ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q/A
April 23, 2012

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

FORM 10-Q/A
(Amendment No. 1)

[X]	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 2011.
[ ]	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-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

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

Large accelerated filer o	Accelerated filer R	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, 2011, the Registrant had 14,945,038 shares of outstanding common stock.

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

EXPLANATORY NOTE

In January 2012, while converting to a new system designed to address the complex accounting requirements of acquired loans under Accounting Standards Codification ("ASC") Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality”, the Company discovered an error in its process used to record income on these loans. ASC 310-30 is utilized to account for the loans acquired by the Company under loss sharing agreements with the Federal Deposit Insurance Corporation (the “FDIC”). Under ASC 310-30, these acquired loans are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the "accretable yield", is recognized as interest income on a level-yield method over the life of the loans. In accounting for income from the acquired loans, the Company recorded both the accretable yield and contractually required interest payments. The Company should not have recognized the contractually required interest payments. As a result, both interest income and the carrying value of the acquired loans were overstated. This affected income reported on the loans acquired in FDIC assisted transactions since December 2009.

The Company is filing this Amendment to our Quarterly Report on Form 10-Q/A (the “Amended Filing” or “Form 10-Q/A”) to restate our unaudited consolidated financial statements and related disclosures for the quarter ended March 31, 2011 (the "Restatement".) The Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (the "Original Filing") was filed with the Securities and Exchange Commission (“SEC”) on May 9, 2011.

The previously issued unaudited condensed financial statements for the quarter ended March 31, 2011 in the Original Filing should no longer be relied upon.

Internal Control Considerations

In conjunction with this finding, management identified control deficiencies in its internal controls over financial reporting associated with the reversal of contractual interest on acquired loans that constitute a material weakness, as discussed in Part I, Item 4 of this Form 10-Q/A. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. For a discussion of management’s consideration of our disclosure controls and procedures and material weaknesses identified, see Part I, Item 4 included in this Amended filing.

Adjustments

In addition to the adjustments relating to the acquired loan contractual interest described above, the Company has corrected other errors that had been previously identified but not corrected because they were not material, individually or in the aggregate, to the consolidated financial results. These items included changes in accrual estimates and financial statement reclassifications.   Adjustments, identified subsequent to the date of the Original Filing date, have also been made to the preliminary fair values of assets acquired and liabilities assumed for the Company's FDIC-assisted transactions.

Additional information on the effect of the adjustments in our financial statements are contained in Item 8, Note 12 - Restatement of Consolidated Financial Results.

For convenience of the reader, this Amended Filing sets forth the Original Filing in its entirety. The sections of the Original Filing which were not amended are unchanged and continue in full force and effect as originally filed. This Amended Filing speaks as of the date of the Original Filing on the Form 10-Q, and has not been updated to reflect events occurring subsequent to the Original Filing date other than those associated with the correction of the error and other adjustments specifically noted. The Items in this Form 10-Q/A which are amended and restated as a result of the foregoing are:

- Part I, Item 1. - Restated Financial Statements;
- Part I, Item 2. - Management’s Discussion and Analysis of Financial Condition and Results of Operations;
- Part I, Item 4. - Controls and Procedures; and
- Part II - Item 6. Exhibits

In accordance with applicable SEC rules, this Amended Filing includes certifications from our Chief Executive Officer and Chief Financial Officer dated as of the date of this Amended Filing.

ENTERPRISE FINANCIAL SERVICES CORP
FORM 10-Q/A - 1ST QUARTER 2011
TABLE OF CONTENTS

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

(In thousands, except share and per share data)	As Restated(1) March 31, 2011	As Restated(1) December 31, 2010
Assets		
Cash and due from banks	$18,542	$23,413
Federal funds sold	1,464	3,153
Interest-bearing deposits (including $1,520 pledged as collateral)	185,805	267,102
Total cash and cash equivalents	205,811	293,668
Interest-bearing deposits greater than 90 days	1,751	1,751
Securities available for sale	481,989	361,546
Mortgage loans held for sale	3,142	5,640
Portfolio loans not covered under FDIC loss share	1,761,034	1,766,351
Portfolio loans covered under FDIC loss share at fair value	182,277	121,570
Less: Allowance for loan losses	42,822	42,759
Portfolio loans, net	1,900,489	1,845,162
Other real estate not covered under FDIC loss share	28,443	25,373
Other real estate covered under FDIC loss share	22,862	10,835
Other investments, at cost	14,430	12,278
Fixed assets, net	20,035	20,499
Accrued interest receivable	7,839	7,464
State tax credits, held for sale, including $30,494 and $31,576 carried at fair value, respectively	59,928	61,148
FDIC loss share receivable	103,285	87,792
Goodwill	3,622	2,064
Intangibles, net	1,921	1,223
Other assets	60,098	63,756
Total assets	$2,915,645	$2,800,199
Liabilities and Shareholders' Equity		
Demand deposits	$448,012	$366,086
Interest-bearing transaction accounts	198,152	204,687
Money market accounts	942,009	855,522
Savings	10,789	10,181
Certificates of deposit:		
$100 and over	593,791	543,898
Other	237,677	317,347
Total deposits	2,430,430	2,297,721
Subordinated debentures	85,081	85,081
Federal Home Loan Bank advances	107,300	107,300
Other borrowings	97,898	119,333
Accrued interest payable	1,545	1,488
Other liabilities	8,890	9,475
Total liabilities	2,731,144	2,620,398
Shareholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; 35,000 shares issued and outstanding	32,707	32,519

Common stock, $0.01 par value; 30,000,000 shares authorized; 15,016,977 and 14,965,401 shares issued, respectively	150	150
Treasury stock, at cost; 76,000 shares	(1,743)	(1,743)
Additional paid in capital	134,664	133,673
Retained earnings	18,478	15,775
Accumulated other comprehensive income (loss)	245	(573)
Total shareholders' equity	184,501	179,801
Total liabilities and shareholders' equity	$2,915,645	$2,800,199

(1) See Note 12 - Restatement of Consolidated Financial Statements for more information.

The accompanying notes are an integral part of the consolidated financial statements.

1

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

(In thousands, except per share data)	Three months ended March 31, As Restated[(1)] 2011	As Restated[(1)] 2010
Interest income:		
Interest and fees on loans	$27,631	$24,973
Interest on debt securities:		
Taxable	2,570	1,850
Nontaxable	110	10
Interest on federal funds sold	1	8
Interest on interest-bearing deposits	148	80
Dividends on equity securities	73	83
Total interest income	30,533	27,004
Interest expense:		
Interest-bearing transaction accounts	189	219
Money market accounts	2,082	1,393
Savings	9	8
Certificates of deposit:		
$100 and over	2,357	2,850
Other	1,053	1,785
Subordinated debentures	1,121	1,230
Federal Home Loan Bank advances	900	1,108
Notes payable and other borrowings	114	59
Total interest expense	7,825	8,652
Net interest income	22,708	18,352
Provision for loan losses	3,600	13,800
Net interest income after provision for loan losses	19,108	4,552
Noninterest income:		
Wealth Management revenue	1,683	1,538
Service charges on deposit accounts	1,137	1,174
Other service charges and fee income	310	278
Gain (loss) on sale of other real estate	423	(12)
Gain on state tax credits, net	155	518
Gain on sale of investment securities	174	557
Miscellaneous income	1,081	244
Total noninterest income	4,963	4,297
Noninterest expense:		
Employee compensation and benefits	8,688	6,598
Occupancy	1,139	1,173
Furniture and equipment	354	370
Data processing	626	578
FDIC and other insurance	1,222	1,047
Loan legal and other real estate expense	2,436	1,272
Other	3,500	2,858
Total noninterest expense	17,965	13,896
Income (loss) before income tax expense (benefit)	6,106	(5,047)
Income tax expense (benefit)	1,994	(1,856)

Net income (loss)	$4,112	$(3,191)
Net income (loss) available to common shareholders	$3,486	$(3,803)
Earnings (loss) per common share		
Basic	$0.23	$(0.26)
Diluted	0.23	(0.26)

(1) See Note 12 - Restatement of Consolidated Financial Statements for more information.
The accompanying notes are an integral part of the consolidated financial statements.

2

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

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance January 1, 2011 (Restated)[1]	$32,519	$150	$(1,743)	$133,673	$15,775	$(573)	$179,801
Net income (Restated)[1]	—	—	—	—	4,112	—	4,112
Change in fair value of available for sale securities, net of tax	—	—	—	—	—	958	958
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	—	—	—	—	—	(112)	(112)
Reclassification of cash flow hedge, net of tax	—	—	—	—	—	(28)	(28)
Total comprehensive income							4,930
Cash dividends paid on common shares, $0.0525 per share	—	—	—	—	(783)	—	(783)
Cash dividends paid on preferred stock	—	—	—	—	(438)	—	(438)
Preferred stock accretion of discount	188	—	—	—	(188)	—	—
Issuance under equity compensation plans, net, 51,576 shares	—	—	—	611	—	—	611
Share-based compensation	—	—	—	374	—	—	374
Excess tax benefit related to equity compensation plans	—	—	—	6	—	—	6
Balance March 31, 2011 (Restated)[1]	$32,707	$150	$(1,743)	$134,664	$18,478	$245	$184,501

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance January 1, 2010	$31,802	$130	$(1,743)	$117,000	$15,790	$933	$163,912
Net loss (Restated)[1]	—	—	—	—	(3,191)	—	(3,191)
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							(3,010)
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 (Restated)(1)	$31,976	$149	$(1,743)	$132,354	$11,207	$1,114	$175,057

(1) See Note 12 - Restatement of Consolidated Financial Statements for more information.
The accompanying notes are an integral part of the consolidated financial statements.

3

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

(in thousands)	Three months ended March 31, As Restated[1] 2011	As Restated[1] 2010
Cash flows from operating activities:		
Net income (loss)	$4,112	$ (3,191)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	694	747
Provision for loan losses	3,600	13,800
Deferred income taxes	2,732	(5,616)
Net amortization of debt securities	1,251	804
Amortization of intangible assets	135	112
Gain on sale of investment securities	(174)	(557)
Mortgage loans originated for sale	(14,897)	(11,306)
Proceeds from mortgage loans sold	17,360	13,989
(Gain) loss on sale of other real estate	(423)	12
Gain on state tax credits, net	(155)	(518)
Excess tax (benefit) expense of share-based compensation	(6)	260
Share-based compensation	374	649
Valuation adjustment on other real estate	442	574
Net accretion of loan discount and indemnification asset	(1,565)	(110)
Changes in:		
Accrued interest receivable	(12)	522
Accrued interest payable	18	148
Prepaid FDIC insurance	852	760
Other assets	(1,553)	2,902
Other liabilities	(1,037)	840
Net cash provided by operating activities	11,748	14,821
Cash flows from investing activities:		
Cash received from sale of Millennium Brokerage Group	—	4,000
Cash received from acquisition of Legacy Bank	8,926	—
Net decrease in loans	4,098	19,484
Net cash proceeds received from FDIC loss share receivable	11,785	—
Proceeds from the sale of debt and equity securities, available for sale	5,299	80,645
Proceeds from the maturity of debt and equity securities, available for sale	31,021	20,280
Proceeds from the sale of other investments	—	59
Proceeds from the redemption of other investments	78	1,359
Proceeds from the sale of state tax credits held for sale	1,527	2,661
Proceeds from the sale of other real estate	4,382	3,541
Payments for the purchase/origination of:		
Available for sale debt and equity securities	(147,040)	(85,535)
Other investments	(261)	(1,388)
Bank owned life insurance	—	(20,000)
State tax credits held for sale	—	(2,387)
Fixed assets	(212)	(98)
Net cash (used in) provided by investing activities	(80,397)	22,621

Cash flows from financing activities:		
Net increase in noninterest-bearing deposit accounts	52,074	11,177
Net increase in interest-bearing deposit accounts	(32,987)	(48,539)
Repayments of Federal Home Loan Bank advances	(16,256)	—
Net (decrease) increase in other borrowings	(21,435)	21,099
Cash dividends paid on common stock	(783)	(781)
Excess tax benefit (expense) benefit of share-based compensation	6	(260)
Cash dividends paid on preferred stock	(438)	(437)
Issuance of common stock	—	14,902
Proceeds from the issuance of equity instruments	611	—
Net cash used in financing activities	(19,208)	(2,839)
Net (decrease) increase in cash and cash equivalents	(87,857)	34,603
Cash and cash equivalents, beginning of period	293,668	106,966
Cash and cash equivalents, end of period	$205,811	$ 141,569
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$7,767	$ 8,801
Income taxes	696	(57)
Noncash transactions:		
Transfer to other real estate owned in settlement of loans	$11,229	$ 5,701
Sales of other real estate financed	442	5,685

(1) See Note 12 - Restatement of Consolidated Financial Statements for more information.
The accompanying notes are an integral part of the consolidated financial statements.

4

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial Statement Presentation
Enterprise is a financial holding company that provides a full range of banking and wealth management services to individuals and corporate customers located in the St. Louis, Kansas City and Phoenix metropolitan markets through its banking subsidiary, Enterprise Bank & Trust (the "Bank").

The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and footnotes required by U.S. GAAP for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

On January 7, 2011, the Bank entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation ("FDIC") and acquired certain assets and assumed certain liabilities of Legacy Bank, a full service community bank that was headquartered in Scottsdale, Arizona. For more information on this transaction, see Note 3 - Acquisitions and Divestitures in this report.

Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2010.

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.

(in thousands, except per share data)	Three months ended March 31, 2011	2010
Net income (loss) as reported	$4,112	$(3,191)
Preferred stock dividend	(438)	(437)
Accretion of preferred stock discount	(188)	(175)
Net income (loss) available to common shareholders	$3,486	$(3,803)
Weighted average common shares outstanding	14,920	14,418
Additional dilutive common stock equivalents	16	—
Diluted common shares outstanding	14,936	14,418

Basic earnings (loss) per common share:	$0.23	$(0.26)
Diluted earnings (loss) per common share:	$0.23	$(0.26)

For the three months ended March 31, 2011 and 2010, there were 2.0 million and 2.3 million, respectively, of weighted

5

average common stock equivalents excluded from the per share calculations because their effect was anti-dilutive. In addition, at March 31, 2011 and 2010, 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 Legacy Bank

On January 7, 2011, the Bank entered into a purchase and assumption agreement with the FDIC and acquired certain assets and assumed certain liabilities of Legacy Bank (“Legacy”), a full service community bank that was headquartered in Scottsdale, Arizona. The acquisition consisted of tangible assets with estimated fair values of approximately $128.0 million and tangible liabilities with estimated fair values of approximately $130.4 million. The Bank acquired the assets at a discount of 7.6% and approximately $43.5 million of the deposits were assumed at a premium of 1%. The Bank also acquired approximately $55.6 million of discretionary and $13.6 million of non-discretionary trust assets.

As part of the acquisition, the Company provided the FDIC with a Value Appreciation Instrument (“VAI”) whereby 372,500 units were awarded to the FDIC at an exercise price of $10.63 per unit. The units were exercisable at any time from January 14, 2011 until January 6, 2012. The FDIC exercised the units on January 20, 2011 at a settlement price of $11.8444. A cash payment of $452,364 was made to the FDIC on January 21, 2011.

In connection with the acquisition, the Bank also entered into a loss share agreement whereby the FDIC will reimburse the Bank for 80% of all losses incurred on certain loans and other real estate covered under the agreement (“Covered Assets”). The loss share agreement is subject to the servicing procedures as specified in the agreement with the FDIC.

The reimbursable losses from the FDIC are based on the book value of the Covered Assets as determined by the FDIC as of the date of the acquisition. 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. The expected reimbursements under the loss share agreement were recorded as a FDIC loss share receivable at their estimated fair value.

The loans and other real estate acquired are recorded at estimated fair value. As such, there was no allowance for credit losses established related to the acquired loans at January 7, 2011 and no carryover of the related allowance from Legacy. The loans are accounted for in accordance with guidance for certain loans acquired in a transfer, when the loans have evidence of credit deterioration and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and an adjustment in accretable yield, which will have a positive impact on interest income.

The table below summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The table includes adjustments subsequent to the date of the Original Filing on Form 10-Q. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available.

(in thousands)	Preliminary January 7, 2011 Amount	Refinements	Refined January 7, 2011 Amount
Cash and cash equivalents	$8,926	$—	$8,926
Securities available for sale	9,569	—	9,569
Other investments	1,969	—	1,969
Portfolio loans	73,214	—	73,214
Other real estate	8,612	—	8,612
FDIC loss share receivable	24,963	257	25,220
Goodwill	1,815	(257)	1,558
Core deposit intangible	833	—	833
Other assets	466	—	466
Total deposits	(113,620)	—	(113,620)
Federal Home Loan Bank Advances	(16,256)	—	(16,256)
Other liabilities	(491)	—	(491)

Management concluded that it is impracticable to present pro forma financial results due to the lack of documentation and objective information about significant estimates and management’s intent in prior periods.

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, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government sponsored enterprises	$40,645	$14	$ (422)	$40,237
Obligations of states and political subdivisions	26,303	160	(695)	25,768
Residential mortgage-backed securities	414,619	2,706	(1,341)	415,984
	$481,567	$2,880	$ (2,458)	$481,989

	December 31, 2010			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government agencies	$444	$9	$ —	$453
Obligations of U.S. Government sponsored enterprises	32,880	9	(770)	32,119
Obligations of states and political subdivisions	18,486	45	(855)	17,676
Residential mortgage-backed securities	310,636	2,656	(1,994)	311,298
	$362,446	$2,719	$ (3,619)	$361,546

At March 31, 2011 and December 31, 2010, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity, other than the U.S. government agencies and sponsored enterprises. The residential mortgage-backed securities are all issued by U.S. government sponsored enterprises. Available for sale securities having a carrying value of $243.9 million and $249.6 million at March 31, 2011 and December 31, 2010, respectively, were pledged as collateral to secure deposits of public institutions 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, 2011, 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. The weighted average life of the mortgage-backed securities is approximately 3.5 years.

(in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$8,624	$8,636
Due after one year through five years	33,669	33,302
Due after five years through ten years	20,348	20,063
Due after ten years	4,307	4,004
Mortgage-backed securities	414,619	415,984
	$481,567	$481,989

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

	March 31, 2011					
	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 enterprises	$30,689	$422	$—	$—	$30,689	$422
Obligations of the state and political subdivisions	12,820	267	2,972	428	15,792	695
Residential mortgage-backed securities	163,010	1,341	—	—	163,010	1,341
	$206,519	$2,030	$2,972	$428	$209,491	$2,458

	December 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 enterprises	$27,100	$770	$—	$—	$27,100	$770
Obligations of the state and political subdivisions	11,329	420	2,965	435	14,294	855
Residential mortgage-backed securities	133,893	1,994	—	—	133,893	1,994
	$172,322	$3,184	$2,965	$435	$175,287	$3,619

The unrealized losses at both March 31, 2011 and December 31, 2010, 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 it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. At March 31, 2011, management performed its quarterly analysis of all securities with an unrealized loss and concluded no 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:

	Three months ended March 31,	
(in thousands)	2011	2010
Gross gains realized	$174	$557
Gross losses realized	—	—
Proceeds from sales	5,299	80,645

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.

Below is a summary of the goodwill in the Banking segment.

(in thousands)	Goodwill
Balance at January 1, 2011	$2,064
Goodwill from purchase of Legacy Bank	1,558
Balance at March 31, 2011	$3,622

9

The table below summarizes the changes to core deposit intangible asset balances in the Banking segment.

(in thousands)	Core Deposit Intangible	
Balance at January 1, 2011	$1,223	
Intangibles from purchase of Legacy Bank	833	
Amortization expense	(135	)
Balance at March 31, 2011	$1,921	

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

Year	Core Deposit Intangible
2011	$374
2012	432
2013	355
2014	278
2015	201
After 2015	281
	$1,921

NOTE 6 - PORTFOLIO LOANS

Below is a summary of loans by category at March 31, 2011 and December 31, 2010:

(in thousands)	March 31, 2011 Portfolio Loans not Covered under FDIC loss share	Portfolio Loans Covered under FDIC loss share	Total
Real Estate Loans:			
Construction and land development	$176,249	$42,140	$218,389
Commercial real estate - Investor Owned	455,684	43,329	499,013
Commercial real estate - Owner Occupied	325,080	42,213	367,293
Residential real estate	174,405	35,661	210,066
Total real estate loans	$1,131,418	$163,343	$1,294,761
Commercial and industrial	612,970	17,683	630,653
Consumer & other	16,469	1,251	17,720
Portfolio Loans	$1,760,857	$182,277	$1,943,134
Unearned loan costs, net	177	—	177
Portfolio loans, including unearned loan costs	$1,761,034	$182,277	$1,943,311

(in thousands)	December 31, 2010 Portfolio Loans not Covered under FDIC loss share	Portfolio Loans Covered under FDIC loss share	Total
Real Estate Loans:			
Construction and land development	$190,285	$32,374	$222,659
Commercial real estate - Investor Owned	444,724	39,850	484,574
Commercial real estate - Owner Occupied	331,544	29,803	361,347
Residential real estate	189,484	9,589	199,073
Total real estate loans	$1,156,037	$111,616	$1,267,653
Commercial and industrial	593,938	9,477	603,415
Consumer & other	16,308	477	16,785
Portfolio Loans	$1,766,283	$121,570	$1,887,853
Unearned loan costs, net	68	—	68
Portfolio loans, including unearned loan costs	$1,766,351	$121,570	$1,887,921

The Company grants commercial, residential, and consumer loans primarily in the St. Louis, Kansas City and Phoenix metropolitan areas. The Company has a diversified loan portfolio, with no particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is concentrated in and secured by real estate. The ability of the Company's borrowers to honor their contractual obligations is partially dependent upon the local economy and its effect on the real estate market.

A summary of activity in the allowance for loan losses and the recorded investment in loans by portfolio class and category based on impairment method for the quarter ended March 31, 2011 and at December 31, 2010 is as follows:

(in thousands)	Commercial & Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Investor Owned	Construction Real Estate	Residential Real Estate	Consumer & Other	Unallocated	Portfolio loans covered under FDIC loss share	Total
Allowance for Loan Losses:									
Balance at December 31, 2010	$ 12,727	$ 5,060	$ 5,629	$ 8,407	$ 5,485	$ 93	$ 5,358	$—	$ 42,759
Provision charged to expense	(62)	691	1,524	2,964	(361)	9	(1,165)	—	3,600
Losses charged off	400	378	360	2,716	111	—	—	—	3,965
Recoveries	125	—	15	178	89	21	—	—	428
Balance at March 31, 2011	$ 12,390	$ 5,373	$ 6,808	$ 8,833	$ 5,102	$ 123	$ 4,193	$—	$ 42,822
Balance March 31, 2011 Allowance for Loan Losses - Ending Balance:									
Individually evaluated for impairment	$ 3,417	$ 348	$ 1,899	$ 3,672	$ 2,045	$—	$—	$—	$ 11,381
Collectively evaluated for impairment	8,973	5,025	4,909	5,161	3,057	123	4,193	—	31,441
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Total	$ 12,390	$ 5,373	$ 6,808	$ 8,833	$ 5,102	$ 123	$ 4,193	$—	$ 42,822
Loans - Ending Balance:									
	$ 6,559	$ 1,219	$ 9,393	$ 16,808	$ 9,508	$—	$—	$—	$ 43,487

Individually evaluated for impairment									
Collectively evaluated for impairment	606,411	323,861	446,291	159,441	164,897	16,646	—	6,883	1,724,430
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	175,394	175,394
Total	$ 612,970	$ 325,080	$ 455,684	$ 176,249	$ 174,405	$ 16,646	$ —	$ 182,277	$ 1,943,311

(in thousands)	Commercial & Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Investor Owned	Construction Real Estate	Residential Real Estate	Consumer & Other	Unallocated	Portfolio loans covered under FDIC loss share	Total
Balance at December 31, 2010									
Allowance for Loan Losses - Ending Balance:									
Individually evaluated for impairment	$ 4,434	$ 219	$ 1,457	$ 650	$ 2,368	$—	$ —	$—	$9,128
Collectively evaluated for impairment	8,293	4,841	4,172	7,757	3,117	93	5,358	—	33,631
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Total	$ 12,727	$ 5,060	$ 5,629	$ 8,407	$ 5,485	$93	$ 5,358	$—	$42,759
Loans - Ending Balance:									
Individually evaluated for impairment	$ 11,276	$ 2,024	$ 10,935	$ 9,934	$ 12,188	$—	$ —	$—	$46,357
Collectively evaluated for impairment	582,662	329,520	433,789	180,351	177,296	16,376	—	350	1,720,344
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	121,220	121,220
Total	$ 593,938	$ 331,544	$ 444,724	$ 190,285	$ 189,484	$ 16,376	$ —	$ 121,570	$1,887,921

13

A summary of loans individually evaluated for impairment by category at March 31, 2011 and December 31, 2010 is as follows:

(in thousands)	March 31, 2011 Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial & Industrial	$6,604	$402	$6,157	$6,559	$3,417	$9,209
Real Estate:						
Commercial - Owner Occupied	1,390	—	1,219	1,219	348	1,913
Commercial - Investor Owned	15,096	376	9,017	9,393	1,899	10,369
Construction	21,603	2,294	14,514	16,808	3,672	15,607
Residential	9,695	2,486	7,022	9,508	2,045	9,508
Consumer & Other	—	—	—	—	—	—
Total	$54,388	$5,558	$37,929	$43,487	$11,381	$46,606

(in thousands)	December 31, 2010 Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial & Industrial	$11,591	$412	$10,864	$11,276	$4,434	$5,848
Real Estate:						
Commercial - Owner Occupied	2,668	1,044	980	2,024	219	3,890
Commercial - Investor Owned	15,024	1,960	8,975	10,935	1,457	15,122
Construction	13,391	5,388	4,546	9,934	650	16,898
Residential	12,390	2,650	9,538	12,188	2,368	5,721
Consumer & Other	—	—	—	—	—	92
Total	$55,064	$11,454	$34,903	$46,357	$9,128	$47,571

There were no loans over 90 days past due and still accruing interest at March 31, 2011. If interest on impaired loans would have been accrued based upon the original contractual terms, such income would have been $703,000 for the quarter ended March 31, 2011. The cash amount collected and recognized as interest income on impaired loans was $130,000, for the quarter ended March 31, 2011. The amount recognized as interest income on impaired loans continuing to accrue interest was $150,000 for the quarter ended March 31, 2011. At March 31, 2011 there were $1.3 million of unadvanced commitments on impaired loans. Other Liabilities include approximately $268,000 for estimated losses attributable to the unadvanced commitments on impaired loans.

The recorded investment in impaired loans by category at March 31, 2011 and December 31, 2010 is as follows:

	March 31, 2011			
(in thousands)	Non-accrual	Restructured	Loans over 90 days past due and still accruing interest	Total
Commercial & Industrial	$6,559	$—	$—	$6,559
Real Estate:				
Commercial - Owner Occupied	1,219	—	—	1,219
Commercial - Investor Owned	4,609	4,784	—	9,393
Construction	16,211	597	—	16,808
Residential	5,184	4,324	—	9,508
Consumer & Other	—	—	—	—
Total	$33,782	$9,705	$—	$43,487

	December 31, 2010			
(in thousands)	Non-accrual	Restructured	Loans over 90 days past due and still accruing interest	Total
Commercial & Industrial	$11,276	$—	$—	$11,276
Real Estate:				
Commercial - Owner Occupied	2,024	—	—	2,024
Commercial - Investor Owned	10,516	419	—	10,935
Construction	9,352	582	—	9,934
Residential	5,309	6,879	—	12,188
Consumer & Other	—	—	—	—
Total	$38,477	$7,880	$—	$46,357

The aging of the recorded investment in past due loans by portfolio class and category at March 31, 2011 and December 31, 2010 is shown below.

	March 31, 2011				
(in thousands)	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Portfolio loans not covered under FDIC loss share					
Commercial & Industrial	$530	$4,630	$5,160	$607,810	$612,970
Real Estate:					
Commercial - Owner Occupied	—	1,219	1,219	323,861	325,080
Commercial - Investor Owned	2,901	2,815	5,716	449,968	455,684
Construction	216	7,210	7,426	168,823	176,249
Residential	422	4,645	5,067	169,338	174,405
Consumer & Other	—	—	—	16,646	16,646
Total	$4,069	$20,519	$24,588	$1,736,446	$1,761,034
Portfolio loans covered under FDIC loss share					
Commercial & Industrial	$295	$1,937	$2,232	$15,451	$17,683
Real Estate:					
Commercial - Owner Occupied	—	5,954	5,954	36,259	42,213
Commercial - Investor Owned	3,869	2,978	6,847	36,482	43,329
Construction	2,089	13,953	16,042	26,098	42,140
Residential	2,066	1,107	3,173	32,488	35,661
Consumer & Other	254	192	446	805	1,251
Total	$8,573	$26,121	$34,694	$147,583	$182,277
Portfolio loans, total					
Commercial & Industrial	$825	$6,567	$7,392	$623,261	$630,653
Real Estate:					
Commercial - Owner Occupied	—	7,173	7,173	360,120	367,293
Commercial - Investor Owned	6,770	5,793	12,563	486,450	499,013
Construction	2,305	21,163	23,468	194,921	218,389
Residential	2,488	5,752	8,240	201,826	210,066
Consumer & Other	254	192	446	17,451	17,897
Total	$12,642	$46,640	$59,282	$1,884,029	$1,943,311

(in thousands)	December 31, 2010 30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Portfolio loans not covered under FDIC loss share					
Commercial & Industrial	$5,938	$3,557	$9,495	$584,443	$593,938
Real Estate:					
Commercial - Owner Occupied	914	1,583	2,497	329,047	331,544
Commercial - Investor Owned	2,692	4,348	7,040	437,684	444,724
Construction	802	6,876	7,678	182,607	190,285
Residential	2,496	2,518	5,014	184,470	189,484
Consumer & Other	3	—	3	16,373	16,376
Total	$12,845	$18,882	$31,727	$1,734,624	$1,766,351
Portfolio loans covered under FDIC loss share					
Commercial & Industrial	$777	$258	$1,035	$8,442	$9,477
Real Estate:					
Commercial - Owner Occupied	56	5,550	5,606	24,197	29,803
Commercial - Investor Owned	3,471	1,888	5,359	34,491	39,850
Construction	—	25,844	25,844	6,530	32,374
Residential	679	735	1,414	8,175	9,589
Consumer & Other	190	—	190	287	477
Total	$5,173	$34,275	$39,448	$82,122	$121,570
Portfolio loans, total					
Commercial & Industrial	$6,715	$3,815	$10,530	$592,885	$603,415
Real Estate:					
Commercial - Owner Occupied	970	7,133	8,103	353,244	361,347
Commercial - Investor Owned	6,163	6,236	12,399	472,175	484,574
Construction	802	32,720	33,522	189,137	222,659
Residential	3,175	3,253	6,428	192,645	199,073
Consumer & Other	193	—	193	16,660	16,853
Total	$18,018	$53,157	$71,175	$1,816,746	$1,887,921

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, and current economic factors among other factors. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

- Grades 1, 2, and 3 - These grades include loans to borrowers with a continuous record of strong earnings, sound balance sheet condition and capitalization, ample liquidity with solid cash flow and whose management team has experience and depth within their industry.
- Grade 4 – This grade includes loans to borrowers with positive trends in profitability, satisfactory capitalization and balance sheet condition, and sufficient liquidity and cash flow.
- Grade 5 – This grade includes loans to borrowers that may display fluctuating trends in sales, profitability, capitalization, liquidity, and cash flow.

17

- Grade 6 – This grade includes loans to borrowers where an adverse change or perceived weakness has occurred, but may be correctable in the near future. Alternatively, this rating category may also include circumstances where the company is starting to reverse a negative trend or condition, or have recently been upgraded from a 7, 8, or 9 rating.
- Grade 7 – Watch credits are companies that have experienced financial setback of a nature that are not determined to be severe or influence ‘ongoing concern’ expectations. Borrowers within this category are expected to turnaround within a 12-month period of time. Although possible, no loss is anticipated, due to strong collateral and/or guarantor support.
- Grade 8 – Substandard credits will include those companies that are characterized by significant losses and sustained downward trends in balance sheet condition, liquidity, and cash flow. Repayment reliance may have shifted to secondary sources. Collateral exposure may exist and additional reserves may be warranted.
- Grade 9 – Doubtful credits include borrowers that may show deteriorating trends that are unlikely to be corrected. Collateral values may appear insufficient for full recovery, therefore requiring a partial charge-off, or debt renegotiation with the borrower. Borrower may have declared bankruptcy or bankruptcy is likely in the near term. All doubtful rated credits will be on non-accrual.

Acquired loans are also subject to the Company’s internal and external credit review and are risk rated using the same criteria as loans originated by the Company. However, risk ratings are not always a clear indicator of the Company's losses on acquired loans as a majority of the losses are recoverable from the FDIC under the loss-sharing agreements.

The recorded investment by risk category of the loans by portfolio class and category at March 31, 2011, which is based upon the most recent analysis performed, and December 31, 2010 is as follows:

	March 31, 2011						
(in thousands)	Commercial & Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Investor Owned	Construction Real Estate	Residential Real Estate	Consumer & Other	Total
Portfolio loans not covered under FDIC loss share							
Outstanding (1-3)	$88,565	$18,785	$6,796	$1,136	$1,497	$2,999	$119,778
Above Average (4)	62,995	65,596	37,076	9,046	16,931	1,633	193,277
Average (5)	277,224	144,911	266,961	74,833	115,961	11,447	891,337
Below Average (6)	107,294	48,114	76,538	27,407	11,382	111	270,846
Watch (7)	42,674	32,751	52,333	29,486	7,477	7	164,728
Substandard (8)	31,546	14,923	15,755	34,033	20,865	449	117,571
Doubtful (9)	2,672	—	225	308	292	—	3,497
Total	$612,970	$325,080	$455,684	$176,249	$174,405	$16,646	$1,761,034
Portfolio loans covered under FDIC loss share							
Outstanding (1-3)	$—	$—	$—	$—	$—	$77	$77
Above Average (4)	1,294	2,582	—	78	5,413	56	9,423
Average (5)	8,408	15,074	16,207	15,598	21,110	838	77,235
Below Average (6)	5,493	7,306	7,492	1,513	1,605	39	23,448
Watch (7)	36	3,003	7,569	322	1,346	—	12,276
Substandard (8)	2,452	14,248	9,649	16,565	5,678	241	48,833
Doubtful (9)	—	—	2,412	8,064	509	—	10,985
Total	$17,683	$42,213	$43,329	$42,140	$35,661	$1,251	$182,277
Portfolio loans, total							
Outstanding (1-3)	$88,565	$18,785	$6,796	$1,136	$1,497		