

ENTERPRISE FINANCIAL SERVICES CORP  
Form 10-Q  
November 12, 2013

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, 2013.

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

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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-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). 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

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As of October 31, 2013, the Registrant had 19,276,365 shares of outstanding common stock, \$0.01 par value.

This document is also available through our website at <http://www.enterprisebank.com>.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES  
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## PART 1 – ITEM 1 – FINANCIAL STATEMENTS

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share data)

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks	\$35,238	\$21,906
Federal funds sold	111	51
Interest-bearing deposits (including \$730 and \$3,270 pledged as collateral)	65,891	94,413
Total cash and cash equivalents	101,240	116,370
Interest-bearing deposits greater than 90 days	5,300	1,000
Securities available for sale	453,046	640,212
Loans held for sale	12,967	11,792
Portfolio loans not covered under FDIC loss share	2,110,825	2,106,039
Less: Allowance for loan losses	26,599	34,330
Portfolio loans not covered under FDIC loss share, net	2,084,226	2,071,709
Portfolio loans covered under FDIC loss share, net of the allowance for loan losses (\$13,632 and \$11,547, respectively)	145,180	189,571
Portfolio loans, net	2,229,406	2,261,280
Other real estate not covered under FDIC loss share	10,278	9,327
Other real estate covered under FDIC loss share	17,847	17,173
Other investments, at cost	15,485	14,294
Fixed assets, net	19,048	21,121
Accrued interest receivable	7,897	8,497
State tax credits, held for sale, including \$20,139 and \$23,020 carried at fair value, respectively	55,810	61,284
FDIC loss share receivable	40,054	61,475
Goodwill	30,334	30,334
Intangibles, net	6,136	7,406
Other assets	103,214	64,221
Total assets	\$3,108,062	\$3,325,786
Liabilities and Shareholders' Equity		
Demand deposits	\$619,562	\$686,805
Interest-bearing transaction accounts	213,708	272,753
Money market accounts	903,561	1,036,125
Savings	88,443	83,458
Certificates of deposit:		
\$100 and over	462,971	396,896
Other	159,672	182,814
Total deposits	2,447,917	2,658,851
Subordinated debentures	63,081	85,081
Federal Home Loan Bank advances	120,000	80,000
Other borrowings	167,365	233,370
Notes payable	10,800	11,700
Accrued interest payable	885	1,282
Other liabilities	20,274	19,757
Total liabilities	2,830,322	3,090,041
Shareholders' equity:		

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Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.01 par value; 30,000,000 shares authorized; 19,352,365 and 18,088,152 shares issued, respectively	194	181
Treasury stock, at cost; 76,000 shares	(1,743	) (1,743 )
Additional paid in capital	198,493	173,299
Retained earnings	82,777	56,218
Accumulated other comprehensive (loss) income	(1,981	) 7,790
Total shareholders' equity	277,740	235,745
Total liabilities and shareholders' equity	\$3,108,062	\$3,325,786
See accompanying notes to condensed consolidated financial statements.		

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## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income:				
Interest and fees on loans	\$34,396	\$39,886	\$109,330	\$111,519
Interest on debt securities:				
Taxable	2,043	2,628	6,210	7,440
Nontaxable	301	264	907	734
Interest on interest-bearing deposits	37	53	130	195
Dividends on equity securities	106	43	277	230
Total interest income	36,883	42,874	116,854	120,118
Interest expense:				
Interest-bearing transaction accounts	99	182	360	566
Money market accounts	714	1,024	2,348	3,694
Savings	56	68	171	209
Certificates of deposit:				
\$100 and over	1,326	1,691	4,207	5,500
Other	439	597	1,385	2,103
Subordinated debentures	679	982	2,580	3,111
Federal Home Loan Bank advances	757	721	2,221	2,327
Notes payable and other borrowings	239	125	801	362
Total interest expense	4,309	5,390	14,073	17,872
Net interest income	32,574	37,484	102,781	102,246
Provision for loan losses not covered under FDIC loss share	(652	) 1,048	(3,094	) 2,841
Provision for loan losses covered under FDIC loss share	2,811	10,889	2,789	13,380
Net interest income after provision for loan losses	30,415	25,547	103,086	86,025
Noninterest income:				
Wealth Management revenue	1,698	1,825	5,419	5,525
Service charges on deposit accounts	1,768	1,456	5,025	4,199
Other service charges and fee income	722	676	2,030	1,848
Gain on sale of other real estate	472	739	1,562	3,152
Gain on state tax credits, net	308	256	1,214	1,180
Gain on sale of investment securities	611	—	1,295	1,156
Change in FDIC loss share receivable	(2,849	) 1,912	(13,647	) (6,738
Miscellaneous income	986	968	2,055	2,338
Total noninterest income	3,716	7,832	4,953	12,660
Noninterest expense:				
Employee compensation and benefits	10,777	11,441	33,006	32,956
Occupancy	1,333	1,399	4,098	4,162
Furniture and equipment	356	384	1,200	1,234
Data processing	1,143	881	3,000	2,530
FDIC and other insurance	900	862	2,592	2,658
Loan legal and other real estate expense	1,247	1,187	3,355	5,216
Professional fees	1,041	1,288	3,394	3,640
Other	4,443	3,840	12,491	11,664
Total noninterest expense	21,240	21,282	63,136	64,060

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Income before income tax expense	12,891	12,097	44,903	34,625
Income tax expense	4,481	4,167	15,420	11,744
Net income	\$8,410	\$7,930	\$29,483	\$22,881
Net income available to common shareholders	\$8,410	\$7,282	\$29,483	\$20,948
Earnings per common share				
Basic	\$0.45	\$0.41	\$1.61	\$1.17
Diluted	0.44	0.39	1.55	1.14
See accompanying notes to condensed consolidated financial statements.				

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES  
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$8,410	\$7,930	\$29,483	\$22,881
Other comprehensive income, net of tax:				
Unrealized gain/(loss) on investment securities arising during the period, net of income tax expense/(benefit) for three months of \$598 and \$1,828, and for nine months of (\$5,716) and \$3,926, respectively	939	3,248	(8,981	) 6,526
Less reclassification adjustment for realized gain on sale of securities included in net income, net of income tax expense for three months of \$238 and \$0, and for nine months of \$505 and \$416, respectively	(373	) —	(790	) (740
Total other comprehensive income (loss)	566	3,248	(9,771	) 5,786
Total comprehensive income	\$8,976	\$11,178	\$19,712	\$28,667

See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance January 1, 2013	\$—	\$ 181	\$(1,743)	\$173,299	\$56,218	\$ 7,790	\$ 235,745
Net income	—	—	—	—	29,483	—	29,483
Other comprehensive loss	—	—	—	—	—	(9,771 )	(9,771 )
Cash dividends paid on common shares, \$0.1575 per share	—	—	—	—	(2,924 )	—	(2,924 )
Repurchase of common stock warrants	—	—	—	(1,006 )	—	—	(1,006 )
Issuance under equity compensation plans, 87,743 shares	—	1	—	2,550	—	—	2,551
Trust preferred securities conversion 1,176,470 shares	—	12	—	20,431	—	—	20,443
Share-based compensation	—	—	—	3,136	—	—	3,136
Excess tax benefit related to equity compensation plans	—	—	—	83	—	—	83
Balance September 30, 2013	\$—	\$ 194	\$(1,743)	\$198,493	\$82,777	\$ (1,981 )	\$ 277,740

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance January 1, 2012	\$33,293	\$ 178	\$(1,743)	\$169,138	\$35,097	\$ 3,602	\$ 239,565
Net income	—	—	—	—	22,881	—	22,881
Other comprehensive income	—	—	—	—	—	5,786	5,786
Cash dividends paid on common shares, \$0.1575 per share	—	—	—	—	(2,813 )	—	(2,813 )
Cash dividends paid on preferred stock	—	—	—	—	(1,312 )	—	(1,312 )
Preferred stock accretion of discount	621	—	—	—	(621 )	—	—
Issuance under equity compensation plans, 189,848 shares	—	2	—	1,530	—	—	1,532
Share-based compensation	—	—	—	1,791	—	—	1,791
Excess tax benefit related to equity compensation plans	—	—	—	86	—	—	86
Balance September 30, 2012	\$33,914	\$ 180	\$(1,743)	\$172,545	\$53,232	\$ 9,388	\$ 267,516

See accompanying notes to condensed consolidated financial statements.

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$29,483	\$22,881
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,936	1,944
Provision for loan losses	(305	) 16,221
Deferred income taxes	180	(1,982
Net amortization of debt securities	4,579	5,839
Amortization of intangible assets	1,540	1,440
Gain on sale of investment securities	(1,295	) (1,156
Mortgage loans originated for sale	(64,463	) (71,085
Proceeds from mortgage loans sold	70,884	68,987
Gain on sale of other real estate	(1,562	) (3,152
Gain on state tax credits, net	(1,214	) (1,180
Share-based compensation	3,136	1,791
Valuation adjustment on other real estate	962	2,201
Net accretion of loan discount and indemnification asset	(13,853	) (18,754
Changes in:		
Accrued interest receivable	600	(1,288
Accrued interest payable	(397	) (385
Prepaid FDIC insurance	2,607	1,837
Other assets	(21,322	) 1,212
Other liabilities	516	12,567
Net cash provided by operating activities	12,012	37,938
Cash flows from investing activities:		
Net decrease (increase) in loans	36,955	(10,478
Net cash proceeds received from FDIC loss share receivable	9,654	85,173
Proceeds from the sale of debt and equity securities, available for sale	159,604	110,876
Proceeds from the maturity of debt and equity securities, available for sale	69,017	91,498
Proceeds from the redemption of other investments	26,695	6,296
Proceeds from the sale of state tax credits held for sale	8,126	4,408
Proceeds from the sale of other real estate	15,303	44,273
Payments for the purchase/origination of:		
Available for sale debt and equity securities	(60,732	) (214,935
Other investments	(28,143	) (8,138
Bank owned life insurance	(20,000	) —
State tax credits held for sale	(1,365	) (18,577
Fixed assets	(1,122	) (4,433
Net cash provided by investing activities	213,992	85,963
Cash flows from financing activities:		
Net (decrease) increase in noninterest-bearing deposit accounts	(67,242	) 35,591
Net decrease in interest-bearing deposit accounts	(143,691	) (276,011
Proceeds from Federal Home Loan Bank advances	743,000	157,500
Repayments of Federal Home Loan Bank advances	(703,000	) (133,500
Repayments of notes payable	(900	) —
Repayments of subordinated debt	(2,000	) —

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Net decrease in other borrowings	(66,005	) (7,440	)
Cash dividends paid on common stock	(2,924	) (2,813	)
Excess tax benefit of share-based compensation	83	86	
Payment for the repurchase of common stock warrants	(1,006	) —	
Cash dividends paid on preferred stock	—	(1,312	)
Proceeds from the issuance of equity instruments	2,551	1,530	
Net cash used by financing activities	(241,134	) (226,369	)
Net decrease in cash and cash equivalents	(15,130	) (102,468	)
Cash and cash equivalents, beginning of period	116,370	188,143	
Cash and cash equivalents, end of period	\$101,240	\$85,675	
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$14,470	\$17,487	
Income taxes	24,348	10,953	
Noncash transactions:			
Transfer to other real estate owned in settlement of loans	21,116	19,799	
Sales of other real estate financed	5,564	5,264	
Issuance of common stock from Trust Preferred Securities conversion	20,443	—	
See accompanying notes to condensed consolidated financial statements.			

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by Enterprise Financial Services Corp (the “Company” or “Enterprise”) in the preparation of the condensed consolidated financial statements are summarized below:

Business and Consolidation

Enterprise 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, Kansas City and Phoenix metropolitan markets through its banking subsidiary, Enterprise Bank & Trust (the “Bank”).

Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2013. 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, 2012.

Basis of Financial Statement Presentation

The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“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 annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All 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.

The Company has adopted the new accounting guidance surrounding comprehensive income by presenting a separate Statement of Comprehensive Income. The Statement of Comprehensive Income includes the amount and the related tax impact that have been reclassified from accumulated other comprehensive income to net income. The reclassification adjustment for unrealized gain on sale of securities included in net income has been recorded through the gain on sale of investment securities line item, within noninterest income, in the Company's Condensed Consolidated Statements of Operations.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per common share data is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and restricted stock awards where recipients have satisfied the vesting terms. Diluted 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 trust preferred securities.

The following table presents a summary of per common share data and amounts for the periods indicated.

(in thousands, except per share data)	Three months ended		Nine months ended		
	September 30,		September 30,		
	2013	2012	2013	2012	
Net income as reported	\$8,410	\$7,930	\$29,483	\$22,881	
Preferred stock dividend	—	(436	) —	(1,312	)
Accretion of preferred stock discount	—	(212	) —	(621	)
Net income available to common shareholders	\$8,410	\$7,282	\$29,483	\$20,948	
Impact of assumed conversions					
Interest on 9% convertible trust preferred securities, net of income tax	217	371	926	1,113	
Net income available to common shareholders and assumed conversions	\$8,627	\$7,653	\$30,409	\$22,061	
Weighted average common shares outstanding	18,779	17,876	18,288	17,829	
Incremental shares from assumed conversions of convertible trust preferred securities	851	1,439	1,241	1,439	
Additional dilutive common stock equivalents	200	100	153	34	
Weighted average diluted common shares outstanding	19,830				