ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
November 06, 2009

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 September 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 [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 November 4, 2009, the Registrant had 12,833,777 shares of outstanding common stock.

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

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share data)	At September 30, 2009	At December 31, 2008
Assets		
Cash and due from banks	$ 12,519	$ 25,626
Federal funds sold	1,771	2,637
Interest-bearing deposits	82,651	14,384
Total cash and cash equivalents	96,941	42,647
Securities available for sale	197,521	96,431

Other investments, at cost	13,548	11,884
Loans held for sale	2,130	2,632
Portfolio loans	2,113,365	2,201,457
Less: Allowance for loan losses	45,019	33,808
Portfolio loans, net	2,068,346	2,167,649
Other real estate	19,273	13,868
Fixed assets, net	23,042	25,158
Accrued interest receivable	7,894	7,557
State tax credits, held for sale, including $36,569 and $39,142 carried at fair value, respectively	47,950	39,142
Goodwill	3,134	48,512
Intangibles, net	2,691	3,504
Other assets	36,155	34,783
Total assets	$ 2,518,625	$ 2,493,767
Liabilities and Shareholders' Equity		
Deposits:		
Demand deposits	$ 257,901	$ 247,361
Interest-bearing transaction accounts	121,935	126,644
Money market accounts	626,775	702,886
Savings	8,832	7,826
Certificates of deposit:		
$100k and over	488,334	520,197
Other	349,854	187,870
Total deposits	1,853,631	1,792,784
Subordinated debentures	85,081	85,081
Federal Home Loan Bank advances	139,001	119,957
Other borrowings	265,109	272,969
Accrued interest payable	2,403	2,473
Other liabilities	6,729	5,931
Total liabilities	2,351,954	2,279,195
Shareholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; 35,000 shares issued and outstanding	31,631	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	116,536	115,112
Retained earnings	17,926	68,710
Accumulated other comprehensive income	2,192	1,248
Total shareholders' equity	166,671	214,572
Total liabilities and shareholders' equity	$ 2,518,625	$ 2,493,767

See accompanying notes to consolidated financial statements.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2009	2008	2009	2008
Interest income:				

Interest and fees on loans	$ 28,750	$ 30,025	$ 86,420	$ 91,342
Interest on debt securities:				
Taxable	1,421	1,248	3,738	3,536
Nontaxable	5	7	18	23
Interest on federal funds sold	2	21	4	200
Interest on interest-bearing deposits	33	9	67	51
Dividends on equity securities	105	145	233	417
Total interest income	30,316	31,455	90,480	95,569
Interest expense:				
Interest-bearing transaction accounts	165	359	507	1,301
Money market accounts	1,535	3,165	4,558	11,288
Savings	9	11	27	47
Certificates of deposit:				
$100 and over	3,837	4,757	12,217	13,137
Other	2,055	1,472	5,765	4,807
Subordinated debentures	1,267	805	3,928	2,551
Federal Home Loan Bank advances	1,250	1,759	3,568	5,288
Notes payable and other borrowings	2,813	2,543	8,176	7,624
Total interest expense	12,931	14,871	38,746	46,043
Net interest income	17,385	16,584	51,734	49,526
Provision for loan losses	6,480	3,007	32,012	10,214
Net interest income after provision for loan losses	10,905	13,577	19,722	39,312
Noninterest income:				
Wealth Management revenue	2,010	2,640	7,530	7,905
Service charges on deposit accounts	1,247	1,102	3,791	3,241
Other service charges and fee income	242	245	714	746
Sale of branches/charter	-	2,840	-	3,400
Sale of other real estate	86	242	143	584
State tax credit activity, net	910	593	973	1,577
Sale of investment securities	-	-	952	73
Extinguishment of debt	5,326	-	5,326	-
Miscellaneous income (loss)	127	(22)	231	95
Total noninterest income	9,948	7,640	19,660	17,621
Noninterest expense:				
Employee compensation and benefits	7,417	7,792	21,762	23,706
Occupancy	1,291	1,100	3,719	3,160
Furniture and equipment	397	346	1,120	1,065
Data processing	548	562	1,594	1,647
Amortization of intangibles	264	348	813	1,102
Goodwill impairment charge	-	5,900	45,377	5,900
Loan legal and other real estate expense	1,098	171	3,520	670
Other	2,964	2,914	10,899	8,439
Total noninterest expense	13,979	19,133	88,804	45,689
Income (loss) before income tax expense (benefit)	6,874	2,084	(49,422)	11,244
Income tax expense (benefit)	2,187	882	(2,321)	4,055
Net income (loss)	$ 4,687	$ 1,202	$ (47,101)	$ 7,189
Net income (loss) available to common shareholders	$ 4,082	$ 1,202	$ (48,907)	$ 7,189
Earnings (loss) per common share:				
Basic	$ 0.32	$ 0.09	$ (3.81)	$ 0.57
Diluted	$ 0.31	$ 0.09	$ (3.81)	$ 0.56

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	Reta earn
Balance December 31, 2008	$ 31,116	$ 129	$ (1,743)	$ 115,112	$
Net loss	-	-	-	-	(
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					
Cash dividends paid on common shares, $0.1575 per share	-	-	-	-	
Cash dividends paid on preferred stock	-	-	-	-	
Preferred stock amortization of discount and issuance cost	515	-	-	(130)	
Issuance under equity compensation plans, net, 32,796 shares	-	-	-	362	
Share-based compensation	-	-	-	1,529	
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 September 30, 2009	$ 31,631	$ 129	$ (1,743)	$ 116,536	$

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(in thousands)	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Net income (loss)	$ 4,687	$ 1,202	$ (47,101)	$ 7,189
Other comprehensive income:				
Unrealized gain (loss) on investment securities arising during the period, net of tax	1,181	228	1,672	212
Less reclassification adjustment for realized gain on sale of securities included in net income, net of tax	-	-	(609)	-
Reclassification of cash flow hedge, net of tax	(40)	-	(119)	(47)
Total other comprehensive income	1,141	228	944	165
Total comprehensive income (loss)	$ 5,828	$ 1,430	$ (46,157)	$ 7,354

See accompanying notes to consolidated financial statements.

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

(in thousands)	Nine months ended Septe 2009	2
Cash flows from operating activities:		
Net (loss) income	$ (47,101)	$
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation	2,688	
Provision for loan losses	32,012	
Deferred income taxes	(2,692)	
Net amortization of debt securities	740	
Amortization of intangible assets	813	
Gain on sale of investment securities	(952)	

Mortgage loans originated	(72,098)
Proceeds from mortgage loans sold	72,080
Gain on sale of other real estate	(143)
Gain on state tax credits, net	(973)
Excess tax expense on additional share-based compensation from acquisition of Clayco	364
Excess tax benefits of share-based compensation	(27)
Share-based compensation	1,529
Gain on sale of branches/charter	-
Goodwill impairment charge	45,377
Changes in:	
Accrued interest receivable and income tax receivable	543
Accrued interest payable and other liabilities	(414)
Other, net	3,047
Net cash provided by operating activities	34,793
Cash flows from investing activities:	
Cash paid in sale of branch/charter, net of cash and cash equivalents received	-
Net decrease (increase) in loans	48,583
Proceeds from the sale/maturity/redemption/recoveries of:	
Debt and equity securities, available for sale	72,323
Other investments	-
State tax credits held for sale	3,349
Other real estate	11,750
Loans previously charged off	607
Payments for the purchase/origination of:	
Available for sale debt and equity securities	(171,820)
Other investments	(1,896)
State tax credits held for sale	(11,752)
Fixed assets	(401)
Net cash used in investing activities	(49,257)
Cash flows from financing activities:	
Net increase (decrease) in noninterest-bearing deposit accounts	10,540
Net increase in interest-bearing deposit accounts	50,307
Proceeds from issuance of subordinated debentures	-
Net proceeds from Federal Home Loan Bank advances	19,044
Net proceeds from federal funds purchased	(19,400)
Net increase in other borrowings	11,540
Net proceeds from notes payable	-
Cash dividends paid on common stock	(2,021)
Excess tax expense on additional share-based compensation from acquisition of Clayco	(364)
Excess tax benefits of share-based compensation	27
Cash dividends paid on preferred stock	(1,147)
Preferred stock issuance cost	(130)
Proceeds from the exercise of common stock options	362
Net cash provided by financing activities	68,758
Net increase (decrease) in cash and cash equivalents	54,294
Cash and cash equivalents, beginning of period	42,647
Cash and cash equivalents, end of period	$ 96,941
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$ 38,816
Income taxes	360
Noncash transactions:	
Transfer to other real estate owned in settlement of loans	22,378
Sales of other real estate financed	4,277

See accompanying notes to consolidated financial statements.

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

NOTE 1SUMMARY 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 serving life agents, banks, CPA firms, property and casualty groups, and financial advisors in 49 states.

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 and Millennium. 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.

The Company has evaluated all subsequent events through November 6, 2009 (the date the Companys third quarter Form 10Q was issued).

Operating results for the three and nine months ended September 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 Companys 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.

Income Taxes

Historically, the Company has recorded its income tax provision or benefit in interim periods based on an estimated annual effective tax rate. However, 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. In the third quarter of 2009, the Company concluded that minor changes in the Companys 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 2009 could differ significantly from the effective tax rate for the first nine months 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 recognizes 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.

Loan Participations

During a review of loan participation agreements, 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. In effect, the repurchase right afforded the Company with effective control over the participated portion of the loan, 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. Management reviewed the impact of this accounting treatment and concluded that the errors were immaterial to the previously reported amounts contained in its periodic reports. 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. As of September 30, 2009, the Company had $229.0 million of participated loans recorded in Portfolio loans and $229.0 million recorded in Other borrowings in the consolidated balance sheet.

The Company has corrected the error by revising the prior period consolidated financial statements. Accordingly, the consolidated statements of operations and consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2008, the consolidated statement of cash flows for the nine months ended September 30, 2008, the consolidated statement of shareholders equity as of December 31, 2008, and the December 31, 2008 consolidated balance sheet presented herein have been revised to correct for the error.

The effect of correcting these errors in the consolidated statement of operations for the three and nine months ended September 30, 2008 is presented below.

	For the quarter ended September 30, 2008		**For the nine months ended** September 30, 2008	
(In thousands, except per share data)	As reported	As revised	As reported	As revised
Income Statement				
Total interest income	$ 29,289	$ 31,455	$ 88,818	$ 95,569
Total interest expense	12,705	14,871	39,293	46,043
Provision for loan losses	2,825	3,007	8,350	10,214
Income tax expense	948	882	4,726	4,055
Net income	1,319	1,202	8,382	7,189
Net income available to common shareholders	1,319	1,202	8,382	7,189
Earnings per share:				
Basic earnings per share	0.10	0.09	0.67	0.57
Diluted earnings per share	0.10	0.09	0.66	0.56

The effect of correcting these errors in the consolidated balance sheet at December 31, 2008 is included in the following table (in thousands):

	As reported	As revised
Portfolio loans	$ 1,977,175	$ 2,201,457
Allowance for loan losses	31,309	33,808
Other assets	32,973	36,155
Total assets	2,270,174	2,493,767
Loan participations (included in Other Borrowings)	-	226,809
Total liabilities	2,052,386	2,279,195
Shareholders' equity	217,788	214,572

The effect of correcting these errors in the consolidated statement of cash flows for the nine months ended September 30, 2008 is presented below (in thousands):

	As reported	As revised
Net decrease (increase) in loans	$ (323,568)	$ (360,537)
Net increase in other borrowings	7,953	46,762

Under the terms of the agreements, the participating banks absorb credit losses, if any, on the participated portion of the loan. However, as secured borrowings on the Company□s consolidated financial statements, any reduction of the liability to the participating bank reflecting the participated bank□s portion of the credit loss is recorded only upon legal defeasance of such liability as a component of the gain or loss on extinguishment. During the third quarter of 2009, the Company recorded a $5.3 million pre-tax gain from the extinguishment of debt resulting from the foreclosure of the collateral on one of its participated loans.

In October 2009 the Company obtained amended agreements from substantially all of the participating banks that comply with sale accounting treatment. Upon amendment of each agreement, the Company will derecognize the participated loans, net of the allowance for losses, and the related liability from its consolidated balance sheet, and expects to recognize an additional gain from the extinguishment of debt of approximately $1.1 million in the fourth quarter of 2009.

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 September 30,		Nine months e
(in thousands, except per share data)	2009	2008	2009
Net income (loss)	$ 4,687	$ 1,202	$ (47,101)
Preferred stock dividend	(438)	-	(1,313)
Amortization of preferred stock discount	(167)	-	(493)
Net income (loss) available to common shareholders	4,082	1,202	(48,907)
Impact of assumed conversions			
Interest on 9% convertible trust preferred securities, net of income tax	371	-	-
Net income (loss) available to common shareholders and assumed conversions	$ 4,453	$ 1,202	$ (48,907)
Weighted average common shares outstanding	12,834	12,664	12,832
Incremental shares from assumed conversions of convertible trust preferred securities	1,439	-	-
Additional dilutive common stock equivalents	4	153	-
Diluted common shares outstanding	14,277	12,817	12,832
Basic earnings (loss) per common share	$ 0.32	$ 0.09	$ (3.81)
Diluted earnings (loss) per common share	$ 0.31	$ 0.09	$ (3.81)

For the three months ended September 30, 2009 and 2008, there were 873,000 and 488,000 of weighted average common stock equivalents excluded from the per share calculations because their effect was anti-dilutive. For the nine months ended September 30, 2009 and 2008, there were 2.3 million and 338,000 of weighted average common stock equivalents excluded from the per share calculation because their effect was anti-dilutive. In addition, at September 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:

	September 30, 2009			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government agencies	$ 23,167	$ 354	$ -	$ 23,521
Obligations of U.S. Government sponsored enterprises	37,604	125	-	37,729
Obligations of states and political subdivisions	569	12	-	581
Residential mortgage-backed securities	133,221	2,496	(27)	135,690
	$ 194,561	$ 2,987	$ (27)	$ 197,521

	December 31, 2008			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	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 September 30, 2009 and December 31, 2008, there were no holdings of securities of any one issuer, other than the government agencies and sponsored enterprises, in an amount greater than 10% of shareholders equity. Available for sale securities having a carrying value of $64.0 million and $73.0 million at September 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 September 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.

(in thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 21,818	$ 21,906
Due from one to five years	38,055	38,424
Due from five to ten years	1,467	1,501
Due after ten years	-	-
Mortgage-backed securities	133,221	135,690
Total	$ 194,561	$ 197,521

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

	September 30, 2009					
	Less than 12 months		12 months or more		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	$ 5,284	$ 27	$ -	$ -	$ 5,284	$ 27

	December 31, 2008					
	Less than 12 months		12 months or more		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unr Lo
Residential mortgage-backed securities	$ 21,709	$ 144	$ 628	$ 3	$ 22,337	$

The unrealized losses at both September 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 its more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. At September 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 nine months ended September 30, 2009 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2009	2008	2009	2008
Gross gains realized	$ -	$ -	$ 952	$ 138
Gross losses realized	-	-	-	65
Net gains realized	$ -	$ -	$ 952	$ 73

NOTE 4—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. Historically the Banking reporting unit was 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.

In 2008, goodwill impairment charges and customer related intangible charges of $8.7 million and $500,000, respectively, for Millennium were recorded.

The Millennium reporting unit was tested for impairment at September 30, 2009. The goodwill evaluation did not identify any impairment.

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

	Reporting Unit		
(in thousands)	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 September 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.

(in thousands)	Customer and Trade Name Intangibles	Core Deposit Intangible	Net Intangible
Balance at December 31, 2008	$ 1,379	$ 2,125	$ 3,504
Amortization expense	(446)	(367)	(813)
Balance at September 30, 2009	$ 933	$ 1,758	$ 2,691

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

Year	Customer and Trade Name Intangibles	Core Deposit Intangible	Total Intangibles
Remaining 2009	$ 150	$ 115	$ 265
2010	595	420	1,015
2011	13	358	371
2012	13	296	309
2013	13	234	247
After 2013	149	335	484
	$ 933	$ 1,758	$ 2,691

NOTE 5DISCLOSURES 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 Companys 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 September 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 September 30, 2009 and December 31, 2008 are as follows:

(in thousands)	September 30, 2009	December 31, 2008
Commitments to extend credit	$ 467,968	$ 555,361
Standby letters of credit	32,103	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 September 30, 2009 and

December 31, 2008, approximately $97.0 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 September 30, 2009.

NOTE 6—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 September 30, 2009, 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 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 September 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 September 30, 2009, the amount remaining in Accumulated other comprehensive income was $298,000. For the three and nine months ended September 30, 2009, $62,000 and $186,000, 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.

(in thousands)	Notional Amount September 30, 2009	Notional Amount December 31, 2008	Asset Derivatives Fair Value September 30, 2009	Asset Derivatives Fair Value December 31, 2008	Liability Derivatives Fair Value September 30, 2009	Liability Derivatives Fair Value Decem 31, 200
Non-designated hedging instruments						
Interest rate option contracts	$ 188,050	$ 188,050	$ 1,008	$ 544	$ -	$
Cash flow hedging instruments						
Interest rate swap contracts	$ -	$ 80,000	$ -	$ 1,291	$ -	$

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 nine months ended September 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 September 30, 2009	2008	Amount of Gain or (Loss) Recognized in Operations on Derivative Nine months ended September 30, 2009	2008
Non-designated hedging instruments					
Interest rate cap contracts	State tax credit activity, net	$ (188)	$ -	$ 464	$ -
Interest rate swap contracts	Miscellaneous income (loss)	$ 62	$ -	$ (344)	$ -

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 September 30, 2009	Notional Amount December 31, 2008	Asset Derivatives Fair Value September 30, 2009	Asset Derivatives Fair Value December 31, 2008	Liability Derivatives Fair Value September 30, 2009	Liability Derivatives Fair Value December 31, 2008
Non-designated hedging instruments						
Interest rate swap contracts	$ 30,586	$ 17,429	$ 114	$ -	$ 1,225	$ 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 nine months ended September 30, 2009 and 2008.

	Location of Gain or (Loss) Recognized in Operations on	Amount of Gain or (Loss) Recognized in Operations on	Amount of Gain or (Loss) Recognized in Operations

		Derivative		on	
		Three months ended September 30,		Derivative Nine months ended September 30,	
(in thousands)	Derivative	2009	2008	2009	2008
Non-designated hedging instruments					
Interest rate swap contracts	Interest and fees on loans	$ (136)	$ (82)	$ (425)	$ 172

NOTE 7SHARE-BASED COMPENSATION PLANS

The Company maintains a number of share-based incentive programs, which are discussed in more detail in Note 17 of the Companys 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 nine months of 2009. The share-based compensation expense was $494,000 and $1.6 million for the three and nine months ended September 30, 2009, respectively. The share-based compensation expense was $631,000 and $1.5 million for the three and nine months ended September 30, 2008, respectively.

Employee Stock Options and Stock-settled Stock Appreciation Rights (SSAR)
At September 30, 2009, there was $26,000 and $2.2 million of total unrecognized compensation costs related to stock options and SSARs, respectively, which is expected to be recognized over weighted average periods of 1.1 and 2.9 years, respectively. Following is a summary of the employee stock option and SSAR activity for the first nine months of 2009.

(Dollars in thousands, except share data)	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	(28,236)	22.82		
Outstanding at September 30, 2009	797,735	$ 16.84	5.7 years	$ -
Exercisable at September 30, 2009	512,892	$ 14.55	4.1 years	$ -
Vested and expected to vest at September 30, 2009	735,721	$ 16.24	5.7 years	$ -

Restricted Stock Units (RSU)
At September 30, 2009, there was $2.2 million of total unrecognized compensation costs related to the RSUs, which is expected to be recognized over a weighted average period of 2.4 years. A summary of the Company's restricted stock unit activity for the first nine 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	(17,879)	23.33
Outstanding at September 30, 2009	132,579	$ 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 $0 and $105,000 of stock-based compensation expense for the directors for the three and nine months ended September 30, 2009, respectively. The Company recognized $0 and $97,000 of stock-based compensation expense for the directors for the three and nine months ended September 30, 2008, respectively. Pursuant to this plan, the Company issued 8,829 and 4,434 shares in the first nine 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 nine months of 2009.

(Dollars in thousands, except share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2008	91,001	$ 13.55		
Granted	-	-		
Exercised	(22,462)	10.33		
Forfeited	(39,193)	14.98		
Outstanding at September 30, 2009	29,346	$ 14.10	2.2 years	$ -
Exercisable at September 30, 2009	29,346	$ 14.10	2.2 years	$ -

NOTE 8FAIR VALUE MEASUREMENTS

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

State tax credits held for sale. At September 30, 2009, of the $48.0 million of state tax credits held for sale on the consolidated balance sheet, approximately $36.6 million were carried at fair value. The remaining $11.4 million of state tax credits were accounted for at cost. The Company elected not to account for the state tax credits purchased in the first nine months of 2009 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 decreased by $280,000 in the first nine months of 2009 compared to a $1.2 million increase in the first nine 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 September 30, 2009, 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	$ -	$ 197,521	$ -	$ 197,521

State tax credits held for sale		-		-		36,569		36,569
Derivative financial instruments		-		1,122		-		1,122
Portfolio loans		-		17,658		-		17,658
Total assets	$	-	$	216,301	$	36,569	$	252,870
Liabilities								
Derivative financial instruments	$	-	$	1,225	$	-	$	1,225
Total liabilities	$	-	$	1,225	$	-	$	1,225

The following table presents the changes in Level 3 financial instruments measured at fair value on a recurring basis as of September 30, 2009.

(in thousands)		State tax credits held for sale
Balance at December 31, 2008	$	39,142
Total gains or losses (realized and unrealized):		
Included in earnings		509
Included in other comprehensive income		-
Purchases, sales, issuances and settlements, net		(3,082)
Transfer in and/or out of Level 3		-
Balance at September 30, 2009	$	36,569
Change in unrealized gains or losses relating to assets still held at the reporting date	$	(280)

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 fair 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 September 30, 2009.

(in thousands)		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) for the nine months ended September 30, 2009
Loans held for sale	$	-	$	-	$	-	$	-	$	-
Impaired loans		11,070		-		11,070		-		(21,408)
Other real estate		5,791		-		5,791		-		(1,802)
Long-lived assets held and used		-		-		-		-		-
Goodwill		-		-		-		-		(45,377)
Total	$	16,861	$	-	$	16,861	$	-	$	(68,587)

Impaired loans are reported at the fair value of the underlying collateral. Fair values for impaired loans are obtained from current appraisals by qualified licensed appraisers or independent valuation specialists. Other real estate owned is adjusted to fair value upon foreclosure of the underlying loan. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value of other real estate is based upon the current appraised values of the properties as determined by qualified licensed appraisers.

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

	September 30, 2009		December 31, 2008	
(in thousands)	Carrying Amount	Estimated fair value	Carrying Amount	Estimated fair value
Balance sheet assets				
Cash and due from banks	$ 12,519	$ 12,519	$ 25,626	$ 25,626
Federal funds sold	1,771	1,771	2,637	2,637
Interest-bearing deposits	82,651	82,651	14,384	14,384
Securities available for sale	197,521	197,521	96,431	96,431
Other investments	13,548	13,548	11,884	11,884
Loans held for sale	2,130	2,130	2,632	2,632
Derivative financial instruments	1,121	1,121	1,835	1,835
Portfolio loans, net	2,068,346	2,076,572	2,167,649	2,212,966
State tax credits, held for sale	47,950	47,894	39,142	39,142
Accrued interest receivable	7,894	7,894	7,557	7,557
Balance sheet liabilities				
Deposits	1,853,631	1,859,651	1,792,784	1,800,958
Subordinated debentures	85,081	72,939	85,081	71,394
Federal Home Loan Bank advances	139,001	141,941	119,957	134,691
Other borrowings	265,109	265,131	272,969	272,982
Derivative financial instruments	1,225	1,225	1,467	1,467
Accrued interest payable	2,403	2,403	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 sold, 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.

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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.

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

Portfolio loans, net
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. The fair value of loans sold under participation agreements (see Note 1 □ Summary of Significant Accounting Policies) is estimated to equal their carrying value. As described in Note 1, substantially all of the participation agreements were modified in October 2009.

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

Federal Home Loan Bank advances

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.

Other borrowed funds

Other borrowed funds include customer repurchase agreements, federal funds purchased, notes payable and loan participations sold. 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. The fair value of the loan participations sold (see Note 1 Summary of Significant Accounting Policies) is estimated to equal the carrying value of the of the participated loans.

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 9SEGMENT 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 Companys 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 Companys 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.

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.

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

(in thousands)	Banking	Wealth Management	Corporate and Intercompany	Total
Balance Sheet Information		**At September 30, 2009**		
Portfolio loans, net	$ 2,113,365	$ -	$ -	$ 2,113,365
Goodwill	-	3,134	-	3,134
Intangibles, net	1,759	932	-	2,691
Deposits	1,871,392	-	(17,761)	1,853,631
Borrowings	362,445	44,165	82,581	489,191
Total assets	2,441,519	57,513	19,593	2,518,625
		At December 31, 2008		
	Banking	Wealth Management	Corporate and Intercompany	Total
Portfolio loans, net	$ 2,201,457	$ -	$ -	$ 2,201,457
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	360,349	35,077	82,581	478,007
Total assets	2,427,934	48,775	17,058	2,493,767
Income Statement Information		**Three months ended September 30, 2009**		
Net interest income (expense)	$ 18,866	$ (314)	$ (1,167)	$ 17,385
Provision for loan losses	6,480	-	-	6,480
Noninterest income	7,014	2,921	13	9,948
Noninterest expense	10,149	2,736	1,094	13,979
Income (loss) before income tax expense	9,251	(129)	(2,248)	6,874
Income tax expense (benefit)	3,456	(100)	(1,169)	2,187
Net income (loss)	$ 5,795	$ (29)	$ (1,079)	$ 4,687
		Three months ended September 30, 2008		
Net interest income (expense)	$ 17,817	$ (295)	$ (938)	$ 16,584
Provision for loan losses	3,007	-	-	3,007
Noninterest income	4,393	3,233	14	7,640
Noninterest expense	9,542	2,885	806	13,233
Goodwill impairment	-	5,900	-	5,900
Income (loss) before income tax expense	9,661	(5,847)	(1,730)	2,084
Income tax expense (benefit)	3,640	(2,128)	(630)	882
Net income (loss)	$ 6,021	$ (3,719)	$ (1,100)	$ 1,202
Income Statement Information		**Nine months ended September 30, 2009**		
Net interest income (expense)	$ 56,211	$ (852)	$ (3,625)	$ 51,734
Provision for loan losses	32,012	-	-	32,012
Noninterest income	11,127	8,504	29	19,660
Noninterest expense	30,933	9,239	3,255	43,427

Goodwill impairment		45,377		-		-		45,377
Income (loss) before income tax expense		(40,984)		(1,587)		(6,851)		(49,422)
Income tax expense (benefit)		1,572		(732)		(3,161)		(2,321)
Net loss	$	(42,556)	$	(855)	$	(3,690)	$	(47,101)
		Nine months ended September 30, 2008						
Net interest income (expense)	$	53,056	$	(766)	$	(2,764)	$	49,526
Provision for loan losses		10,214		-		-		10,214
Noninterest income		7,927		9,483		211		17,621
Noninterest expense		28,408		8,787		2,594		39,789
Goodwill impairment		-		5,900		-		5,900
Income (loss) before income tax expense		22,361		(5,970)		(5,147)		11,244
Income tax expense (benefit)		8,102		(2,173)		(1,874)		4,055
Net income (loss)	$	14,259	$	(3,797)	$	(3,273)	$	7,189

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 our most recently filed 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 nine 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 nine months ended September 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 September 30, 2009 was $4.7 million compared to $1.2 million for the same period of 2008. After deducting dividends on preferred stock, the Company reported net income of $0.31 per fully diluted share for the third quarter of 2009 compared to net income of $0.09 per fully diluted share for the third quarter of 2008.

During a review of loan participation agreements, the Company determined that certain of its loan participation agreements contained language inconsistent with sale accounting treatment. The agreements provided us with the unilateral ability to repurchase participated loans at their outstanding loan balance plus accrued interest at any time. In effect, the repurchase option afforded us with effective control over the participated portion of the loan, which conflicts with sale accounting treatment.

In order to correct the error, we 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. We 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. We have corrected the error by revising the prior period financial statements.

Under the terms of the agreements, the participating banks absorb credit losses, if any, on the participated portion of the loan. However, as secured borrowings on our consolidated financial statements, the reduction of the liability to the participating bank is recorded only upon legal defeasance of such liability. As a result, during the third quarter of 2009, we also recorded a $5.3 million pre-tax gain, or $0.26 per fully diluted share, from the extinguishment of debt resulting from the foreclosure of the collateral on one of our participated loans, which was carried net of provisions for loan losses totaling $5.3 million in previous periods.

In October 2009 the Company obtained amended agreements from substantially all of the participating banks that comply with sale accounting treatment. As a result, the Company expects to eliminate the participated loans, net of the allowance for losses, and the related liability from its consolidated balance sheet, and is expected to recognize an additional gain from the extinguishment of debt of approximately $1.1 million in the fourth quarter of 2009. The overall effect of these adjustments by December 31, 2009 is expected to be neutral to the Company’s financial results and key ratios. For comparative purposes, the affected prior period results, excluding Tier 1 and Total Risk-based capital ratios, have been revised. The impact of the error on key ratios is presented below. The error is described in more detail in Note 1 — Summary of Significant Accounting Policies.

	As of September 30, 2009			As of December 31, 2008		
	Excluding Loan Participation Impact	Loan Participations Impact	As reported	As originally reported	Loan Participations Impact	As re
Nonperforming loans to total loans	2.38%	-0.16%	2.22%	1.50%	0.11%	1
Nonperforming assets to total assets	2.80%	-0.17%	2.63%	1.92%	0.06%	1
Allowance for loan losses to total loans	2.30%	-0.17%	2.13%	1.58%	-0.04%	1
Tangible common equity to tangible assets	5.71%	-0.57%	5.14%	6.07%	-0.69%	5

	For the three months ended September 30, 2009		For the nine months ended September 30, 2009
	Excluding Loan	Loan	