	Customer and Trade Name	Core Deposit	Net Intangible
	Intangibles	Intangible	
Balance at December 31, 2008	\$ 1,379	\$ 2,125	\$ 3,504
Amortization expense	(298)	(251)	(549)
Balance at June 30, 2009	\$ 1,081	\$ 1,874	\$ 2,955

The following table reflects the expected amortization schedule for the customer, trade name and core deposit intangibles.

Year	Amount
------	--------

Remaining		
2009	\$	528
2010		1,015
2011		371
2012		309
2013		247
After 2013		485
	\$	2,955

NOTE 5 DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

The Company issues financial instruments with off balance sheet risk in the normal course of the business of meeting the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's extent of involvement and maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its consolidated balance sheets. At June 30, 2009, no amounts have been accrued for any estimated losses for these financial instruments.

The contractual amount of off-balance-sheet financial instruments as of June 30, 2009 and December 31, 2008 are as follows:

<i>(in thousands)</i>	June 30, 2009	December 31, 2008
Commitments to extend credit	\$ 488,518	\$ 555,361
Standby letters of credit	29,253	33,875

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments usually have fixed expiration dates or other termination clauses and may require payment of a fee. Of the total commitments to extend credit at June 30, 2009 and December 31, 2008, approximately \$127.0 million and \$131.0 million, respectively, represent fixed rate loan commitments. Since certain of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by each bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, premises and equipment, and real estate.

Standby letters of credit are conditional commitments issued by Enterprise to guarantee the performance of a customer to a third party. These standby letters of credit are issued to support contractual obligations of the bank's customers. The credit risk involved in issuing letters of credit is essentially the same as the risk involved in extending loans to customers. The approximate remaining term of standby letters of credit range from 6 months to 5 years at June 30, 2009.

NOTE 6 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2009, the Company adopted FASB 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133*, which increased required disclosures regarding derivatives and hedging activities, including disclosures regarding how an entity uses derivative instruments and how derivative instruments and related hedged items are accounted for and affect an entity's financial position, financial performance, and cash flows. The Company is a party to various derivative financial instruments that are used in the normal course of business to meet the needs of its clients and as part of its risk management activities. These instruments include interest rate swaps and option contracts. The Company does not enter into

derivative financial instruments for trading or speculative purposes.

Interest rate swap contracts involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. The Company enters into interest rate swap contracts on behalf of its clients and also utilizes such contracts to reduce or eliminate the exposure to changes in the cash flows or value of hedged assets or liabilities due to changes in interest rates. Interest rate option contracts consist of caps and provide for the transfer or reduction of interest rate risk in exchange for a fee. In November 2008, the Company entered into a series of interest rate caps in order to economically hedge changes in fair value of the State tax credits held for sale.

All derivative financial instruments, whether designated as hedges or not, are recorded on the consolidated balance sheet at fair value within Other assets or Other liabilities. The accounting for changes in the fair value of a derivative in the consolidated statement of operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting in accordance with FASB No. 133. At June 30, 2009, the Company did not have any derivatives designated as cash flow or fair value hedges under FASB 133.

Using derivative instruments means assuming counterparty credit risk. Counterparty credit risk relates to the loss we could incur if a counterparty were to default on a derivative contract. Notional amounts of derivative financial instruments do not represent credit risk, and are not recorded in the consolidated balance sheet. They are used merely to express the volume of this activity. We monitor the overall credit risk and exposure to individual counterparties. We do not anticipate nonperformance by any counterparties. The amount of counterparty credit exposure is the unrealized gains, if any, on such derivative contracts. At June 30, 2009 and December 31, 2008, Enterprise had pledged cash of \$1.5 million and \$470,000, respectively, as collateral in connection with interest rate swap agreements.

Risk Management Instruments. The Company enters into certain derivative contracts to economically hedge state tax credits and certain loans.

- **Economic hedge of state tax credits.** In November 2008, the Company entered into a series of interest rate caps in order to economically hedge changes in fair value of the State tax credits held for sale. The Company paid \$2.1 million at inception of the contracts. See Note 8 Fair Value Measurements for further discussion of the fair value of the state tax credits.
- **Economic hedge of prime based loans.** The Company had two interest rate swaps with notional values of \$40.0 million each which economically hedged changes in cash flows of a pool of prime based loans. Those derivatives were terminated in February 2009, at which time the Company recognized a loss of \$530,000 upon termination. The loss was included in Miscellaneous loss in the consolidated statement of operations. The derivatives had previously been designated as cash flow hedges. However, in December 2008, due to a variable rate differential, the Company concluded the cash flow hedges would not be prospectively effective and the hedges were dedesignated. The unrealized gain prior to dedesignation was included in Accumulated other comprehensive income and is being amortized over the expected life of the related loans. At June 30, 2009, the amount remaining in Accumulated other comprehensive income was \$338,000. For the three and six months ended June 30, 2009, \$62,000 and \$124,000, respectively, were reclassified into Miscellaneous income. The Company expects to reclassify \$248,000 of remaining derivative gains from Accumulated other comprehensive income to earnings over the next twelve months.

The table below summarizes the notional amounts and fair values of the derivative instruments used to manage risk.

	Notional Amount		Asset Derivatives Fair Value		Liability Derivatives Fair Value	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
<i>(in thousands)</i>						
Non-designated hedging instruments						
Interest rate cap contracts	\$ 188,050	\$ 188,050	\$ 1,196	\$ 544	\$ -	\$ -

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Cash flow hedging instruments												
Interest rate swap contracts	\$	-	\$	80,000	\$	-	\$	1,291	\$	-	\$	-

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The following table shows the location and amount of gains and losses related to derivatives used for risk management purposes that were recorded in the consolidated statements of operations for the three and six months ended June 30, 2009 and 2008.

(in thousands)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Operations on Derivative Three months ended June 30,		Amount of Gain or (Loss) Recognized in Operations on Derivative Six months ended June 30,	
		2009	2008	2009	2008
Non-designated hedging instruments					
Interest rate cap contracts	State tax credit activity, net	\$ 736	\$ -	\$ 652	\$ -
Interest rate swap contracts	Miscellaneous income (loss)	\$ 62	\$ -	\$ (406)	\$ -

Client-Related Derivative Instruments. As an accommodation to certain customers, the Company enters into interest rate swaps to economically hedge changes in fair value of certain loans. The table below summarizes the notional amounts and fair values of the client-related derivative instruments.

(in thousands)	Notional Amount		Asset Derivatives Fair Value		Liability Derivatives Fair Value	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
	Non-designated hedging instruments					
Interest rate swap contracts	\$ 30,885	\$ 17,429	\$ 26	\$ -	\$ 1,024	\$ 1,467

Changes in the fair value of client-related derivative instruments are recognized currently in operations. The following table shows the location and amount of gains and losses recorded in the consolidated statements of operations for the three and six months ended June 30, 2009 and 2008.

(in thousands)	Location of Gain or (Loss) Recognized in Operations on Derivative	Amount of Gain or (Loss) Recognized in Operations on Derivative Three months ended June 30,		Amount of Gain or (Loss) Recognized in Operations on Derivative Six months ended June 30,	
		2009	2008	2009	2008
Designated hedging instruments					
Interest rate swap contracts	Interest and fees on loans	\$ (113)	\$ (84)	\$ (290)	\$ -

NOTE 7 SHARE-BASED COMPENSATION PLANS

The Company maintains a number of share-based incentive programs, which are discussed in more detail in Note 17 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008. There were no stock options, stock-settled stock appreciation rights, or restricted stock units granted in the first six months of 2009. The share-based compensation expense was \$491,000 and \$1.1 million for the three and six months ended June 30, 2009, respectively. The share-based compensation expense was \$448,000 and \$901,000 for the three and six months ended June 30, 2008, respectively.

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Employee Stock Options and Stock-settled Stock Appreciation Rights (SSAR)

At June 30, 2009, there was \$30,000 and \$2.5 million of total unrecognized compensation costs related to stock options and SSARs, respectively, which is expected to be recognized over weighted average periods of 1.3 and 3.2 years, respectively. Following is a summary of the employee stock option and SSAR activity for the first six months of 2009.

<i>(Dollars in thousands, except share data)</i>	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2008	827,471	\$ 17.03		
Granted	-	-		
Exercised	(1,500)	10.00		
Forfeited	(24,946)	23.64		
Outstanding at June 30, 2009	801,025	\$ 16.84	5.9 years	\$ -
Exercisable at June 30, 2009	477,002	\$ 14.16	4.0 years	\$ -
Vested and expected to vest at June 30, 2009	739,011	\$ 16.24	5.9 years	\$ -

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Restricted Stock Units (RSU)

At June 30, 2009, there was \$2.4 million of total unrecognized compensation costs related to the RSUs, which is expected to be recognized over a weighted average period of 2.6 years. A summary of the Company's restricted stock unit activity for the first six months of 2009 is presented below.

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2008	150,463	\$ 22.89
Granted	-	-
Vested	(5)	22.63
Forfeited	(17,654)	23.36
Outstanding at June 30, 2009	132,804	\$ 22.83

Stock Plan for Non-Management Directors

Shares are issued twice a year and compensation expense is recorded as the shares are earned, therefore, there is no unrecognized compensation expense related to this plan. The Company recognized \$8,000 and \$105,000 of stock-based compensation expense for the directors for the three and six months ended June 30, 2009, respectively. The Company recognized \$2,000 and \$97,000 of stock-based compensation expense for the directors for the three and six months ended June 30, 2008, respectively. Pursuant to this plan, the Company issued 8,829 and 4,434 shares in the first six months of 2009 and 2008, respectively.

Moneta Plan

As of December 31, 2006, the fair value of all Moneta options had been expensed. As a result, there have been no option-related expenses for Moneta in 2009 or 2008. Following is a summary of the Moneta stock option activity for the first six months of 2009.

Weighted Average Exercise	Weighted Average Remaining Contractual	Aggregate Intrinsic
---------------------------------	---	------------------------

<i>(Dollars in thousands, except share data)</i>	Shares	Price	Term	Value
Outstanding at December 31, 2008	91,001	\$ 13.55		
Granted	-	-		
Exercised	(22,462)	10.33		
Forfeited	(270)	10.33		
Outstanding at June 30, 2009	68,269	\$ 14.62	1.1 years	\$ -
Exercisable at June 30, 2009	68,269	\$ 14.62	1.1 years	\$ -

NOTE 8 FAIR VALUE MEASUREMENTS

On January 1, 2008, the Company adopted FASB 157, *Fair Value Measurements*, for financial assets and financial liabilities. FASB 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In accordance with FSP 157-2, *Effective Date of FASB Statement No. 157*, the Company adopted FASB 157 for non-financial assets and non-financial liabilities on January 1, 2009. On April 1, 2009, the Company adopted FSP 157-4 which requires several new disclosures, including the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, in both interim and annual periods.

State tax credits held for sale. Pursuant to the provisions of FASB 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, the Company elected not to account for state tax credits purchased in the first six months of 2009 at fair value. Of the \$42.6 million of state tax credits, held for sale on the consolidated balance sheet at June 30, 2009, approximately \$36.0 million were carried at fair value. The remaining \$6.6 million of state tax credits were accounted for at cost. The Company elected not to account for the newly purchased state tax credits at fair value in order to limit the volatility of the fair value changes in our consolidated statements of operations.

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The fair value of the state tax credits decreased by \$1.2 million in the first six months of 2009 compared to a \$768,000 increase in the first six months of 2008. These fair value changes are included in State tax credit activity, net in the consolidated statements of operations.

The following table summarizes financial instruments measured at fair value on a recurring basis as of June 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

<i>(in thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Securities available for sale	\$ -	\$ 155,794	\$ -	\$ 155,794
State tax credits held for sale	-	-	36,026	36,026
Derivative financial instruments	-	1,222	-	1,222
Portfolio loans	-	17,820	-	17,820
Total assets	\$ -	\$ 174,837	\$ 36,026	\$ 210,862
Liabilities				
Derivative financial instruments	\$ -	\$ 1,024	\$ -	\$ 1,024
Total liabilities	\$ -	\$ 1,024	\$ -	\$ 1,024

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The following table presents the changes in Level 3 financial instruments measured at fair value as of June 30, 2009.

	State tax credits held for sale
<i>(in thousands)</i>	
Balance at December 31, 2008	\$ 39,142
Total gains or losses (realized and unrealized):	
Included in earnings	(1,195)
Included in other comprehensive income	-
Purchases, sales, issuances and settlements, net	(1,921)
Transfer in and/or out of Level 3	-
Balance at June 30, 2009	\$ 36,026
Change in unrealized gains or losses relating to assets still held at the reporting date	\$ (1,195)

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From time to time, the Company measures certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period. The following table presents financial instruments measured at fair value on a non-recurring basis as of June 30, 2009.

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
<i>(in thousands)</i>					
Loans held for sale	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans	15,028	-	15,028	-	(11,905)
Other real estate	2,679	-	2,679	-	(1,114)
Long-lived assets held and used	-	-	-	-	-
Goodwill	-	-	-	-	(45,377)
Total	\$ 17,706	\$ -	\$ 17,706	\$ -	\$ (58,396)

FSP 107-1, *Interim Disclosures about Fair Value of Financial Instruments*, extends existing fair value disclosure for some financial instruments by requiring disclosure of the fair value of such financial instruments, both assets and liabilities and not recognized in the consolidated balance sheets.

Following is a summary of the carrying amounts and fair values of the Company's financial instruments on the consolidated balance sheets at June 30, 2009 and December 31, 2008.

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated fair value	Carrying Amount	Estimated fair value
<i>(in thousands)</i>				
Balance sheet assets				
Cash and due from banks	\$ 41,490	\$ 41,490	\$ 25,626	\$ 25,626
Federal funds sold	4,252	4,252	2,637	2,637

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Interest-bearing deposits	2,893	2,893	14,384	14,384
Securities available for sale	155,794	155,794	96,431	96,431
Other investments	13,515	13,515	11,884	11,884
Loans held for sale	2,004	2,004	2,632	2,632
Derivative financial instruments	1,222	1,222	1,835	1,835
Loans, net of allowance for loan losses	1,862,705	1,863,548	1,945,866	1,991,183
State tax credits, held for sale	42,609	42,471	39,142	39,142
Accrued interest receivable	7,369	7,369	7,557	7,557
Balance sheet liabilities				
Deposits	1,759,264	1,762,872	1,792,784	1,800,958
Subordinated debentures	85,081	71,922	85,081	71,394
Other borrowed funds	194,994	196,656	166,117	180,864
Derivative financial instruments	1,024	1,024	1,467	1,467
Accrued interest payable	2,260	2,260	2,473	2,473

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate such value:

Cash, Federal funds sold, and other short-term instruments

For cash and due from banks, federal funds purchased, interest-bearing deposits, and accrued interest receivable (payable), the carrying amount is a reasonable estimate of fair value, as such instruments reprice in a short time period.

Securities available for sale

The Company obtains fair value measurements for available for sale debt instruments from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions.

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Other investments

Other investments, which primarily consists of membership stock in the FHLB is reported at cost, which approximates fair value.

Loans, net of allowance for loan losses

The fair value of adjustable-rate loans approximates cost. The fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers for the same remaining maturities.

State tax credits held for sale

The fair value of state tax credits held for sale is calculated using an internal valuation model with unobservable market data including discounted cash flows based upon the terms and conditions of the tax credits.

Derivative financial instruments

The fair value of derivative financial instruments is based on quoted market prices by the counterparty and verified by the Company using public pricing information.

Deposits

The fair value of demand deposits, interest-bearing transaction accounts, money market accounts and savings deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Subordinated debentures

Fair value of floating interest rate subordinated debentures is assumed to equal carrying value. Fair value of

fixed interest rate subordinated debentures is based on discounting the future cash flows using rates currently offered for financial instruments of similar remaining maturities.

Other borrowed funds

Other borrowed funds include FHLB advances, customer repurchase agreements, federal funds purchased, and notes payable. The fair value of FHLB advances is based on the discounted value of contractual cash flows. The discount rate is estimated using current rates on borrowed money with similar remaining maturities. The fair value of federal funds purchased, customer repurchase agreements and notes payable are assumed to be equal to their carrying amount since they have an adjustable interest rate.

Commitments to extend credit and standby letters of credit

The fair value of commitments to extend credit and standby letters of credit would be estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments, and the present creditworthiness of such counterparties. The Company believes such commitments have been made on terms which are competitive in the markets in which it operates; however, no premium or discount is offered thereon and accordingly, the Company has not assigned a value to such instruments for purposes of this disclosure.

NOTE 9 SEGMENT REPORTING

The Company has two primary operating segments, Banking and Wealth Management, which are delineated by the products and services that each segment offers. The segments are evaluated separately on their individual performance, as well as their contribution to the Company as a whole.

The Banking operating segment consists of a full-service commercial bank, Enterprise, with locations in St. Louis and Kansas City and a loan production office in Phoenix, Arizona. The majority of the Company's assets and income result from the Banking segment. With the exception of the loan production office, all banking locations have the same product and service offerings, have similar types and classes of customers and utilize similar service delivery methods. Pricing guidelines and operating policies for products and services are the same across all regions.

The Wealth Management segment includes the Trust division of Enterprise, the state tax credit brokerage activities, and Millennium. The Trust division provides estate planning, investment management, and retirement planning as well as consulting on management compensation, strategic planning and management succession issues. State tax credits are part of a fee initiative designed to augment the Company's wealth management segment and banking lines of business. Millennium operates life insurance advisory and brokerage operations serving life agents, banks, CPA firms, property & casualty groups, and financial advisors in 49 states.

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The Corporate segment's principal activities include the direct ownership of the Company's banking and non-banking subsidiaries and the issuance of debt and equity. Its principal source of liquidity is dividends from its subsidiaries and stock option exercises.

The financial information for each business segment reflects that information which is specifically identifiable or which is allocated based on an internal allocation method. There were no material intersegment revenues among the three segments. Management periodically makes changes to methods of assigning costs and income to its business segments to better reflect operating results. When appropriate, these changes are reflected in prior year information presented below.

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Following are the financial results for the Company's operating segments.

<i>(in thousands)</i>	Banking	Wealth Management	Corporate and Intercompany	Total
Balance Sheet Information				
		At June 30, 2009		
Loans, less unearned loan fees	\$ 1,905,340	\$ -	\$ -	\$ 1,905,340
Goodwill	-	3,134	-	3,134

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Intangibles, net	1,874	1,081	-	2,955
Deposits	1,779,812	-	(20,548)	1,759,264
Borrowings	157,755	39,739	82,581	280,075
Total assets	2,143,939	52,540	18,450	2,214,929

At December 31, 2008

	Banking	Wealth Management	Corporate and Intercompany	Total
Loans, less unearned loan fees	\$ 1,977,175	\$ -	\$ -	\$ 1,977,175
Goodwill	45,378	3,134	-	48,512
Intangibles, net	2,126	1,378	-	3,504
Deposits	1,818,514	-	(25,730)	1,792,784
Borrowings	133,540	35,077	82,581	251,198
Total assets	2,204,341	48,775	17,058	2,270,174

Income Statement Information

Three months ended June 30, 2009

Net interest income (expense)	\$ 19,002	\$ (292)	\$ (1,212)	\$ 17,498
Provision for loan losses	8,000	-	-	8,000
Noninterest income	2,442	2,358	16	4,816
Noninterest expense	10,975	3,247	1,096	15,318
Goodwill impairment	-	-	-	-
Income (loss) before income tax expense	2,469	(1,181)	(2,292)	(1,004)
Income tax expense (benefit)	193	(549)	(1,034)	(1,390)
Net loss	\$ 2,276	\$ (632)	\$ (1,258)	\$ 386

Three months ended June 30, 2008

Net interest income (expense)	\$ 17,936	\$ (260)	\$ (874)	\$ 16,802
Provision for loan losses	3,200	-	-	3,200
Noninterest income	1,758	2,658	28	4,444
Noninterest expense	9,000	2,828	895	12,723
Income (loss) before income tax expense	7,494	(430)	(1,741)	5,323
Income tax expense (benefit)	2,744	(156)	(765)	1,823
Net income (loss)	\$ 4,750	\$ (274)	\$ (976)	\$ 3,500

Income Statement Information

Six months ended June 30, 2009

Net interest income (expense)	\$ 37,346	\$ (538)	\$ (2,459)	\$ 34,349
Provision for loan losses	23,100	-	-	23,100
Noninterest income	4,113	5,583	16	9,712
Noninterest expense	20,784	6,503	2,161	29,448
Goodwill impairment	45,377	-	-	45,377
Income (loss) before income tax expense	(47,802)	(1,458)	(4,604)	(53,864)
Income tax expense (benefit)	(1,009)	(632)	(1,992)	(3,633)
Net loss	\$ (46,793)	\$ (826)	\$ (2,612)	\$ (50,231)

Six months ended June 30, 2008

Net interest income (expense)	\$ 35,239	\$ (471)	\$ (1,826)	\$ 32,942
Provision for loan losses	5,525	-	-	5,525
Noninterest income	3,529	6,254	197	9,980
Noninterest expense	18,865	5,902	1,789	26,556
Income (loss) before income tax expense	14,378	(119)	(3,418)	10,841
Income tax expense (benefit)	5,300	(43)	(1,479)	3,778
Net income (loss)	\$ 9,078	\$ (76)	\$ (1,939)	\$ 7,063

Readers should note that in addition to the historical information contained herein, some of the information in this report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements typically are identified with use of terms such as "may," "will," "expect," "anticipate," "estimate," "potential," "could," and similar words, although some forward-looking statements are expressed differently. You should be aware that the Company's actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including: burdens imposed by federal and state regulation, changes in accounting regulation or standards of banks; credit risk; exposure to general and local economic conditions; risks associated with rapid increase or decrease in prevailing interest rates; consolidation within the banking industry; competition from banks and other financial institutions; our ability to attract and retain relationship officers and other key personnel and technological developments; and other risks discussed in more detail in Item 1A: "Risk Factors" on Form 10-K, all of which could cause the Company's actual results to differ from those set forth in the forward-looking statements.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management's analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission which are available on our website at www.enterprisebank.com.

Introduction

The following discussion describes the significant changes to the financial condition of the Company that have occurred during the first six months of 2009 compared to the financial condition as of December 31, 2008. In addition, this discussion summarizes the significant factors affecting the consolidated results of operations, liquidity and cash flows of the Company for the three and six months ended June 30, 2009 compared to the same periods in 2008. This discussion should be read in conjunction with the accompanying consolidated financial statements included in this report and our Annual Report on Form 10-K for the year ended December 31, 2008.

Operating Results

Net income for the quarter ended June 30, 2009 was \$386,000 compared to \$3.5 million for the same period of 2008. After deducting dividends on preferred stock, the Company reported a net loss of \$0.02 per fully diluted share for the second quarter of 2009 compared to net income of \$0.27 per fully diluted share for the second quarter of 2008.

Results for the second quarter of 2009 included a \$1.1 million special assessment from the FDIC as part of its industry-wide program to bolster the insurance fund. During the quarter, the Company also recorded \$602,000 related to dividends on preferred stock purchased in late 2008 by the U.S. Treasury as part of its Capital Purchase Program. These dividends do not reduce the Company's net income, but are deducted in the calculation of earnings per share. Also during the second quarter of 2009, the Company set aside \$8.0 million in loan loss provision. By comparison, loan loss provision for the second quarter of 2008 was \$3.2 million.

For the six months ended June 30, 2009, the Company reported a net loss of \$50.2 million, or \$4.01 per fully diluted share, compared to net income of \$7.1 million, or \$0.56 per fully diluted share in the same period of 2008. The year-to-date net loss was attributable to a \$45.4 million non-cash accounting charge to eliminate goodwill related to our Banking reporting unit and loan loss provision totaling \$23.1 million in the first half of 2009 compared to \$5.5 million in the same period of 2008.

The goodwill impairment charge is a non-cash accounting adjustment that did not reduce the Company's regulatory or tangible capital position, liquidity or cash flow and did not impact the Company's operations. The goodwill impairment charge was primarily driven by the deterioration in the general economic environment and the resulting decline in the Company's share price and market capitalization in the first quarter of 2009.

Excluding the special FDIC assessment, the Company's pre-tax, pre-provision operating earnings for the second quarter of 2009 were \$8.1 million, up 6% versus the first quarter of 2009 and 5% lower than in the comparable period in 2008. The decline in year-over-year pre-tax, pre-provision operating earnings was attributable to higher loan-related legal expenses incurred in the second quarter of 2009. We are presenting operating earnings and loss figures, which are not financial measures as defined under U.S. GAAP, because we believe adjusting our results to exclude loan loss provision expenses, impairment charges, special FDIC assessments and extraordinary gains or losses provides shareholders with a more comparable basis for evaluating our period-to-period operating

results and financial performance. Below is a reconciliation of U.S. GAAP (loss) income before income taxes to operating earnings for the current quarter along with last quarter and one year ago quarter.

<i>(All amounts in thousands, except per share data)</i>	For the Quarter Ended		
	Jun 30, 2009	Mar 31, 2009	Jun 30, 2008
U.S. GAAP (loss) income before income tax	\$ (1,004)	\$ (52,860)	\$ 5,323
Goodwill impairment charge	-	45,377	-
Sale of Kansas City nonstrategic branch/charter	-	-	(19)
FDIC special assessment (included in Other noninterest expense)	1,100	-	-
Operating earnings (loss) before income tax	96	(7,483)	5,304
Provision for loan losses	8,000	15,100	3,200
Operating earnings before income taxes and provision for loan losses	\$ 8,096	\$ 7,617	\$ 8,504

Below are highlights of our Banking and Wealth Management segments. For more information on our segments, see Note 9 ☐ Segment Reporting.

Banking Segment

- Loan growth** ☐ At June 30, 2009, portfolio loans were \$1.91 billion, a decrease of \$72.0 million, or 4%, from December 31, 2008. Portfolio loans decreased by \$56.0 million, or 3%, from June 30, 2008 and \$59.0 million, or 3%, from March 31, 2009. The decreases are primarily due to clients paying down their lines, weak new loan demand and charge-offs. Enterprise continues to pursue prudent lending opportunities to support local economic activity, with new loan approvals of \$85.0 million during the second quarter of 2009. Since the issuance of preferred stock to the U.S. Treasury in December 2008, Enterprise has approved over \$161.0 million in new loans.
- Deposit growth** ☐ Total deposits were \$1.76 billion at June 30, 2009, a decrease of \$34.0 million, or 2%, from December 31, 2008. Total deposits increased \$90.0 million, or 5%, from June 30, 2008 and \$14.0 million, or about 1%, from March 31, 2009. Brokered deposits declined \$100.0 million from December 31, 2008 which contributed to the decline in total deposits for the year. Excluding brokered certificates of deposit, ☐core☐ deposits grew \$108.0 million, or 8%, from a year ago, and \$35.0 million, or 2%, during the quarter. Core deposits include certificates of deposit sold to clients through the reciprocal CDARS program. As of June 30, 2009, Enterprise had \$105.0 million of reciprocal CDARS deposits outstanding compared to \$60.0 million at December 31, 2008. Most of the increase in CDARS represents new deposits.

For the second quarter of 2009, brokered certificates of deposit represented 14% of total deposits on average. For the quarter ended December 31, 2008, brokered deposits represented 20% of total deposits on average and 12% for the second quarter of 2008. Non-interest bearing demand deposits represented 14% of total deposits at June 30, 2009, December 31, 2008, and June 30, 2008. In January, we adjusted our incentive programs to focus our associates on deposit gathering efforts. The Company's goal is to drive core deposit growth through relationship selling while at the same time effectively managing the overall cost of funds.

- Asset quality** ☐ Loan loss provision for the second quarter of 2009 was \$8.0 million compared to \$15.1 million in the first quarter of 2009 and \$3.2 million in the second quarter of 2008. The lower loan loss provision in the second quarter compared to the first quarter was due to lower loan volumes and leveling off of nonperforming loans. The Company continues to monitor loan portfolio risk closely and expects nonperforming asset levels to remain elevated. See Provision for Loan Losses and Nonperforming Assets below for more information.
- Liquidity** ☐ During the second quarter of 2009, we substantially strengthened our liquidity position. During the second quarter of 2009, we reduced our brokered time deposits by \$21.0 million and short-term borrowings by \$53.0 million. In addition, we also increased our investment portfolio by \$44.0 million.

Wealth Management Segment

Fee income from the Wealth Management segment, including results from state tax credit brokerage activity, totaled \$2.4 million in the second quarter of 2009, a decrease of \$300,000, or 11%, from the same quarter of 2008. On a year-to-date basis, fee income from the Wealth Management segment, including results from state tax credit brokerage activity, was \$5.6 million, a \$670,000, or 11%, decrease from the same period in 2008. See Noninterest Income in this section for more information.

Net Interest Income

The Enterprise prime rate remained at 4.00% during the second quarter, and we continued to incorporate floors and increase spreads on our new and renewing loans. We continue to see the positive impacts of our loan pricing strategies and expect to experience continued favorable repricing on maturing certificates of deposit. Our relationship managers are getting the opportunity to visit with many good quality loan/deposit relationships with borrowers who have never considered Enterprise to be their primary bank in the past. Generally, these borrowers are questioning their current banking relationships, but are cautious about changing at this time. We expect over time, we will be given the opportunity to bid on much of this business.

Three months ended June 30, 2009 and 2008

Net interest income (on a tax-equivalent basis) was \$17.8 million for the three months ended June 30, 2009 compared to \$17.0 million for the same period of 2008, an increase of \$0.8 million, or 5%. Total interest income decreased \$1.4 million offset by a decrease in total interest expense of \$2.2 million.

Average interest-earning assets increased \$173.0 million, or 9%, to \$2.095 billion for the quarter ended June 30, 2009 compared to \$1.922 billion for the quarter ended June 30, 2008. Loans accounted for the majority of the growth, increasing by \$152.0 million, or 8%, to \$1.944 billion. Investments in debt and equity securities increased \$20.5 million, or 17%, to \$141.8 million. Interest income on loans increased \$2.4 million from growth, but was offset by a decrease of \$3.7 million due to the impact of lower rates, for a net decrease of \$1.3 million versus the second quarter of 2008.

For the quarter ended June 30, 2009, average interest-bearing liabilities increased \$116.1 million, or 7%, to \$1.804 billion compared to \$1.687 billion for the quarter ended June 30, 2008. The growth in interest-bearing liabilities resulted from a \$66.6 million increase in core deposits, a \$60.3 million increase in net brokered certificates of deposit, and a \$28.3 million increase in subordinated debentures, offset by a decrease of \$39.1 million in borrowed funds including FHLB advances and fed funds purchased. In addition, approximately \$30.0 million in core deposits were sold as part of the De Soto, Kansas branch in the third quarter of 2008. For the second quarter of 2009, interest expense on interest-bearing liabilities increased \$1.7 million due to growth while the impact of declining rates decreased interest expense on interest-bearing liabilities by \$3.9 million versus second quarter of 2008, for a net decrease of \$2.2 million.

The tax-equivalent net interest rate margin was 3.41% for the second quarter of 2009 compared to 3.56% for the same period of 2008. The decline in the margin was due to sharply falling interest rates, increased levels of nonperforming assets, and higher levels of more expensive wholesale funding to support loan growth. Higher average levels of nonperforming loans reduced the net interest rate margin by approximately 0.18% in the second quarter of 2009 compared to a reduction of 0.05% in the second quarter of 2008. The net interest margin for the second quarter was nine basis points higher than in the first quarter of 2009. The increase in margin was a result of improved loan pricing that offset the effects of higher nonperforming assets and reduced cost of liabilities, including lower rates on time deposits and LIBOR-based borrowed funds.

Six months ended June 30, 2009 and 2008

Net interest income (on a tax-equivalent basis) was \$35.0 million for the six months ended June 30, 2009 compared to \$33.4 million for the same period of 2008, an increase of \$1.6 million, or 5%. Total interest income decreased \$4.2 million and was offset by a decrease in total interest expense of \$5.8 million.

Average interest-earning assets increased \$234.1 million, or 13%, to \$2.100 billion for the six months ended June 30, 2009 compared to \$1.866 billion for the same period of 2008. Loans accounted for the majority of the growth, increasing by \$223.3 million, or 13%, to \$1.964 billion.

For the six months ended June 30, 2009, average interest-bearing liabilities increased \$185.8 million, or 11%, to \$1.813 billion compared to \$1.627 billion for the same period of 2008. The growth in interest-bearing liabilities resulted primarily from increases to core time deposits and brokered deposits, offset by a decrease in money

market balances.

The tax-equivalent net interest rate margin was 3.36% for the six months ended June 30, 2009, compared to 3.60% for the same period of 2008. The reasons for the decline are similar to those described above.

Average Balance Sheet

The following table presents, for the periods indicated, certain information related to our average interest-earning assets and interest-bearing liabilities, as well as, the corresponding interest rates earned and paid, all on a tax equivalent basis.

(in thousands)	Three months ended June 30,				2008 Int Inc Exp
	2009 Average Balance	2009 Interest Income/ Expense	Average Yield/ Rate	Average Balance	
Assets					
Interest-earning assets:					
Taxable loans (1)	\$ 1,904,158	\$ 25,920	5.46%	\$ 1,765,670	\$
Tax-exempt loans (2)	39,449	854	8.68	25,979	
Total loans	1,943,607	26,774	5.53	1,791,649	
Taxable investments in debt and equity securities	141,224	1,274	3.62	120,559	
Non-taxable investments in debt and equity securities (2)	569	9	6.34	766	
Short-term investments	9,928	15	0.61	9,335	
Total securities and short-term investments	151,721	1,298	3.43	130,660	
Total interest-earning assets	2,095,328	28,072	5.37	1,922,309	
Non-interest-earning assets:					
Cash and due from banks	36,163			40,983	
Other assets	130,151			162,276	
Allowance for loan losses	(41,385)			(22,986)	
Total assets	\$ 2,220,257			\$ 2,102,582	
Liabilities and Shareholders' Equity					
Interest-bearing liabilities:					
Interest-bearing transaction accounts	\$ 124,250	\$ 171	0.55%	\$ 125,304	\$
Money market accounts	610,891	1,512	0.99	700,005	
Savings	9,343	9	0.39	11,458	
Certificates of deposit	761,456	5,944	3.13	542,180	
Total interest-bearing deposits	1,505,940	7,636	2.03	1,378,947	
Subordinated debentures	85,081	1,312	6.19	56,807	
Borrowed funds	212,531	1,312	2.48	251,680	
Total interest-bearing liabilities	1,803,552	10,260	2.28	1,687,434	
Noninterest bearing liabilities:					
Demand deposits	242,697			221,858	
Other liabilities	7,637			12,016	
Total liabilities	2,053,886			1,921,308	
Shareholders' equity	166,371			181,274	
Total liabilities & shareholders' equity	\$ 2,220,257			\$ 2,102,582	
Net interest income		\$ 17,812			\$
Net interest spread			3.09%		
Net interest rate margin (3)			3.41		

(1) Average balances include non-accrual loans. The income on such loans is included in interest but is recognized only upon receipt. Loan fees, net of amortization of deferred loan origination fees and costs, included in interest income are approximately \$380,000 and \$568,000 for the quarters ended June 30, 2009 and 2008, respectively.

(2) Non-taxable income is presented on a fully tax-equivalent basis using the combined statutory federal and state income tax in effect for the year. The tax-equivalent adjustments were \$314,000 and \$220,000 for the quarters ended June 30, 2009 and 2008, respectively.

(3) Net interest income divided by average total interest-earning assets.

(in thousands)	Six months ended June 30,			
	2009 Average Balance	2008 Interest Income/ Expense	2008 Average Yield/ Rate	2008 Average Balance
Assets				
Interest-earning assets:				
Taxable loans (1)	\$ 1,921,878	\$ 51,417	5.40%	\$ 1,714,878
Tax-exempt loans (2)	41,908	1,845	8.88	25,646
Total loans	1,963,786	53,262	5.47	1,740,524
Taxable investments in debt and equity securities	124,429	2,445	3.96	109,538
Non-taxable investments in debt and equity securities (2)	651	20	6.20	844
Short-term investments	11,570	36	0.63	15,440
Total securities and short-term investments	136,650	2,501	3.69	125,822
Total interest-earning assets	2,100,436	55,763	5.35	1,866,346
Noninterest-earning assets:				
Cash and due from banks	35,014			41,349
Other assets	149,678			153,476
Allowance for loan losses	(37,553)			(22,585)
Total assets	\$ 2,247,575			\$ 2,038,586
Liabilities and Shareholders' Equity				
Interest-bearing liabilities:				
Interest-bearing transaction accounts	\$ 121,505	\$ 342	0.57%	\$ 125,835
Money market accounts	626,709	3,023	0.97	696,461
Savings	9,222	18	0.39	10,880
Certificates of deposit	740,417	12,090	3.29	512,538
Total interest-bearing deposits	1,497,853	15,473	2.08	1,345,714
Subordinated debentures	85,081	2,661	6.31	56,807
Borrowed funds	229,983	2,601	2.28	224,627
Total interest-bearing liabilities	1,812,917	20,735	2.31	1,627,148
Noninterest-bearing liabilities:				
Demand deposits	234,700			219,767
Other liabilities	7,792			12,949
Total liabilities	2,055,409			1,859,864
Shareholders' equity	192,166			178,722
Total liabilities & shareholders' equity	\$ 2,247,575			\$ 2,038,586
Net interest income		\$ 35,028		
Net interest spread			3.04%	
Net interest rate margin (3)			3.36	

(1) Average balances include non-accrual loans. The income on such loans is included in interest but is recognized only upon receipt. Loan fees, net of amortization of deferred loan origination fees and costs, included in interest income are approximately \$797,000 and \$699,000 for the six months ended June 30, 2009 and 2008, respectively.

(2) Non-taxable income is presented on a fully tax-equivalent basis using the combined statutory federal and state income tax in effect for the year. The tax-equivalent adjustments were \$679,000 and \$440,000 for the six months ended June 30, 2009 and 2008, respectively.

(3) Net interest income divided by average total interest-earning assets.

Rate/Volume

The following table sets forth, on a tax-equivalent basis for the periods indicated, a summary of the changes in interest income and interest expense resulting from changes in yield/rates and volume.

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<i>(in thousands)</i>	2009 compared to 2008					
	3 month			6 month		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume(1)	Rate(2)	Net	Volume(1)	Rate(2)	Net
Interest earned on:						
Taxable loans	\$ 2,085	\$ (3,649)	\$ (1,564)	\$ 6,191	\$ (10,752)	\$ (4,561)
Nontaxable loans (3)	294	(27)	267	715	(56)	659
Taxable investments in debt and equity securities	216	(319)	(103)	319	(435)	(116)
Nontaxable investments in debt and equity securities (3)	(3)	-	(3)	(6)	1	(5)
Short-term investments	3	(31)	(28)	(45)	(140)	(165)
Total interest-earning assets	\$ 2,595	\$ (4,026)	\$ (1,431)	\$ 7,174	\$ (11,372)	\$ (4,198)