

ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
April 29, 2016

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2016.

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

Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of April 25, 2016, the Registrant had 20,021,499 shares of outstanding common stock, \$0.01 par value.

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

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

(in thousands, except share and per share data)	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	\$56,251	\$ 47,935
Federal funds sold	193	91
Interest-bearing deposits (including \$1,870 and \$1,320 pledged as collateral)	49,789	46,131
Total cash and cash equivalents	106,233	94,157
Interest-bearing deposits greater than 90 days	1,000	1,000
Securities available for sale	461,832	451,770
Securities held to maturity	43,257	43,714
Loans held for sale	6,409	6,598
Portfolio loans	2,832,616	2,750,737
Less: Allowance for loan losses	34,373	33,441
Portfolio loans, net	2,798,243	2,717,296
Purchased credit impaired loans, net of the allowance for loan losses (\$9,569 and \$10,175, respectively)	53,908	64,583
Total loans, net	2,852,151	2,781,879
Other real estate	9,880	8,366
Other investments, at cost	19,231	17,455
Fixed assets, net	14,812	14,842
Accrued interest receivable	8,797	8,399
State tax credits held for sale, including \$4,733 and \$5,941 carried at fair value, respectively	45,305	45,850
Goodwill	30,334	30,334
Intangible assets, net	2,832	3,075
Other assets	107,832	101,044
Total assets	\$3,709,905	\$ 3,608,483
Liabilities and Shareholders' Equity		
Demand deposits	\$719,652	\$ 717,460
Interest-bearing transaction accounts	589,635	564,420
Money market accounts	1,061,407	1,053,662
Savings	100,203	92,861
Certificates of deposit:		
Brokered	157,939	39,573
Other	302,910	316,615
Total deposits	2,931,746	2,784,591
Subordinated debentures	56,807	56,807
Federal Home Loan Bank advances	130,500	110,000
Other borrowings	193,788	270,326
Accrued interest payable	542	629
Other liabilities	37,138	35,301
Total liabilities	3,350,521	3,257,654
Shareholders' equity:	—	—

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Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 0 shares issued and outstanding		
Common stock, \$0.01 par value; 30,000,000 shares authorized; 20,229,129 and 20,093,119 shares issued, respectively	202	201
Treasury stock, at cost; 236,100 and 76,000 shares, respectively	(5,954	) (1,743
Additional paid in capital	210,420	210,589
Retained earnings	150,787	141,564
Accumulated other comprehensive income	3,929	218
Total shareholders' equity	359,384	350,829
Total liabilities and shareholders' equity	\$3,709,905	\$ 3,608,483
See accompanying notes to consolidated financial statements.		

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share data)	Three months ended March 31,	
	2016	2015
Interest income:		
Interest and fees on loans	\$32,608	\$29,608
Interest on debt securities:		
Taxable	2,387	2,141
Nontaxable	332	297
Interest on interest-bearing deposits	61	47
Dividends on equity securities	72	58
Total interest income	35,460	32,151
Interest expense:		
Interest-bearing transaction accounts	306	277
Money market accounts	1,006	642
Savings accounts	60	50
Certificates of deposit	1,019	1,591
Subordinated debentures	348	302
Federal Home Loan Bank advances	182	49
Notes payable and other borrowings	111	195
Total interest expense	3,032	3,106
Net interest income	32,428	29,045
Provision for portfolio loan losses	833	1,580
Provision reversal for purchased credit impaired loan losses	(73)	(3,270)
Net interest income after provision for loan losses	31,668	30,735
Noninterest income:		
Service charges on deposit accounts	2,043	1,856
Wealth management revenue	1,662	1,740
Other service charges and fee income	868	753
Gain on state tax credits, net	518	674
Gain on sale of other real estate	122	20
Gain on sale of investment securities	—	23
Change in FDIC loss share receivable	—	(2,264)
Miscellaneous income	792	781
Total noninterest income	6,005	3,583
Noninterest expense:		
Employee compensation and benefits	12,647	11,513
Occupancy	1,683	1,694
Data processing	1,104	1,030
FDIC and other insurance	723	726
Professional fees	684	972
Loan legal and other real estate expense	357	278
FDIC clawback	—	412
Other	3,564	3,325
Total noninterest expense	20,762	19,950
Income before income tax expense	16,911	14,368
Income tax expense	5,886	5,022

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Net income	\$ 11,025	\$ 9,346
Earnings per common share		
Basic	\$0.55	\$0.47
Diluted	0.54	0.46

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three months ended March 31,	
	2016	2015
Net income	\$11,025	\$9,346
Other comprehensive income, net of tax:		
Unrealized gains on investment securities arising during the period, net of income tax expense for three months of \$2,304 and \$1,045, respectively	3,711	1,712
Less: Reclassification adjustment for realized gains on sale of securities available for sale included in net income, net of income tax expense for three months of \$0, and \$9, respectively	—	(14)
Total other comprehensive income	3,711	1,698
Total comprehensive income	\$14,736	\$11,044

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance January 1, 2016	\$ —	\$ 201	\$(1,743)	\$210,589	\$141,564	\$ 218	\$ 350,829
Net income	—	—	—	—	11,025	—	11,025
Other comprehensive income	—	—	—	—	—	3,711	3,711
Cash dividends paid on common shares, \$0.09 per share	—	—	—	—	(1,802)	—	(1,802)
Repurchase of common shares	—	—	(4,211)	—	—	—	(4,211)
Issuance under equity compensation plans, 136,010 shares, net	—	1	—	(1,746)	—	—	(1,745)
Share-based compensation	—	—	—	794	—	—	794
Excess tax benefit related to equity compensation plans	—	—	—	783	—	—	783
Balance March 31, 2016	\$ —	\$ 202	\$(5,954)	\$210,420	\$150,787	\$ 3,929	\$ 359,384

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance January 1, 2015	\$ —	\$ 199	\$(1,743)	\$207,731	\$108,373	\$ 1,681	\$ 316,241
Net income	—	—	—	—	9,346	—	9,346
Other comprehensive income	—	—	—	—	—	1,698	1,698
Cash dividends paid on common shares, \$0.0525 per share	—	—	—	—	(1,051)	—	(1,051)
Issuance under equity compensation plans, 97,936 shares, net	—	1	—	(1,047)	—	—	(1,046)
Share-based compensation	—	—	—	768	—	—	768
Excess tax benefit related to equity compensation plans	—	—	—	153	—	—	153
Balance March 31, 2015	\$ —	\$ 200	\$(1,743)	\$207,605	\$116,668	\$ 3,379	\$ 326,109

See accompanying notes to consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Three months ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 11,025	\$ 9,346
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	535	489
Provision for loan losses	760	(1,690)
Deferred income taxes	1,343	(152)
Net amortization of debt securities	721	851
Amortization of intangible assets	243	284
Gain on sale of investment securities	—	(23)
Mortgage loans originated for sale	(29,287)	(31,603)
Proceeds from mortgage loans sold	29,606	27,767
Gain on sale of other real estate	(122)	(20)
Gain on state tax credits, net	(518)	(674)
Excess tax benefit of share-based compensation	(783)	(153)
Share-based compensation	794	768
Valuation adjustment on other real estate	1	41
Net accretion of loan discount and indemnification asset	(2,249)	(1,390)
Changes in:		
Accrued interest receivable	(398)	(104)
Accrued interest payable	(87)	2
Other assets	(9,303)	(1,666)
Other liabilities	1,837	(3,681)
Net cash provided (used) by operating activities	4,118	(1,608)
Cash flows from investing activities:		
Net decrease (increase) in loans	(71,324)	3,443
Net cash proceeds received from FDIC loss share receivable	—	1,395
	—	41,069

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Proceeds from the sale of securities, available for sale			
Proceeds from the paydown or maturity of securities, available for sale	12,894		10,715
Proceeds from the paydown or maturity of securities, held to maturity	431		515
Proceeds from the redemption of other investments	17,653		19,593
Proceeds from the sale of state tax credits held for sale	3,412		4,066
Proceeds from the sale of other real estate	671		2,896
Payments for the purchase/origination of:			
Available for sale debt and equity securities	(17,637	)	(59,869
Other investments	(19,430	)	(9,975
State tax credits held for sale	(2,349	)	(3,112
Fixed assets	(505	)	(648
Net cash provided (used) in investing activities	(76,184	)	10,088
Cash flows from financing activities:			
Net increase in noninterest-bearing deposit accounts	2,192		38,066
Net increase in interest-bearing deposit accounts	144,963		145,054
Proceeds from Federal Home Loan Bank advances	509,000		302,000
Repayments of Federal Home Loan Bank advances	(488,500	)	(440,000
Net decrease in other borrowings	(76,538	)	(53,019
Cash dividends paid on common stock	(1,802	)	(1,051
Excess tax benefit of share-based compensation	783		153
Payments for the repurchase of common stock	(4,211)	—
Issuance of common stock, net	(1,745	)	(1,046
Net cash provided (used) by financing activities	84,142		(9,843
Net increase (decrease) in cash and cash equivalents	12,076		(1,363
	94,157		100,696

Cash and cash equivalents, beginning of period			
Cash and cash equivalents, end of period	\$	106,233	\$ 99,333
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$	3,119	\$ 3,105
Income taxes		14,084	3,500
Noncash transactions:			
Transfer to other real estate owned in settlement of loans	\$	2,683	\$ 890
Sales of other real estate financed		140	—

See accompanying notes to consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Business and Consolidation

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

Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Basis of Financial Statement Presentation

The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with the 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. 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 2016 the Company changed its presentation of certificates of deposit on the Condensed Consolidated Balance Sheets to separate brokered deposit sources from other sources. The corresponding prior period balances were reclassified to conform to the current year presentation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per common share data is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and restricted stock awards where recipients have satisfied the vesting terms. Diluted earnings per common share gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method.

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,	
	2016	2015
Net income as reported	\$11,025	\$9,346
Weighted average common shares outstanding	20,004	19,934
Additional dilutive common stock equivalents	229	223
Weighted average diluted common shares outstanding	20,233	20,157
Basic earnings per common share:	\$0.55	\$0.47
Diluted earnings per common share:	\$0.54	\$0.46

For the three months ended March 31, 2016 and 2015, the amount of common stock equivalents excluded from the earnings per share calculations because their effect was anti-dilutive was zero, and 0.3 million common stock equivalents, respectively.

NOTE 3 - INVESTMENTS

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

(in thousands)	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	\$98,382	\$ 1,413	\$ —	\$99,795
Obligations of states and political subdivisions	39,437	1,404	(322)	40,519
Agency mortgage-backed securities	317,146	4,821	(449)	321,518
Total securities available for sale	\$454,965	\$ 7,638	\$ (771)	\$461,832
Held to maturity securities:				
Obligations of states and political subdivisions	\$14,813	\$ 168	\$ (24)	\$14,957
Agency mortgage-backed securities	28,444	452	—	28,896
Total securities held to maturity	\$43,257	\$ 620	\$ (24)	\$43,853
(in thousands)	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	\$98,699	\$ 309	\$ —	\$99,008
Obligations of states and political subdivisions	40,700	1,343	(342)	41,701
Agency mortgage-backed securities	311,516	2,046	(2,501)	311,061
Total securities available for sale	\$450,915	\$ 3,698	\$ (2,843)	\$451,770
Held to maturity securities:				
Obligations of states and political subdivisions	\$14,831	\$ 63	\$ (50)	\$14,844
Agency mortgage-backed securities	28,883	—	(286)	28,597
Total securities held to maturity	\$43,714	\$ 63	\$ (336)	\$43,441

At March 31, 2016, and December 31, 2015, 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 agency mortgage-backed securities are all issued by U.S. Government-sponsored enterprises. Available for sale securities having a fair value of \$271.1 million and \$334.4 million at March 31, 2016, and December 31, 2015, 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 at March 31, 2016, 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 4 years.

(in thousands)	Available for sale		Held to maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$27,884	\$28,031	\$—	\$—
Due after one year through five years	96,110	98,303	5,233	5,279
Due after five years through ten years	10,291	10,710	9,580	9,678
Due after ten years	3,534	3,270	—	—
Agency mortgage-backed securities	317,146	321,518	28,444	28,896
	\$454,965	\$461,832	\$43,257	\$43,853

The following table represents a summary of investment securities that had an unrealized loss:

(in thousands)	March 31, 2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	\$3,302	\$ 14	\$3,680	\$ 332	\$6,982	\$ 346
Agency mortgage-backed securities	335	—	51,133	449	51,468	449
	\$3,637	\$ 14	\$54,813	\$ 781	\$58,450	\$ 795

(in thousands)	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	\$2,199	\$ 12	\$9,395	\$ 380	\$11,594	\$ 392
Agency mortgage-backed securities	189,229	2,050	21,020	737	210,249	2,787
	\$191,428	\$				