

ENTERPRISE FINANCIAL SERVICES CORP  
Form 10-Q  
April 27, 2018

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, 2018.

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth 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   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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

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As of April 25, 2018, the Registrant had 23,111,255 shares of outstanding common stock, \$0.01 par value.

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

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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, 2018	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$81,604	\$91,084
Federal funds sold	1,099	1,223
Interest-bearing deposits (including \$1,295 and \$1,365 pledged as collateral, respectively)	60,398	61,016
Total cash and cash equivalents	143,101	153,323
Interest-bearing deposits greater than 90 days	2,400	2,645
Securities available for sale	652,272	641,382
Securities held to maturity	70,579	73,749
Loans held for sale	1,748	3,155
Loans	4,190,845	4,097,050
Less: Allowance for loan losses	44,650	42,577
Total loans, net	4,146,195	4,054,473
Other real estate	455	498
Other investments, at cost	29,263	26,661
Fixed assets, net	32,127	32,618
Accrued interest receivable	17,277	14,069
State tax credits held for sale (including \$350 and \$400 carried at fair value, respectively)	42,364	43,468
Goodwill	117,345	117,345
Intangible assets, net	10,399	11,056
Other assets	117,577	114,783
Total assets	\$5,383,102	\$5,289,225
<b>Liabilities and Shareholders' Equity</b>		
Demand deposits	\$1,101,705	\$1,123,907
Interest-bearing transaction accounts	875,880	915,653
Money market accounts	1,445,459	1,342,931
Savings	210,029	195,150
Certificates of deposit:		
Brokered	201,082	115,306
Other	447,222	463,467
Total deposits	4,281,377	4,156,414
Subordinated debentures and notes (net of debt issuance cost of \$1,103 and \$1,136, respectively)	118,118	118,105
Federal Home Loan Bank advances	224,624	172,743
Other borrowings	166,589	253,674
Accrued interest payable	2,046	1,730
Other liabilities	35,333	37,986
Total liabilities	4,828,087	4,740,652
<b>Shareholders' equity:</b>		
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; 23,867,710 and 23,781,112 shares issued, respectively	239	238

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Treasury stock, at cost; 756,588 and 691,673 shares, respectively	(26,326 )	(23,268 )
Additional paid in capital	348,092	350,061
Retained earnings	244,573	225,360
Accumulated other comprehensive loss	(11,563 )	(3,818 )
Total shareholders' equity	555,015	548,573
Total liabilities and shareholders' equity	\$5,383,102	\$ 5,289,225

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,	
	2018	2017
Interest income:		
Interest and fees on loans	\$50,450	\$39,926
Interest on debt securities:		
Taxable	3,987	3,230
Nontaxable	282	386
Interest on interest-bearing deposits	240	130
Dividends on equity securities	205	68
Total interest income	55,164	43,740
Interest expense:		
Interest-bearing transaction accounts	806	675
Money market accounts	3,353	1,493
Savings accounts	125	82
Certificates of deposit	1,899	1,215
Subordinated debentures and notes	1,368	1,164
Federal Home Loan Bank advances	1,258	330
Notes payable and other borrowings	184	139
Total interest expense	8,993	5,098
Net interest income	46,171	38,642
Provision for portfolio loan losses	1,871	1,533
Provision reversal for purchased credit impaired loan losses	—	(148 )
Net interest income after provision for loan losses	44,300	37,257
Noninterest income:		
Service charges on deposit accounts	2,851	2,510
Wealth management revenue	2,114	1,833
Card services revenue	1,516	1,037
Gain on state tax credits, net	252	246
Gain on sale of investment securities	9	—
Miscellaneous income	2,800	1,350
Total noninterest income	9,542	6,976
Noninterest expense:		
Employee compensation and benefits	16,491	15,208
Occupancy	2,406	1,929
Data processing	1,467	1,633
Professional fees	849	837
FDIC and other insurance	917	824
Loan legal and other real estate expense	299	345
Merger related expenses	—	1,667
Other	6,714	4,293
Total noninterest expense	29,143	26,736
Income before income tax expense	24,699	17,497
Income tax expense	3,778	5,106
Net income	\$20,921	\$12,391



Earnings per common share

Basic	\$0.91	\$0.57
Diluted	0.90	0.56

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,	
	2018	2017
Net income	\$20,921	\$12,391
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities arising during the period, net of income tax expense (benefit) for three months of \$(2,265) and \$348, respectively	(6,904	) 567
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 \$2 and \$0, respectively	(7	) —
Total other comprehensive income (loss)	(6,911	) 567
Total comprehensive income	\$14,010	\$12,958

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)	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance December 31, 2017	\$ 238	\$(23,268)	\$350,061	\$225,360	\$ (3,818 )	\$ 548,573
Net income	—	—	—	20,921	—	20,921
Other comprehensive income	—	—	—	—	(6,911 )	(6,911 )
Total comprehensive income	—	—	—	20,921	(6,911 )	14,010
Cash dividends paid on common shares, \$0.11 per share	—	—	—	(2,542 )	—	(2,542 )
Repurchase of common shares	—	(3,058 )	—	—	—	(3,058 )
Issuance under equity compensation plans, 86,598 shares, net	1	—	(2,687 )	—	—	(2,686 )
Share-based compensation	—	—	718	—	—	718
Reclassification adjustments for change in accounting policies	—	—	—	834	(834 )	—
Balance March 31, 2018	\$ 239	\$(26,326)	\$348,092	\$244,573	\$ (11,563 )	\$ 555,015

(in thousands, except per share data)	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance December 31, 2016	\$ 203	\$(6,632 )	\$213,078	\$182,190	\$ (1,741 )	\$ 387,098
Net income	—	—	—	12,391	—	12,391
Other comprehensive income	—	—	—	—	567	567
Total comprehensive income	—	—	—	12,391	567	12,958
Cash dividends paid on common shares, \$0.11 per share	—	—	—	(2,579 )	—	(2,579 )
Issuance under equity compensation plans, 93,236 shares, net	1	—	(2,152 )	—	—	(2,151 )
Share-based compensation	—	—	866	—	—	866
Shares issued in connection with acquisition of Jefferson County Bancshares, Inc., 3,299,865 shares, net	33	—	141,696	—	—	141,729
Reclassification for the adoption of share-based payment guidance	—	—	(5,229 )	5,229	—	—
Balance March 31, 2017	\$ 237	\$(6,632 )	\$348,259	\$197,231	\$ (1,174 )	\$ 537,921

See accompanying notes to consolidated financial statements.

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Three months ended March 31,

(in thousands, except share data)	2018	2017
Cash flows from operating activities:		
Net income	\$ 20,921	\$ 12,391
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	849	387
Provision for loan losses	1,870	1,385
Deferred income taxes	2,290	962
Net amortization of debt securities	533	1,310
Amortization of intangible assets	656	446
Gain on sale of investment securities	(9 )	—
Mortgage loans originated for sale	(12,389 )	(38,602 )
Proceeds from mortgage loans sold	13,917	42,710
Gain on state tax credits, net	(252 )	(246 )
Share-based compensation	718	866
Net accretion of loan discount	(467 )	(1,014 )
Changes in:		
Accrued interest receivable	(3,209 )	1,682
Accrued interest payable	315	156
Other assets	(888 )	(1,728 )
Other liabilities	(2,640 )	(51,693 )
Net cash provided by (used in) operating activities	22,215	(30,988 )
Cash flows from investing activities:		
Proceeds from JCB acquisition, net of cash purchase price	—	6,171
Net increase in loans	(93,125 )	(57,054 )
Proceeds from the sale of securities, available for sale	1,451	143,554
Proceeds from the paydown or maturity of securities, available for sale	19,683	42,223
Proceeds from the paydown or maturity of securities, held to maturity	1,639	1,180

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Proceeds from the redemption of other investments	13,514		12,033	
Proceeds from the sale of state tax credits held for sale	1,356		4,093	
Payments for the purchase/origination of:				
Available for sale debt securities	(40,313	)	(169,842	)
Other investments	(17,864	)	(20,318	)
State tax credits held for sale	—		(1,298	)
Fixed assets	(370	)	(247	)
Net cash used in investing activities	(114,029	)	(39,505	)
Cash flows from financing activities:				
Net increase (decrease) in noninterest-bearing deposit accounts	(22,202	)	9,646	
Net increase in interest-bearing deposit accounts	147,165		23,316	
Proceeds from Federal Home Loan Bank advances	484,500		681,181	
Repayments of Federal Home Loan Bank advances	(432,500	)	(530,681	)
Net decrease in other borrowings	(87,085	)	(98,040	)
Cash dividends paid on common stock	(2,542	)	(2,579	)
Payments for the repurchase of common stock	(3,058	)	—	
Payments for the issuance of equity instruments, net	(2,686	)	(2,151	)
Net cash provided by financing activities	81,592		80,692	
Net increase (decrease) in cash and cash equivalents	(10,222	)	10,199	
Cash and cash equivalents, beginning of period	153,323		198,802	
Cash and cash equivalents, end of period	\$ 143,101		\$ 209,001	
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	\$ 8,677		\$ 4,289	
Income taxes	685		28	
Noncash transactions:				
Common shares issued in connection with JCB	—		141,729	

acquisition

See accompanying notes to consolidated financial statements.

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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, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2018. 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, 2017.

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.

During the first quarter of 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 requires equity investments to be measured at fair value through earnings, and eliminates the available-for-sale classification for equity securities with readily determinable fair values. The guidance also provides an alternative to measure equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer (the "measurement alternative"). The Company elected the measurement alternative for its qualifying equity securities. The adoption of this update resulted in an insignificant increase to retained earnings which was reclassified from accumulated other comprehensive income.

In addition, the Company early adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The objective of ASU 2017-12 is to improve the financial reporting of hedging relationships by better aligning an entity's risk management activity with the economic objectives in undertaking those activities. The adoption of this update had an insignificant impact on the Company's consolidated financial statements.

The Company also early adopted ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" during the first quarter of 2018. The ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The adoption of this update resulted in an increase to retained earnings of \$0.8 million being reclassified from accumulated other comprehensive income.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.



## Revenue

The Company adopted ASU 2014-09 in the first quarter of 2018 using the modified retrospective approach. The Company's revenues are primarily composed of interest income on financial instruments, including investment securities, which are excluded from the scope of the new guidance. Certain other noninterest income from loans, investment securities and derivative financial instruments is also excluded from this guidance. Service charges on deposit accounts, wealth management revenue, card services revenue, and gain on sale of other real estate are within the scope of the guidance; however, there were no accounting policy changes as the Company's policies were consistent with the new guidance. Other noninterest income sources of revenue are considered immaterial. Implementation of this guidance did not change current business practices or have any changes to the Company's consolidated financial statements.

Descriptions of our revenue-generating activities that are within the scope of this guidance, which are presented in our income statement as components of noninterest income are as follows:

- Service charges on deposit accounts - represents fees generated from a variety of deposit products and services provided to customers under a day-to-day contract. These fees are recognized on a daily or monthly basis.
- Wealth management revenue - represents monthly fees earned from directing, holding, and managing customers' assets. Revenue is recognized over regular intervals, either monthly or quarterly.
- Card services revenue - represents revenue earned from merchant, debit and credit cards as incurred and includes a contra revenue account for rebates.
- Gain on sale of other real estate - represents income recognized at delivery of control of a property at the time of a real estate closing.

## Income Taxes

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The Company has recorded amounts based on the information known and reasonable estimates used as of March 31, 2018, but are subject to change based on a number of factors. The Company will complete its analysis of certain tax positions at the time it files its tax returns for the year ended December 31, 2017 and will be able to conclude if any further adjustments to the provisional estimate of the impact recorded is required.

## NOTE 2 - EARNINGS PER SHARE

Basic earnings per common share data is calculated by dividing net income 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,	
	2018	2017

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Net income as reported	\$20,921	\$12,391
Weighted average common shares outstanding	23,115	21,928
Additional dilutive common stock equivalents	172	381
Weighted average diluted common shares outstanding	23,287	22,309
Basic earnings per common share:	\$0.91	\$0.57
Diluted earnings per common share:	\$0.90	\$0.56

For the three months ended March 31, 2018 and 2017, there were no common stock equivalents excluded from the earnings per share calculations because their effect would have been anti-dilutive.

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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: