ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
May 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2010.

[ ] 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 [X] 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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of May 6, 2010, the Registrant had 14,853,912 shares of outstanding common stock.

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

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PART 1 – ITEM 1 – FINANCIAL STATEMENTS
ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share data)	At March 31, 2010	At December 31, 2009
Assets		
Cash and due from banks	$ 13,548	$ 16,064
Federal funds sold	2,199	7,472
Interest-bearing deposits	125,822	83,430
Total cash and cash equivalents	141,569	106,966
Securities available for sale	267,169	282,461
Other investments, at cost	13,160	13,189
Loans held for sale	1,517	4,243
Portfolio loans	1,800,302	1,833,203
Less: Allowance for loan losses	44,079	42,995
Portfolio loans, net	1,756,223	1,790,208
Other real estate	21,087	25,224
Fixed assets, net	21,697	22,301
Accrued interest receivable	7,229	7,751
State tax credits, held for sale, including $31,760 and $32,485 carried at fair value, respectively	52,067	51,258
Goodwill	1,974	1,974
Intangibles, net	1,531	1,643
Assets of discontinued operations held for sale	-	4,000
Other assets	76,182	54,437
Total assets	$ 2,361,405	$ 2,365,655
Liabilities and Shareholders' Equity		
Deposits:		
Demand deposits	$ 300,835	$ 289,658
Interest-bearing transaction accounts	203,006	142,061
Money market accounts	630,697	690,552
Savings	9,807	8,822
Certificates of deposit:		
$100k and over	410,771	443,067
Other	348,938	367,256
Total deposits	1,904,054	1,941,416
Subordinated debentures	85,081	85,081
Federal Home Loan Bank advances	128,100	128,100
Other borrowings	60,438	39,338
Accrued interest payable	1,976	2,125
Other liabilities	6,522	5,683
Total liabilities	2,186,171	2,201,743
Shareholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; 35,000 shares issued and outstanding	31,976	31,802
Common stock, $0.01 par value; 30,000,000 shares authorized; 14,928,275 and 12,958,820 shares issued, respectively	149	130
Treasury stock, at cost; 76,000 shares	(1,743)	(1,743)
Additional paid in capital	132,354	117,000
Retained earnings	11,384	15,790
Accumulated other comprehensive income	1,114	933
Total shareholders' equity	175,234	163,912
Total liabilities and shareholders' equity	$ 2,361,405	$ 2,365,655

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)	Three months ended March 31, 2010	Restated 2009
Interest income:		
Interest and fees on loans	$ 25,244	$ 28,621
Interest on debt securities:		
Taxable	1,850	1,115
Nontaxable	10	7
Interest on federal funds sold	8	1
Interest on interest-bearing deposits	80	17
Dividends on equity securities	83	57
Total interest income	27,275	29,818
Interest expense:		
Interest-bearing transaction accounts	219	171
Money market accounts	1,393	1,511
Savings	8	9
Certificates of deposit:		
$100 and over	2,850	4,454
Other	1,785	1,691
Subordinated debentures	1,230	1,349
Federal Home Loan Bank advances	1,108	1,131
Notes payable and other borrowings	59	2,654
Total interest expense	8,652	12,970
Net interest income	18,623	16,848
Provision for loan losses	13,800	16,459
Net interest income after provision for loan losses	4,823	389
Noninterest income:		
Wealth Management revenue	1,297	1,207
Service charges on deposit accounts	1,174	1,295
Other service charges and fee income	278	222
Sale of other real estate	(12)	59
State tax credit activity, net	518	(46)
Sale of investment securities	557	316
Miscellaneous income	244	(221)
Total noninterest income	4,056	2,832
Noninterest expense:		
Employee compensation and benefits	6,598	6,274
Occupancy	1,173	1,097
Furniture and equipment	370	344
Data processing	578	521
FDIC insurance	848	632
Goodwill impairment charge	-	45,377
Loan legal and other real estate expense	1,272	1,234
Other	2,816	2,943
Total noninterest expense	13,655	57,918
Loss from continuing operations before income tax benefit	(4,776)	(54,697)
Income tax benefit	(1,762)	(2,850)
Loss from continuing operations	(3,014)	(51,847)
Income from discontinued operations before income tax expense	-	478
Income tax expense	-	118
Income from discontinued operations	-	360
Net loss	$ (3,014)	$ (51,487)

Net loss available to common shareholders	$	(3,626)	$	(52,086)
Basic (loss) earnings per common share:				
From continuing operations	$	(0.25)	$	(4.09)
From discontinued operations		-		0.03
Total	$	(0.25)	$	(4.06)
Diluted (loss) earnings per common share:				
From continuing operations	$	(0.25)	$	(4.09)
From discontinued operations		-		0.03
Total	$	(0.25)	$	(4.06)

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	Preferred	Common Stock	Treasury	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance December 31, 2009	$ 31,802	$ 130	$ (1,743)	$ 117,000	$ 15,790	$ 933	$ 163,912
Net loss	-	-	-	-	(3,014)	-	(3,014)
Change in fair value of available for sale securities, net of tax	-	-	-	-	-	577	577
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	-	-	-	-	-	(356)	(356)
Reclassification of cash flow hedge, net of tax	-	-	-	-	-	(40)	(40)
Total comprehensive loss							(2,833)
Cash dividends paid on common shares, $0.0525 per share	-	-	-	-	(781)	-	(781)
Cash dividends paid on preferred stock	-	-	-	-	(437)	-	(437)
Preferred stock accretion of discount	174	-	-	-	(174)	-	-
Issuance under equity compensation plans, net, 37,845 shares	-	-	-	258	-	-	258
Issuance under private stock offering 1,931,610 shares		19	-	14,883	-		14,902
Share-based compensation	-	-	-	473	-	-	473
Excess tax expense related to equity compensation plans	-	-	-	(260)	-	-	(260)
Balance March 31, 2010	$ 31,976	$ 149	$ (1,743)	$ 132,354	$ 11,384	$ 1,114	$ 175,234

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Loss (Unaudited)

(in thousands)	Three months ended March 31, 2010	Restated 2009
Net loss	$ (3,014)	$ (51,487)
Other comprehensive income:		
Unrealized gain on investment securities arising during the period, net of tax	577	457
Less reclassification adjustment for realized gain on sale of securities included in net income, net of tax	(356)	(202)
Reclassification of cash flow hedge, net of tax	(40)	(40)
Total other comprehensive income	181	215
Total comprehensive loss	$ (2,833)	$ (51,272)

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
		Restated
(in thousands)	2010	2009
Cash flows from operating activities:		
Net loss	$ (3,014)	$ (51,487)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	747	801
Provision for loan losses	13,800	16,459
Deferred income taxes	(5,616)	(6,025)
Net amortization of debt securities	804	154
Amortization of intangible assets	112	277
Gain on sale of investment securities	(557)	(316)
Mortgage loans originated	(11,306)	(29,922)
Proceeds from mortgage loans sold	13,989	29,678
Loss (gain) on sale of other real estate	12	(59)
(Gain) loss on state tax credits, net	(518)	46
Excess tax expense on additional share-based compensation from acquisition of Clayco	-	364
Excess tax expense (benefit) of share-based compensation	260	(27)
Share-based compensation	649	650
Goodwill impairment charge	-	45,377
Changes in:		
Accrued interest receivable and income tax receivable	4,782	4,080
Accrued interest payable and other liabilities	(1,565)	(1,211)
Prepaid FDIC insurance	760	-
Other, net	1,482	2,249
Net cash provided by operating activities	14,821	11,088
Cash flows from investing activities:		
Cash received from sale of Millennium Brokerage Group	4,000	-
Net decrease in loans	19,237	5,770
Proceeds from the sale/maturity/redemption/recoveries of:		
Debt and equity securities, available for sale	100,925	25,420
Other investments	1,418	-
State tax credits held for sale	2,661	570
Other real estate	3,541	1,223
Loans previously charged off	247	87
Payments for the purchase/origination of:		
Available for sale debt and equity securities	(85,535)	(40,165)
Other investments	(1,388)	(438)
Bank owned life insurance	(20,000)	-
State tax credits held for sale	(2,387)	(6,583)
Fixed assets	(98)	(194)
Net cash provided by (used in) investing activities	22,621	(14,310)
Cash flows from financing activities:		
Net increase (decrease) in noninterest-bearing deposit accounts	11,177	(8,912)
Net decrease in interest-bearing deposit accounts	(48,539)	(38,313)
Net proceeds from Federal Home Loan Bank advances	-	(18)
Net proceeds from federal funds purchased	-	55,000
Net increase in other borrowings	21,099	5,007
Cash dividends paid on common stock	(781)	(674)
Cash dividends paid on preferred stock	(437)	(272)
Excess tax expense on additional share-based compensation from acquisition of Clayco	-	(364)
Excess tax (expense) benefit of share-based compensation	(260)	27
Preferred stock issuance cost	-	(115)
Issuance of common stock	14,902	-
Proceeds from the exercise of common stock options	-	247

Net cash (used in) provided by financing activities		(2,839)		11,613
Net increase in cash and cash equivalents		34,603		8,391
Cash and cash equivalents, beginning of period		106,966		42,646
Cash and cash equivalents, end of period	$	141,569	$	51,037
Supplemental disclosures of cash flow information:				
Cash (received) paid during the period for:				
Interest	$	8,801	$	10,431
Income taxes		(57)		78
Noncash transactions:				
Transfer to other real estate owned in settlement of loans	$	5,701	$	978
Sales of other real estate financed		5,685		-

See accompanying notes to consolidated financial statements.

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

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, and its subsidiaries, all of which are wholly owned. 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.

On January 20, 2010, the Company sold its interest in Millennium Brokerage Group, LLC (“Millennium”) for $4.0 million in cash. In connection with the sale, the Company recorded a $1.6 million pre-tax loss from the sale of Millennium in the fourth quarter of 2009. As a result of the sale, Millennium financial results are reported as discontinued operations for all periods presented.

On December 11, 2009, Enterprise entered into an agreement with the Federal Deposit Insurance Corporation (“FDIC”) and acquired certain assets and assumed certain liabilities of Valley Capital Bank N.A. (“Valley Capital”), a full service community bank that was headquartered in Mesa, Arizona.

See Note 3 – Acquisitions and Divestitures for more information on the above transactions.

Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2010. 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, 2009. Certain reclassifications have been made to prior year balances to conform to the current year presentation and for the purchase accounting adjustments related to the acquisition of Valley Capital.

Loan Participations
During a review of loan participation agreements in the third quarter of 2009, the Company determined that certain of its loan participation agreements contained language inconsistent with sale accounting treatment. The agreements provided the Company with the unilateral ability to repurchase participated portions of loans at their outstanding loan balance plus accrued interest at any time, which conflicts with sale accounting treatment. As a result, rather than accounting for loans participated to other banks as sales, the Company should have recorded the participated portion of the loans as portfolio loans, and should have recorded secured borrowings from the participating banks to finance such loans. In order to correct the error, the Company recorded the participated portion of such loans as portfolio loans, along with a secured borrowing liability (included in Other borrowings in the consolidated balance sheets) to finance the loans. The Company also recorded incremental interest income on the loans offset by incremental interest expense on the secured borrowing. Additional provisions for loan losses and the related income tax effect were also recorded. The revision did not impact net cash provided by operating activities.

In the fourth quarter of 2009, the Company obtained amended agreements so that all of the Company’s loan participation agreements qualify for sale accounting treatment as of December 31, 2009.

The Company has corrected the error by restating the prior period consolidated financial statements. Accordingly, the consolidated statements of operations and comprehensive (loss) income for the period ended March 31, 2009 presented herein have been restated to correct the error. For further information, refer to Note 2 – Loan Participation Restatement in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

The effect of correcting these errors in the consolidated statement of operations for the three months ended March 31, 2009 is presented below.

	For the quarter ended March 31, 2009	
(in thousands, except per share data)	As reported	As restated
Statement of Operations:		
Total interest income	$ 27,326	$ 29,818
Total interest expense	10,475	12,970
Provision for loan losses	15,100	16,459
Income tax benefit	(2,243)	(2,850)
Net loss	(50,617)	(51,487)
Net loss available to common shareholders	(51,216)	(52,086)
Earnings per share:		
Basic loss per share	(3.99)	(4.06)
Diluted loss per share	(3.99)	(4.06)

NOTE 2—EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share data is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) 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 the issuance of trust preferred securities. The following table presents a summary of per common share data and amounts for the periods indicated.

	Three months ended March 31,	
		Restated
(in thousands, except per share data)	2010	2009
Net loss from continuing operations	$ (3,014)	$ (51,847)
Net income from discontinued operations	-	360
Net loss	(3,014)	(51,487)
Preferred stock dividend	(437)	(438)
Accretion of preferred stock discount	(175)	(161)
Net loss available to common shareholders	$ (3,626)	$ (52,086)
Weighted average common shares outstanding	14,418	12,828
Additional dilutive common stock equivalents	-	-
Diluted common shares outstanding	14,418	12,828
Basic (loss) earnings per common share:		
From continuing operations	$ (0.25)	$ (4.09)
From discontinued operations	-	0.03
Total	$ (0.25)	$ (4.06)
Diluted (loss) earnings per common share:		
From continuing operations	$ (0.25)	$ (4.09)
From discontinued operations	-	0.03
Total	$ (0.25)	$ (4.06)

For the three months ended March 31, 2010 and 2009, there were 2.3 million and 2.4 million of weighted average common stock equivalents excluded from the per share calculations because their effect was anti-dilutive. In addition, at March 31, 2010 and 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—ACQUISITIONS AND DIVESTITURES

Acquisition of Valley Capital

On December 11, 2009, Enterprise entered into a loss sharing agreement with the FDIC and acquired certain assets and assumed certain liabilities of Valley Capital, a full service community bank that was headquartered in Mesa, Arizona.

The loans and foreclosed assets purchased are covered by a loss sharing agreement between the FDIC and Enterprise. For further information on the loss sharing agreement, refer to Note 3 – Acquisitions and Divestitures in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Enterprise initially recorded the tangible assets and liabilities at their preliminary fair value of approximately $42.4 million, and $43.4 million respectively. Subsequent to the initial fair value estimate, additional information was obtained on the credit quality of certain loans and the valuation of Other real estate as of the acquisition date which resulted in adjustments to the initial fair value estimates. The fair value of the assets assumed and liabilities acquired may be adjusted up to one year from the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition and the impact of the fair value refinements.

(in thousands)	Preliminary December 31, 2009	Refinements	Adjusted December 31, 2009
Cash and cash equivalents	$ 3,542	$ -	$ 3,542
Federal funds sold	11,563	-	11,563
Other investments	59	-	59
Portfolio loans	14,730	(57)	14,673
Other real estate	3,455	(1,149)	2,306
FDIC indemnification asset	8,519	721	9,240
Other assets	567	(536)	31
Total deposits	(43,355)	-	(43,355)
Other liabilities	(33)	-	(33)
Goodwill	$ (953)	$ (1,021)	$ (1,974)

At March 31, 2010, the estimate of the cash flows expected to be received on the credit-impaired loans acquired in the Valley Capital acquisition was $9.6 million. The estimated fair value of the credit-impaired loans was $8.3 million, net of an accretable yield of $1.3 million. A majority of these loans were valued based on the liquidation value of the underlying collateral because the future cash flows are primarily based on the liquidation of underlying collateral.

At March 31, 2010, the estimate of the cash flows expected to be received on non-credit-impaired loans acquired in the Valley Capital acquisition was $8.2 million. The estimated fair value of the non-credit-impaired loans was $6.3 million, net of an accretable yield of $1.9 million.

During the first quarter of 2010, $250,000 was accreted into income from the credit-impaired and non-credit-impaired loans and $130,000 was accreted into income from the indemnification asset. At March 31, 2010, the remaining accretable difference for the loans was approximately $2.9 million and $426,000 for the indemnification asset.

NOTE 4—INVESTMENTS

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

	March 31, 2010			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government agencies	$ 25,376	$ 192	$ -	$ 25,568
Obligations of U.S. Government sponsored enterprises	43,501	80	(107)	43,474
Obligations of states and political subdivisions	6,327	11	(517)	5,821
Residential mortgage-backed securities	190,409	2,519	(622)	192,306
	$ 265,613	$ 2,802	$ (1,246)	$ 267,169

	December 31, 2009			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government agencies	$ 26,940	$ 249	$ -	$ 27,189
Obligations of U.S. Government sponsored enterprises	75,880	115	(181)	75,814
Obligations of states and political subdivisions	3,868	10	(471)	3,408
Residential mortgage-backed securities	174,562	1,960	(471)	176,050
	$ 281,250	$ 2,334	$ (1,123)	$ 282,461

At March 31, 2010 and December 31, 2009, there were no holdings of securities of any one issuer, other than the U.S. government agencies and sponsored enterprises, in an amount greater than 10% of shareholders' equity. The residential mortgage-backed securities are all issued by U.S. government sponsored enterprises. Available for sale securities having a carrying value of $101.8 million and $66.0 million at March 31, 2010 and December 31, 2009, 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 March 31, 2010, 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.

(in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 24,321	$ 24,398
Due after one year through five years	27,304	27,436
Due after five years through ten years	8,127	7,903
Due after ten years	15,452	15,126
Mortgage-backed securities	190,409	192,306
	$ 265,613	$ 267,169

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

	March 31, 2010					
	Less than 12 months		12 months or more		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government sponsored agencies	$ 16,853	$ 107	$ -	$ -	$ 16,853	$ 107
Obligations of the state and political subdivisions	3,776	517	-	-	3,776	517
Residential mortgage-backed securities	73,838	622	-	-	73,838	622
	$ 94,466	$ 1,246	$ -	$ -	$ 94,466	$ 1,246

	December 31, 2009					
	Less than 12 months		12 months or more		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government sponsored agencies	$ 29,557	$ 181	$ -	$ -	$ 29,557	$ 181
Obligations of the state and political subdivisions	2,830	471	-	-	2,830	471
Residential mortgage-backed securities	74,625	471	-	-	74,625	471
	$ 107,012	$ 1,123	$ -	$ -	$ 107,012	$ 1,123

The unrealized losses at both March 31, 2010 and December 31, 2009, 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) the present value of the cash flows expected to be collected compared to the amortized cost of the security, (2) duration and magnitude of the decline in value, (3) the financial condition of the issuer or issuers, (4) structure of the security and (5) the intent to sell the security or whether its more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. At March 31, 2010, 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 investment securities were as follows:

NOTE 5—GOODWILL AND INTANGIBLE ASSETS

Goodwill is tested for impairment annually and more frequently if events or changes in circumstances indicate that the asset might be impaired. At March 31, 2009, the Company recorded an impairment charge of $45.4 million. 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.

At March 31, 2010 and December 31, 2009, the Company's Banking segment had $2.0 million of Goodwill from the acquisition of Valley Capital.

The table below summarizes the changes to intangible asset balances. Core deposit intangibles are related to the Banking reporting unit.

(in thousands)	Core Deposit Intangible
Balance at December 31, 2009	$ 1,643
Amortization expense	(112)
Balance at March 31, 2010	$ 1,531

The following table reflects the expected amortization schedule for the core deposit intangibles.

Year	Core Deposit Intangible
2010	$ 307
2011	358
2012	296
2013	234
2014	172
After 2014	164
	$ 1,531

NOTE 6—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 March 31, 2010, no amounts have been accrued for any estimated losses for these financial instruments.

The contractual amount of off-balance-sheet financial instruments as of March 31, 2010 and December 31, 2009 are as follows:

(in thousands)	March 31, 2010	December 31, 2009
Commitments to extend credit	$ 394,942	$ 457,777
Standby letters of credit	32,219	32,263

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 March 31, 2010 and December 31, 2009, approximately $50.1 million and $84.3 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 March 31, 2010.

At March 31, 2010, there were $413,000 of unadvanced commitments on impaired loans.

NOTE 7—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 fair 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.

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. At March 31, 2010, the Company did not have any derivatives designated as cash flow or fair value hedges.

Using derivative instruments means assuming counterparty credit risk. Counterparty credit risk relates to the loss the Company 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. The overall credit risk and exposure to individual counterparties is monitored. The Company does not anticipate nonperformance by any counterparties. The amount of counterparty credit exposure is the unrealized gains, if any, on such derivative contracts. At March 31, 2010 and December 31, 2009, Enterprise had pledged cash of $2.2 million and $1.5 million, respectively, as collateral in connection with interest rate swap agreements. At March 31, 2010, we had accepted, as collateral in connection with our interest rate swap agreements, pledged securities of $2.5 million.

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 paid $2.1 million to enter into a series of interest rate caps in order to economically hedge changes in fair value of the State tax credits held for sale. In February 2010, the Company paid $750,000 for an additional series of interest rate caps. See Note 9—Fair Value Measurements for further discussion of the fair value of the state tax credits.

- Economic hedge of prime based loans. Previously, the Company had two outstanding interest rate swap agreements whereby Enterprise paid a variable rate of interest equivalent to the prime rate and received a fixed rate of interest. The interest rate swaps had notional values of $40.0 million each and Enterprise received fixed rates of 4.81% and 4.25%, respectively. The swaps were designed to hedge the cash flows associated with a portion of prime based loans. 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 swaps 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 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 March 31, 2010, the amount remaining in Accumulated other comprehensive income was $219,000. For the three months ended March 31, 2010 and 2009, $62,000 was reclassified into Miscellaneous income. The Company expects to reclassify $201,000 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.

(in thousands)	Notional Amount		Asset Derivatives (Other Assets) Fair Value		Liability Derivatives (Other Liabilities) Fair Value	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Non-designated hedging instruments						
Interest rate cap contracts	$ 348,550	$ 84,050	$ 1,304	$ 1,117	$ -	$ -

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 months ended March 31, 2010 and 2009.

(in thousands)	Location of Gain or (Loss) Recognized in Operations on Derivative	Amount of Gain or (Loss) Recognized in Operations on Derivative 2010	2009
Non-designated hedging instruments			
Interest rate cap contracts	State tax credit activity, net	$ (565)	$ (84)
Interest rate swap contracts	Miscellaneous income	$ 62	$ (468)

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. During the first quarter of 2010, the Company entered into two new client-related interest rate swaps with notional values of $40.0 million each. The table below summarizes the notional amounts and fair values of the client-related derivative instruments.

(in thousands)	Notional Amount		Asset Derivatives (Other Assets) Fair Value		Liability Derivatives (Other Liabilities) Fair Value	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Non-designated hedging instruments						
Interest rate swap contracts	$ 109,966	$ 30,279	$ 685	$ 120	$ 1,774	$ 1,105

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 months ended March 31, 2010 and 2009.

(in thousands)	Location of Gain or (Loss) Recognized in Operations on Derivative	Amount of Gain or (Loss) Recognized in Operations on Derivative 2010	2009
Non-designated hedging instruments			
Interest rate swap contracts	Interest and fees on loans	$ (154)	$ (177)

NOTE 8—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, 2009. There were no stock options, stock-settled stock appreciation rights, or restricted stock units granted in the first three months of 2010. The share-based compensation expense was $649,000 and $650,000 for the three months ended March 31, 2010 and 2009, respectively.

Employee Stock Options and Stock-settled Stock Appreciation Rights ("SSAR")
At March 31, 2010, there was $9,000 and $1.8 million of total unrecognized compensation costs related to stock options and SSAR's, respectively, which is expected to be recognized over weighted average periods of 0.75 and 2.4 years, respectively. Following is a summary of the employee stock option and SSAR activity for the first three months of 2010.

(Dollars in thousands, except share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	803,735	$ 16.77		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Outstanding at March 31, 2010	803,735	$ 16.77	5.2 years	$ -
Exercisable at March 31, 2010	561,955	$ 15.25	4.0 years	$ -
Vested and expected to vest at March 31, 2010	741,721	$ 16.17	5.2 years	$ -

Restricted Stock Units ("RSU")
At March 31, 2010, there was $1.6 million of total unrecognized compensation costs related to the RSU's, which is expected to be recognized over a weighted average period of 2.0 years. A summary of the Company's restricted stock unit activity for the first three months of 2010 is presented below.

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2009	78,150	$ 23.05
Granted	-	-
Vested	-	-
Forfeited	(168)	21.40
Outstanding at March 31, 2010	77,982	$ 23.05

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 $143,000 and $98,000 of share-based compensation expense for the directors for the three months ended March 31, 2010 and 2009, respectively. Pursuant to this plan, the Company issued 15,491 and 8,007 shares in the first three months of 2010 and 2009, respectively.

Employee Stock Issuance
Restricted stock was granted to certain key employees as part of their compensation. The restricted stock may be in a form of a one-time award or in paid pro-rata installments. The stock is restricted for 2 years and upon issuance may be fully vested or vest over five years. For the three months ended March 31, 2010, the Company recognized $33,000 of share-based compensation related to these awards and issued 8,694 shares.

In conjunction with the Company's short-term incentive plan, in February 2010, the Company issued 13,660 restricted shares to certain key employees. The compensation expense related to these shares was expensed in 2009. For further information on the short-term incentive plan, refer to the Compensation Discussion and Analysis in the Company's Proxy Statement for the 2010 annual meeting.

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 2010 or 2009. Following is a summary of the Moneta stock option activity for the first three months of 2010.

(Dollars in thousands, except share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	29,346	$ 14.10		
Granted	-	-		
Exercised	-	-		
Forfeited	(3,241)	18.25		
Outstanding at March 31, 2010	26,105	$ 13.58	1.9 years	$ -
Exercisable at March 31, 2010	26,105	$ 13.58	1.9 years	$ -

NOTE 9—FAIR VALUE MEASUREMENTS

Below is a description of certain assets and liabilities measured at fair value.

The following table summarizes financial instruments measured at fair value on a recurring basis as of March 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

(in thousands)	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				
Obligations of U.S. Government agencies	$ -	$ 25,568		$ 25,568
Obligations of U.S. Government sponsored enterprises	-	43,474		43,474
Obligations of states and political subdivisions	-	2,887	2,934	5,821
Residential mortgage-backed securities	-	192,306	-	192,306
Total securities available for sale	$ -	$ 264,235	$ 2,934	$ 267,169
Portfolio loans	-	17,015	-	17,015
State tax credits held for sale	-	-	31,760	31,760
Derivative financial instruments	-	1,989	-	1,989
Total assets	$ -	$ 283,239	$ 34,694	$ 317,933
Liabilities				
Derivative financial instruments	$ -	$ 1,774	$ -	$ 1,774
Total liabilities	$ -	$ 1,774	$ -	$ 1,774

- Securities available for sale. Securities classified as available for sale are reported at fair value utilizing Level 2 and Level 3 inputs. The Company obtains fair value measurements 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. Through March 31, 2010, Level 3 securities available for sale include three Auction Rate Securities.

- Portfolio Loans. Certain fixed rate portfolio loans are accounted for as trading instruments and reported at fair value. Fair value on these loans is determined using a third party valuation model with observable Level 2 market data inputs.

- State tax credits held for sale. At March 31, 2010, of the $52.1 million of state tax credits held for sale on the consolidated balance sheet, approximately $31.8 million were carried at fair value. The remaining $20.3 million of state tax credits were accounted for at cost. The Company elected not to account for state tax credits purchased in the first three months of 2010 at fair value in order to limit the volatility of the fair value changes in our consolidated statements of operations.

The fair value of the state tax credits carried at fair value increased by $308,000 in the first three months of 2010 compared to a $533,000 million decrease in the first three months of 2009. These fair value changes are included in State tax credit activity, net in the consolidated statements of operations.

The Company is not aware of an active market that exists for the 10-year streams of state tax credit financial instruments. However, the Company's principal market for these tax credits consists of state residents who buy these credits and from local and regional accounting firms who broker them. As such, the Company employed a discounted cash flow analysis (income approach) to determine the fair value.

The fair value measurement is calculated using an internal valuation model with observable market data including discounted cash flows based upon the terms and conditions of the tax credits. Assuming that the underlying project remains in compliance with the various federal and state rules governing the tax credit program, each project will generate about 10 years of tax credits. The inputs to the fair value calculation include: the amount of tax credits generated each year, the anticipated sale price of the tax credit, the timing of the sale and a discount rate. The discount rate is defined as the LIBOR swap curve at a point equal to the remaining life in years of credits plus a 205 basis point spread. With the exception of the discount rate, the other inputs to the fair value calculation are observable and readily available. The discount rate is considered a Level 3 input because it is an "unobservable input" and is based on the Company's assumptions. Given the significance of this input to the fair value calculation, the state tax credit assets are reported as Level 3 assets.

- Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains counterparty quotations to value its interest rate swaps and caps. In addition, the Company validates the counterparty quotations with third party valuation sources. Derivatives with negative fair values are included in Other liabilities in the consolidated balance sheets. Derivatives with positive fair value are included in Other assets in the consolidated balance sheets.

The following table presents the changes in Level 3 financial instruments measured at fair value on a recurring basis as of March 31, 2010.

(in thousands)	Securities available for sale, at fair value	State tax credits held for sale
Balance at December 31, 2009	$ 2,830	$ 32,485
Total gains or losses (realized and unrealized):		
Included in earnings	-	652
Included in other comprehensive income	4	-
Purchases, sales, issuances and settlements, net	100	(1,377)
Transfer in and/or out of Level 3		