ENTERPRISE FINANCIAL SERVICES CORP
Form 10-K
March 16, 2010

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

FORM 10-K

[X]	Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 For the fiscal year ended December 31, 2009
[ ]	Transition Report Pursuant to Section 13 or 15(d) of the Securities and 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

Securities registered pursuant to Section 12(b) of the Act:

(Title of class)	(Name of each exchange on which registered)
Common Stock, par value $.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: [ ] Accelerated filer: [X] Non-accelerated filer: [ ] Smaller Reporting Company: [ ]

(Other than a 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 [X]

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $123,481,194 based on the closing price of the common stock of $9.01 on March 1, 2010, as reported by the NASDAQ Global Select Market.

As of March 1, 2010, the Registrant had 14,851,609 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the Registrant’s Proxy Statement for the 2010 Annual Meeting of Shareholders, which will be filed within 120 days of December 31, 2009.

ENTERPRISE FINANCIAL SERVICES CORP
2009 ANNUAL REPORT ON FORM 10-K

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995
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 statemen 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 regulations 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; or technological developments; and other risks discussed in more detail in Item 1A: "Risk Factors", all of which could cause the Company's actual results to differ from those set forth in the forward-looking statements.

Our acquisitions could cause results to differ from expected results due to costs and expenses that are greater, or benefits that are less, than we currently anticipate, or the assumption of unanticipated liabilities.

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 (the "SEC") which are available on our website at www.enterprisebank.com.

PART I

ITEM 1: BUSINESS

General
Enterprise Financial Services Corp ("we" or "the Company" or "EFSC"), a Delaware corporation, is a financial holding company headquartered in St. Louis, Missouri. The Company provides a full range of banking and wealth management services to individuals and business customers located in the St. Louis, Kansas City and Phoenix metropolitan markets through its banking subsidiary, Enterprise Bank & Trust ("Enterprise" or "the Bank"). Our executive offices are located at 150 North Meramec, Clayton, Missouri 63105 and our telephone number is (314) 725-5500.

On December 11, 2009, Enterprise entered into a loss sharing agreement with the Federal Deposit Insurance Corporation ("FDIC") and acquired certain assets and assumed certain liabilities of Valley Capital Bank, a full service community bank that was headquartered in Mesa, Arizona. Under the terms of the agreement, we acquired tangible assets with an estimated fair value of approximately $42.4 million and assumed liabilities with an estimated fair value of approximately $43.4 million. Under the loss sharing agreement, Enterprise will share in the losses on assets covered under the agreement ("Covered Assets"). The FDIC has agreed to reimburse Enterprise for 80 percent of the losses on Covered Assets up to $11,000,000 and 95 percent of the losses on Covered Assets exceeding $11,000,000. Reimbursement for losses on single family one-to-four residential mortgage loans are made quarterly until December 31, 2019 and reimbursement for losses on non-single family one-to-four residential mortgage loans are made quarterly until December 31, 2014. The reimbursable losses from the FDIC are based on the book value of the acquired loans and foreclosed assets as determined by the FDIC as of the date of the acquisition, December 11, 2009.

On January 20, 2010, we sold our life insurance subsidiary, Millennium Brokerage Group, LLC ("Millennium"), for $4.0 million in cash. Enterprise acquired 60% of Millennium in October 2005 and acquired the remaining 40% in December 2007. As a result of the sale, Millennium is reported as a discontinued operation for all periods presented herein.

On January 25, 2010, the Company completed the sale of 1,931,610 shares, or $15.0 million of its common stock in a private placement offering. We intend to use the net proceeds of the offering for general corporate purposes, which may include, without limitation, providing capital to support the growth of our subsidiaries and other strategic business opportunities in our market areas, including FDIC-assisted transactions. We may also seek the approval of our regulators to utilize the proceeds of this offering and other cash available to us to repurchase all or a portion of the securities that we issued to the United States Department of the Treasury (the "U.S. Treasury").

On December 19, 2008, pursuant to the Capital Purchase Program ("CPP" or the "Capital Purchase Program") established by the U. S. Treasury, EFSC issued and sold to the Treasury for an aggregate purchase price of $35.0 million in cash (i) 35,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $.01 per share, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), and (ii) a ten-year warrant to purchase up to 324,074 shares of common stock, par value $.01 per share, of EFSC, at an initial exercise price of $16.20 per share, subject to certain anti-dilution and other adjustments (the "Warrant").

Available Information
Our website is www.enterprisebank.com. Various reports provided to the SEC including our annual reports, quarterly reports, current reports and proxy statements are available free of charge on our website. These reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC. Our filings with the SEC are also available on the SEC's website at http://www.sec.gov.

Business Strategy
Our stated mission is "to guide our clients to a lifetime of financial success." We have established an accompanying corporate vision "to build an exceptional company that clients value, shareholders prize and where our associates flourish." These tenets are fundamental to our business strategies and operations.

Our general business strategy is to generate superior shareholder returns by providing comprehensive financial services through banking and wealth management lines of business primarily to private businesses, their owner families and other success-minded individuals.

Our commercial banking line of business offers a broad range of business and personal banking services. Lending services include commercial, commercial real estate, financial and industrial development, real estate construction and development, residential real estate, and consumer loans. A wide variety of deposit products and a complete suite of treasury management and international trade services complement our lending capabilities.

The wealth management line of business includes the Company's trust operations and Missouri state tax credit brokerage activities. Enterprise Trust, a division of Enterprise ("Enterprise Trust" or "Trust") provides financial planning, advisory, investment management and trust services to our target markets. Business financial services are focused in the areas of retirement plans, management compensation and management succession planning. Personal advisory services include estate planning, financial planning, business succession planning and retirement planning services. Investment management and fiduciary services are provided to individuals, businesses, institutions and nonprofit organizations. State tax credit brokerage activities consist of the acquisition of Missouri state tax credit assets and sale of these tax credits to clients.

Key success factors in pursuing our strategy include a focused and relationship-oriented distribution and sales approach, emphasis on growing wealth management revenues, aggressive credit and interest rate risk management, advanced technology and tightly managed expense growth.

Building long-term client relationships – Our historical growth strategy has been largely client relationship driven. We continuously seek to add clients who fit our target market of business owners and associated families. Those relationships are maintained, cultivated and expanded over time. This strategy enables us to attract clients with significant and growing borrowing needs, and maintain those relationships as they grow. Our banking officers are typically highly experienced. As a result of our long-term relationship orientation, we are able to fund loan growth primarily with core deposits from our business and professional clients. This is supplemented by borrowing from the Federal Home Loan Bank of Des Moines (the "FHLB"), the Federal Reserve, and by issuing brokered certificates of deposits, priced at or below alternative cost of funds.

Growing Wealth Management business – Enterprise Trust offers both fiduciary and financial advisory services. We employ a full complement of attorneys, certified financial planners, estate planning professionals, as well as other investment professionals who offer a broad range of services for business owners and high net worth individuals. Employing an intensive, personalized methodology, Enterprise Trust representatives assist clients in defining lifetime goals and designing plans to achieve them. Consistent with the Company's long-term relationship strategy, Trust representatives maintain close contact with clients ensuring follow up, discipline, and appropriate adjustments as circumstances change.

Capitalizing on technology – We view our technological capabilities to be a competitive advantage. Our systems provide Internet banking, expanded treasury management products, check and document imaging, as well as a 24-hour voice response system. Other services currently offered by Enterprise include controlled disbursements, repurchase agreements and sweep investment accounts. Our treasury management suite of products blends advanced technology and personal service, often creating a competitive advantage over larger, nationwide banks. Technology is also utilized extensively in internal systems, operational support functions to improve customer service, and management reporting and analysis.

Maintaining asset quality – Senior management and the head of credit administration monitor our asset quality through regular reviews of loans. In addition, the Bank's loan portfolio is subject to ongoing monitoring by a loan review function that reports directly to the audit committee of our board of directors.

Expense management – The Company is focused on leveraging its current expense base and measures the "efficiency ratio" as a benchmark for improvement. The efficiency ratio is equal to noninterest expense divided by total revenue (net interest income plus noninterest income). Continued improvement is targeted to increase earnings per share and generate higher returns on equity.

Market Areas and Approach to Geographic Expansion

Enterprise operates in the St. Louis, Kansas City and Phoenix metropolitan areas. The Company, as part of its expansion effort, plans to continue its strategy of operating relatively fewer offices with a larger asset base per office, emphasizing commercial banking and wealth management and employing experienced staff who are compensated on the basis of performance and customer service.

St. Louis

The Company has four Enterprise banking facilities in the St. Louis metropolitan area. The St. Louis region enjoys a stable, diverse economic base and is ranked the 19th largest metropolitan statistical area in the United States. It is an attractive market for us with nearly 70,000 privately held businesses and over 50,000 households with investible assets of $1.0 million or more. We are the largest publicly-held, locally headquartered bank in this market.

Kansas City

At December 31, 2009, the Company had seven banking facilities in the Kansas City Market. Kansas City is also an attractive private company market with over 50,000 privately held businesses and over 35,000 households with investible assets of $1.0 million or more. To more efficiently deploy our resources, on February 28, 2008, we sold the Enterprise branch in Liberty, Missouri and on July 31, 2008, we sold the Kansas state bank charter of Great American along with the DeSoto, Kansas branch. See Item 8, Note 3 – Acquisitions and Divestitures for more information.

Phoenix

On December 11, 2009, Enterprise acquired certain assets and assumed certain liabilities of Valley Capital Bank in Mesa, Arizona in an FDIC-assisted transaction. The single location opened on December 14, 2009 as an Enterprise branch. After receiving regulatory approval, Enterprise opened a new branch in the western suburbs of Phoenix on February 16, 2010. See Note 3 – Acquisitions and Divestitures for more information.

Despite the market downturn in residential real estate, we believe the Phoenix market offers substantial long-term growth opportunities for Enterprise. The demographic and geographic factors that propelled Phoenix into one of the fastest growing and most dynamic markets in the country still exist, and we believe these factors should drive continued growth in that market long after the current real estate slump is over. Today, Phoenix has more than 86,000 privately held businesses and 72,000 households with investible assets over $1.0 million each.

Competition

The Company and its subsidiaries operate in highly competitive markets. Our geographic markets are served by a number of large multi-bank holding companies with substantial capital resources and lending capacity. Many of the larger banks have established specialized units, which target private businesses and high net worth individuals. Also, the St. Louis, Kansas City and Phoenix markets have numerous small community banks. In addition to other financial holding companies and commercial banks, we compete with credit unions, thrifts, investment managers, brokerage firms, and other providers of financial services and products.

Supervision and Regulation

Financial Holding Company
The Company is a financial holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). As a financial holding company, the Company is subject to regulation and examination by the Federal Reserve Board, and is required to file periodic reports of its operations and such additional information as the Federal Reserve may require. In order to remain a financial holding company, the Company must continue to be considered well managed and well capitalized by the Federal Reserve and have at least a "satisfactory" rating under the Community Reinvestment Act. See "Liquidity and Capital Resources" in the Management Discussion and Analysis for more information on our capital adequacy and "Bank Subsidiary – Community Reinvestment Act" below for more information on Community Reinvestment.

Acquisitions: With certain limited exceptions, the BHCA requires every financial holding company or bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring substantially all the assets of any bank, (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or (iii) merging or consolidating with another bank holding company. The BHCA also prohibits a financial holding company generally from engaging directly or indirectly in activities other than those involving banking, activities closely related to banking that are permitted for a bank holding company, securities, insurance or merchant banking. Federal legislation permits bank holding companies to acquire control of banks throughout the United States.

United States Department of the Treasury Capital Purchase Program: On December 19, 2008, the Company received an investment of approximately $35.0 million from the U.S. Treasury under the Capital Purchase Program. In exchange for the investment, the Company issued to the U.S. Treasury (i) 35,000 shares of EFSC Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 324,074 shares of EFSC common stock, par value $0.01 per share (the "Common Stock") at a price of $16.20 per share. The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter.

Pursuant to the terms of the purchase agreement with the U.S. Treasury, our ability to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of junior stock and parity stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($0.0525) declared on the common stock prior to December 19, 2008. The redemption, purchase or other acquisition of trust preferred securities of EFSC or our affiliates is also restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Series A Preferred Stock and (b) the date on which the Series A Preferred Stock has been redeemed in whole or U.S. Treasury has transferred all of the Series A Preferred Stock to third parties.

In addition, the ability of EFSC to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of its other classes of stock is subject to restrictions in the event that EFSC fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on its Series A Preferred Stock.

We are also subject to restrictions on the amount and type of compensation that we can pay our employees and are required to provide monthly reports to the U.S. Treasury regarding our lending activity during the time that the U.S. Treasury owns shares of the Series A Preferred Stock.

Dividend Restrictions: In addition to the restrictions imposed by the CPP on our ability to pay dividends to holders of our common stock, under Federal Reserve Board policies, bank holding companies may pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition and if the organization is not in danger of not meeting its minimum regulatory capital requirements. Federal Reserve Board policy also provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Bank Subsidiary
At December 31, 2009, Enterprise was our only bank subsidiary. Enterprise is a Missouri trust company with banking powers and is subject to supervision and regulation by the Missouri Division of Finance. In addition, as a Federal Reserve non-member bank, it is subject to supervision and regulation by the FDIC. Enterprise is a member of the FHLB of Des Moines.

Enterprise is subject to extensive federal and state regulatory oversight. The various regulatory authorities regulate or monitor all areas of the banking operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuance of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. Enterprise must maintain certain capital ratios and is subject to limitations on aggregate investments in real estate, bank premises, and furniture and fixtures. Enterprise is subject to periodic examination by the FDIC and Missouri Division of Finance.

Dividends by the Bank Subsidiary: Under Missouri law, Enterprise may pay dividends to the Company only from a portion of its undivided profits and may not pay dividends if its capital is impaired.

Transactions with Affiliates and Insiders: Enterprise is subject to the provisions of Regulation W promulgated by the Federal Reserve, which encompasses Sections 23A and 23B of the Federal Reserve Act. Regulation W places limits and conditions on the amount of loans or extensions of credit to, investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Regulation W also prohibits, among other things, an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Community Reinvestment Act: The Community Reinvestment Act (“CRA”) requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. The Company has a satisfactory rating under CRA.

USA Patriot Act: The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) implement certain due diligence policies, procedures and controls with regard to correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA PATRIOT Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

Limitations on Loans and Transactions: The Federal Reserve Act generally imposes certain limitations on extensions of credit and other transactions by and between banks that are members of the Federal Reserve and other affiliates (which includes any holding company of which a bank is a subsidiary and any other non-bank subsidiary of such holding company). Banks that are not members of the Federal Reserve are also subject to these limitations. Further, federal law prohibits a bank holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or the furnishing of services.

Deposit Insurance Fund: The FDIC establishes rates for the payment of premiums by federally insured banks for deposit insurance. The Deposit Insurance Fund (“DIF”) is maintained for commercial banks, with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail. The FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated insured deposits.

To fund this program, pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC adopted a new risk-based deposit insurance premium system that provides for quarterly assessments. Beginning in 2007, institutions were grouped into one of four categories based on their FDIC ratings and capital ratios.

To restore its reserve ratio, the FDIC raised the base annual assessment rate for all institutions in 2009. As a result of this increase, institutions pay an assessment of between 12 and 77.5 basis points depending on the institution's risk classification. Under the new assessment structure, Enterprise's average annual assessment during 2009 was 15.43 basis points (excluding the special assessment described below). An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Institutions assigned to higher-risk classifications pay assessments at higher rates than institutions that pose a lower risk. Each institution's assessment rate is further adjusted based on the institution's reliance on brokered deposits and/or other secured liabilities and the amount of unsecured debt.

On February 27, 2009, the FDIC imposed a one-time special assessment equal to $995,000 which was paid in the third quarter of 2009. In addition, on November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums. As a result, Enterprise prepaid $11.5 million in December 2009. The prepayment will be expensed over the subsequent three years.

Employees

At December 31, 2009, we had approximately 308 full-time equivalent employees. None of the Company's employees are covered by a collective bargaining agreement. Management believes that its relationship with its employees is good.

ITEM 1A: RISK FACTORS

An investment in our common shares is subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones we face. Although we have significant risk management policies, procedures and verification processes in place, additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also materially and adversely impair our business operations. The value of our common shares could decline due to any of these risks, and you could lose all or part of your investment.

Risks Related To Our Business

Various factors may cause our allowance for loan losses to increase.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's estimate of probable losses within the existing portfolio of loans. The allowance, in the judgment of management, is sufficient to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's loan loss allowance increased during the 2008 fiscal year and through 2009 due to changes in economic conditions affecting borrowers, new information regarding existing loans, and identification of additional problem loans. We continue to monitor the adequacy of our loan loss allowance and may need to increase it if economic conditions continue to deteriorate. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments that can differ somewhat from those of our own management. In addition, if charge-offs in future periods exceed the allowance for loan losses (i.e., if the loan allowance is inadequate), we will need additional loan loss provisions to increase the allowance for loan losses. Additional provisions to increase the allowance for loan losses, should they become necessary, would result in a decrease in net income or an increase in net loss and a reduction in capital, and may have a material adverse effect on our financial condition and results of operations.

Our loan portfolio is concentrated in certain markets which could result in increased credit risk.

Substantially all of our loans are to businesses and individuals in the St. Louis, Kansas City, and Phoenix metropolitan areas. The regional economic conditions in areas where we conduct our business have an impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources.

Our loan portfolio mix, which has a concentration of loans secured by real estate, could result in increased credit risk.

A significant portion of our portfolio is secured by real estate and thus we have a high degree of risk from a downturn in our real estate markets. If real estate values continue to decline further in our markets, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans where the primary reliance for repayment is on the real estate collateral by foreclosing and selling that real estate would then be diminished and we would be more likely to suffer losses on defaulted loans.

Additionally, because Kansas is a judicial foreclosure state, all foreclosures must be processed through the Kansas state courts. Until the court confirms that the nonperforming loan is in default, we can take no action against the borrower or the property. Due to this process, it takes approximately one year for us to foreclose on real estate collateral located in the State of Kansas. Our ability to recover on defaulted loans in our Kansas market may be delayed and we would be more likely to suffer losses on defaulted loans in this market.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.
Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downtown, our failure to remain well capitalized, or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as the recent turmoil faced by banking organizations in the domestic and worldwide credit markets deteriorates.

We believe the level of liquid assets at Enterprise is sufficient to meet our current and anticipated funding needs. In addition to amounts currently borrowed at December 31, 2009, we could borrow an additional $118.5 million from the Federal Home Loan Bank of Des Moines under blanket loan pledges and an additional $279.7 million from the Federal Reserve Bank under pledged loan agreements. We also have access to $30.0 million in overnight federal funds lines from various correspondent banks. Of our $282.5 million investment portfolio available for sale, approximately $211.6 million is available for pledging or can be sold to enhance liquidity, if necessary. In addition, we believe our current level of cash at the holding company will be sufficient to meet all projected cash needs in 2010. See “Liquidity and Capital Resources” for more information.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.
A substantial portion of our income is derived from the differential or “spread” between the interest earned on loans, investment securities and other interest-earning assets, and the interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Significant fluctuations in market interest rates could materially and adversely affect not only our net interest spread, but also our asset quality and loan origination volume.

If our businesses do not perform well, we may be required to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.
Deferred income taxes represent the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. If based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. As of December 31, 2009, the Company did not carry a valuation allowance against its deferred tax asset balance of $18.3 million. Future facts and circumstances may require a valuation allowance. Charges to establish a valuation allowance could have a material adverse effect on our results of operations and financial position.

If the Bank continues to incur losses that erode its capital, it may become subject to enhanced regulation or supervisory action.
Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, the Missouri Division of Finance and the Federal Reserve, and separately the FDIC as insurer of the Bank’s deposits, have authority to compel or restrict certain actions if the Bank’s capital should fall below adequate capital standards as a result of future operating losses, or if its bank regulators determine that it has insufficient capital. Among other matters, the corrective actions include but are not limited to requiring affirmative action to correct any conditions resulting from any violation or practice; directing an increase in capital and the maintenance of specific minimum capital ratios; restricting the Bank’s operations; limiting the rate of interest it may pay on brokered deposits; restricting the amount of distributions and dividends and payment of interest on its trust preferred securities; requiring the Bank to enter into informal or formal enforcement orders, including memoranda of understanding, written agreements and consent or cease and desist orders to take corrective action and enjoin unsafe and unsound practices; removing officers and directors and assessing civil monetary penalties; and taking possession and closing and liquidating the Bank. See “Supervision and Regulation”.

Changes in government regulation and supervision may increase our costs.
Our operations are subject to extensive regulations by federal, state and local governmental authorities. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not stockholders. We are now also subject to supervisions, regulation and investigation by the U.S. Treasury and the Office of the Special Inspector General for the Troubled Asset Relief Program ("TARP") by virtue of our participation in the Capital Purchase Program. Changes to statutes, regulations or regulatory policies; changes in the interpretation or implementation of statutes, regulations or policies could subject us to additional costs, limit the types of financial services and products that we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

Any future increases in FDIC insurance premiums will adversely impact our earnings.
In 2009, the FDIC charged a "special assessment" equal to five basis point special assessment on each insured depository institution's assets minus Tier 1 capital. Our special assessment amounted to $995,000 and was paid on September 30, 2009. The FDIC also raised our annual assessment rate by 9.11 basis points to an average of 15.43 basis points. It is possible that the FDIC may impose additional special assessments in the future or further increase our annual assessment, which could adversely affect our earnings.

We may be adversely affected by the soundness of other financial institutions.
Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different institutions and counterparties, and execute transactions with various counterparties in the financial industry, including federal home loan banks, commercial banks, brokers and dealers, investment banks and other institutional clients. Recent defaults by financial services institutions, and even rumors or questions about one or more financial services institutions or the financial services industry in general, have led to market wide liquidity problems and could lead to losses or defaults by us or by other institutions. Any such losses could materially and adversely affect our results of operations.

We have engaged in and may continue to engage in further expansion through acquisitions, including FDIC-assisted transactions, which could negatively affect our business and earnings.
Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings.

We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book value, and, therefore, some dilution of our tangible book value per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations. Finally, to the extent that we issue capital stock in connection with transactions, such transactions and related stock issuances may have a dilutive effect on earnings per share of our common stock and share ownership of our stockholders.

We operate in a highly competitive industry and market areas.
We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and super-regional banks as well as smaller community banks within the markets in which we operate. However, we also face competition from many other types of financial institutions, including, without limitation, credit unions, mortgage banking companies, mutual funds, insurance companies, investment management firms, and other local, regional and national financial services firms. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation.

Loss of our key employees could adversely affect our business.
Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we are engaged can be intense and we may not be able to hire or retain the people we want and/or need. Although we maintain employment agreements with certain key employees, and have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a material adverse impact on our business because of the loss of the employee's skills, knowledge of our market, business relationships and the difficulty of promptly finding qualified replacement personnel.

Pursuant to our participation in the CPP, we adopted certain standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity issued pursuant to our participation in the CPP. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, although certain restrictions apply to as many as twenty-five (25) of our most highly compensated employees. The restrictions severely limit the amount and types of compensation we can pay our executive officers and key employees, including a complete prohibition on any severance or other compensation upon termination of employment, significant caps on bonuses and retention payments. Such restrictions may impede our ability to attract and retain skilled people in our top management ranks.

We may need to raise additional capital in the future, which may not be available to us or may only be available on unfavorable terms.
We may need to raise additional capital in the future in order to support any additional provisions for loan losses and loan charge-offs, to maintain our capital ratios or for a number of other reasons. The condition of the financial markets may be such that we may not be able to obtain additional capital or the additional capital may only be available on terms that are not attractive to us.

Our controls and procedures may fail or be circumvented.
Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

During the third quarter of 2009, we determined that the Company did not have a formal process of reviewing existing contracts with continuing accounting significance and as a result did not detect an error in the accounting for loan participations executed subject to its standard participation agreement. This resulted in the restatement of our financial results at December 31, 2007, December 31, 2008, each quarter in 2008 and the first and second quarters of 2009. Except for labeling affected prior period financial statements as “Restated,” no further changes are being made to our above described corrected financial statements and no further restatement of our financial statements is anticipated. As previously disclosed, as a result of the amendment of the loan participation agreements, the overall effect of these adjustments from the original period of correction to December 31, 2009 was neutral to the Company’s financial results.

After identifying the error, we concluded that a material weakness in our internal controls over financial reporting existed during the periods affected by the error. Management concluded that the material weakness was the Company’s lack of a formal process to periodically review existing contracts and agreements with continuing accounting significance.

During the fourth quarter of 2009, management implemented a formal process to review all contracts and agreements with continuing accounting significance on an annual basis. As a result of the review conducted in the fourth quarter, management did not identify any other errors in its previous accounting for such contracts or agreements. We believe that these steps remediated the above described material weakness. Although we believe that this material weakness has been remediated, there can be no assurance that similar weaknesses will not occur in the future which could adversely affect our future results of operations or our stock price. See Item 8, Note 2 – Loan Participation Restatement and Item 9A for more information.

Our information systems may experience an interruption or breach in security.
We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Risks Associated With Our Shares

Our share price can be volatile.
The trading price of our common stock has fluctuated significantly and may do so in the future. These fluctuations may result from a number of factors, many of which are outside of our control. The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility recently. In addition, the trading volume in our common stock is lower than for many other publicly traded companies. As a result of these factors, the market price of our common stock may be volatile.

An investment in our common stock is not an insured deposit.
An investment in our common stock is not a savings account, deposit or other obligation of our bank subsidiary, any non-bank subsidiary or any other bank, and are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common shares, you may lose some or all of your investment.

Our ability to pay dividends is limited by various statutes and regulations and depends primarily on the Bank’s ability to distribute funds to us, which is also limited by various statutes and regulations.
Enterprise Financial Services Corp depends on payments from the Bank, including dividends and payments under tax sharing agreements, for substantially all of its revenue. Federal and state regulations limit the amount of dividends and the amount of payments that the Bank may make to Enterprise Financial Services Corp under tax sharing agreements. In certain circumstances, the Missouri Division of Finance, FDIC or Federal Reserve could restrict or prohibit the Bank from distributing dividends or making other payments to us. In the event that the Bank was restricted from paying dividends to Enterprise Financial Services Corp or make payments under the tax sharing agreement, Enterprise Financial Services Corp may not be able to service its debt, pay its other obligations or pay dividends on our Series A Preferred Stock or pay dividends on its common stock. If we are unable or determine not to pay dividends on our common stock, the market price of the common stock could be materially adversely affected.

The terms of our outstanding preferred stock limit our ability to pay dividends on and repurchase our common stock.
The terms of our Series A Preferred Stock provide that prior to the earlier of (i) December 19, 2011 and (ii) the date on which all of the shares of the Series A Preferred Stock have been redeemed by us or transferred by the U.S. Treasury to third parties, we may not, without the consent of the U.S. Treasury, (a) increase the cash dividend on our common stock above $0.0525 per share per quarter or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire shares of our common stock or preferred stock other than shares of our Series A Preferred Stock. These restrictions could have a negative effect on the value of our common stock.

Our outstanding preferred stock impacts net income available to our common stockholders and earnings per common share.
The dividends declared and the accretion of discount on our outstanding Series A Preferred Stock reduce the net income available to common stockholders and our earnings per common share. Our outstanding Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company.

Holders of the Series A Preferred Stock may, under certain circumstances, have the right to elect two directors to our board of directors.
In the event that we fail to pay dividends on the Series A Preferred Stock for an aggregate of six or more quarters (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. Holders of the Series A Preferred Stock, together with the holders of any outstanding parity stock with like voting rights voting as a single class, will be entitled to elect the two additional directors at the next annual meeting (or at a special meeting called for the purpose of electing the preferred stock directors prior to the next annual meeting) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full.

Holders of the Series A Preferred Stock have voting rights in certain circumstances.
Except as otherwise required by law and in connection with the rights to elect directors as described above, holders of the Series A Preferred Stock have voting rights in certain circumstances. So long as shares of the Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our amended and restated charter, the vote or consent of holders owning at least 66 2/3% of the shares of Series A Preferred Stock outstanding is required for (1) any authorization or issuance of shares ranking senior to the Series A Preferred Stock; (2) any amendment to the rights of the Series A Preferred Stock so as to adversely affect the rights, preferences, privileges or voting power of the Series A Preferred Stock; or (3) consummation of any merger, share exchange or similar transaction unless the shares of Series A Preferred Stock remain outstanding, or if we are not the surviving entity in such transaction, are converted into or exchanged for preference securities of the surviving entity and the shares of Series A Preferred Stock remaining outstanding or such preference securities have such rights, preferences, privileges and voting power as are not materially less favorable to the holders than the rights, preferences, privileges and voting power of the shares of Series A Preferred Stock.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.
We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. EFSC's board of directors has broad discretion regarding the type and price of such securities.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock or preferred stock or similar securities in the market, or the perception that such sales could occur. Holders of our common stock do not have anti-dilution or preemptive rights under the Delaware General Corporation Law, as amended ("DGCL"), EFSC's certificate of incorporation (as amended and together with all certificates of designations) or by-laws. Shares of our common stock are not redeemable and have no subscription or conversion rights.

Additionally, the ownership interest of holders of our common stock could be diluted to the extent the CPP Warrant is exercised for up to 324,074 shares of our common stock. Although the U.S. Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the CPP Warrant, a transferee of any portion of the CPP Warrant or of any shares of common stock acquired upon exercise of the CPP Warrant is not bound by this restriction. In addition, to the extent options to purchase common stock under our employee stock option plans are exercised, holders of our common stock could incur additional dilution. Further, if we sell additional equity or convertible debt securities, such sales could result in increased dilution to our stockholders.

The terms of the CPP Warrant include an anti-dilution adjustment, which provides that, if we issue common stock or securities convertible into or exercisable, or exchangeable for, common stock at a price that is less than ninety percent (90%) of the market price of such shares on the last trading day preceding the date we agree to sell such shares, the number of shares of our common stock to be issued would increase and the per share price of the common stock to be purchased pursuant to the warrant would decrease.

We have outstanding subordinated debentures issued to statutory trust subsidiaries, which have issued and sold preferred securities to investors.
If we are unable to make payments on any of our subordinated debentures for more than twenty (20) consecutive quarters, we would be in default under the governing agreements for such securities and the amounts due under such agreements would be immediately due and payable. Additionally, if for any interest payment period we do not pay interest in respect of the subordinated debentures (which will be used to make distributions on the trust preferred securities), or if for any interest payment period we do not pay interest in respect of the subordinated debentures, or if any other event of default occurs, then we generally will be prohibited from declaring or paying any dividends or other distributions, or redeeming, purchasing or acquiring, any of our capital securities, including the common stock, during the next succeeding interest payment period applicable to any of the subordinated debentures, or next succeeding interest payment period, as the case may be.

Moreover, any other financing agreements that we enter into in the future may limit our ability to pay cash dividends on our capital stock, including the common stock. In the event that our existing or future financing agreements restrict our ability to pay dividends in cash on the common stock, we may be unable to pay dividends in cash on the common stock unless we can refinance amounts outstanding under those agreements. In addition, if we are unable or determine not to pay interest on our subordinated debentures, the market price of our common stock could be materially adversely affected.

Anti-takeover provisions could negatively impact our stockholders.
Provisions of Delaware law and of our certificate of incorporation, as amended, and bylaws as well as various provisions of federal and Missouri state law applicable to bank and bank holding companies could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We are subject to Section 203 of the DGCL, which would make it more difficult for another party to acquire us without the approval of our board of directors. Additionally, our certificate of incorporation, as amended, authorizes our board of directors to issue preferred stock and preferred stock could be issued as a defensive measure in response to a takeover proposal. In the event of a proposed merger, tender offer or other attempt to gain control of the Company, our board of directors would have the ability to readily issue available shares of preferred stock as a method of discouraging, delaying or preventing a change in control of the Company. Such issuance could occur whether or not our stockholders favorably view the merger, tender offer or other attempt to gain control of the Company. These and other provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders. Although we have no present intention to issue any additional shares of its authorized preferred stock, there can be no assurance that the Company will not do so in the future.

ITEM 1B: UNRESOLVED SEC COMMENTS

Not applicable.

ITEM 2: PROPERTIES

Banking facilities
Our executive offices are located at 150 North Meramec, Clayton, Missouri, 63105. As of December 31, 2009, we had four banking locations and a support center in the St. Louis metropolitan area, seven banking locations in the Kansas City metropolitan area, one banking location in Mesa, Arizona and a loan production officer in central Phoenix. We own four of the facilities and lease the remainder. Most of the leases expire between 2010 and 2017 and include one or more renewal options of 5 years. One lease expires in 2026. All the leases are classified as operating leases. We believe all our properties are in good condition.

Wealth management facilities
In February 2008, we purchased approximately 11,000 square feet of commercial condominium space in Clayton Missouri located approximately two blocks from our executive offices. We relocated the St. Louis-based Trust Advisory operations to this location in the fourth quarter of 2008. Enterprise Trust also has offices in Kansas City. Expenses related to the space used by Enterprise Trust are allocated to the Wealth Management segment.

ITEM 3: LEGAL PROCEEDINGS

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes that there are no such proceedings pending or threatened against the Company or its subsidiaries which, if determined adversely, would have a material adverse effect on the business, financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

ITEM 4: SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5: MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Common Stock Market Prices

The Company's common stock trades on the NASDAQ Global Select Market under the symbol "EFSC". Below are the dividends declared by quarter along with what the Company believes are the high and low closing sales prices for the common stock. There may have been other transactions at prices not known to the Company. As of March 1, 2010, the Company had 662 common stock shareholders of record and a market price of $9.01 per share. The number of holders of record does not represent the actual number of beneficial owners of our common stock because securities dealers and others frequently hold shares in "street name" for the benefit of individual owners who have the right to vote shares.

	2009				2008			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Closing Price	$ 7.71	$ 9.25	$ 9.09	$ 9.76	$ 15.24	$ 22.56	$ 18.85	$ 25.00
High	9.25	12.24	11.46	14.81	22.49	23.04	25.25	25.00
Low	7.25	8.96	7.88	7.52	11.49	15.95	18.60	18.19
Cash dividends paid on common shares	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2009, regarding securities issued and to be issued under our equity compensation plans that were in effect during the year ended December 31, 2009:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by the Company's shareholders	803,735	$16.77	915,063
Equity compensation plans not approved by the Company's shareholders	--	--	--
Total	803,735 (1)	$16.77	915,063 (2)

(1) Includes the following:

- 29,090 shares of common stock to be issued upon exercise of outstanding stock options under the 1996 Stock Incentive Plan (Plan III);
- 185,535 shares of common stock to be issued upon exercise of outstanding stock options under the 1999 Stock Incentive Plan (Plan IV);
- 196,670 shares of common stock to be issued upon exercise of outstanding stock options under the 2002 Stock Incentive Plan (Plan V);
- 389,940 shares of common stock used as the base for grants of stock settled stock appreciation rights under the 2002 Stock Incentive Plan (Plan V);
- 2,500 shares of common stock to be issued upon exercise of outstanding stock options under the 1998 Nonqualified Plan.

(2) Includes the following:

- 849,723 shares of common stock available for issuance under the 2002 Stock Incentive Plan (Plan V);
- 65,340 shares of common stock available for issuance under the Non-management Director Stock Plan.

Dividends

The holders of shares of common stock of the Company are entitled to receive dividends when declared by the Company's Board of Directors out of funds legally available for the purpose of paying dividends. Holders of our Series A Preferred Stock originally issued to the U.S. Treasury on December 19, 2008, are entitled to cumulative dividends of 5% per annum. Dividends on the Series A Preferred Stock are currently payable at the rate of $1.8 million per annum. Dividends on the Series A Preferred Stock are prior to and in preference to any dividends payable on our common stock. Pursuant to the terms of the purchase agreement with the U.S. Treasury under the Capital Purchase Program, prior to December 19, 2011 our ability to declare or pay dividends on junior securities is subject to restrictions, including a restriction against increasing the dividend rate on our common stock from the last quarterly cash dividend per share ($0.0525) declared on our common stock prior to December 19, 2008. The amount of dividends, if any, that may be declared by the Company also depends on many other factors, including future earnings, bank regulatory capital requirements and business conditions as they affect the Company and its subsidiaries. As a result, no assurance can be given that dividends will be paid in the future with respect to the Company's common stock. In addition, the Company currently plans to retain most of its earnings to strengthen our balance sheet given the weak economic environment.

Performance Graph

The following Stock Performance Graph and related information should not be deemed "soliciting material" or to be "filed" with the SEC nor shall such performance be incorporated by reference into any future filings under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph* compares the cumulative total shareholder return on the Company's common stock from December 31, 2004 through December 31, 2009. The graph compares the Company's common stock with the NASDAQ Composite and the SNL $1B-$5B Bank Index. The graph assumes an investment of $100.00 in the Company's common stock and each index on December 31, 2004 and reinvestment of all quarterly dividends. The investment is measured as of each subsequent fiscal year end. There is no assurance that the Company's common stock performance will continue in the future with the same or similar results as shown in the graph.

	Period Ending					
Index	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Enterprise Financial Services Corp	100.00	123.41	178.43	131.52	85.18	44.08
NASDAQ Composite	100.00	101.37	111.03	121.92	72.49	104.31
SNL Bank $1B-$5B	100.00	98.29	113.74	82.85	68.72	49.26

*Source: SNL Financial L.C. Used with permission. All rights reserved.

ITEM 6: SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from the Company's audited financial statements as of and for the five years ended December 31, 2009. This information should be read in connection with our audited consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report. See "Loan Participations" in Item 7, Management's Discussion and Analysis and Item 8, Note 2 – Loan Participation Restatement for more information on the Restated columns.

	Year ended December 31,	Restated	Restated	Restated	Restated
(in thousands, except per share data)	2009	2008	2007	2006	2005
EARNINGS SUMMARY:					
Interest income	$ 118,486	$ 127,021	$ 130,249	$ 98,545	$ 71,648
Interest expense	48,845	60,338	69,242	47,308	27,087
Net interest income	69,641	66,683	61,007	51,236	44,561
Provision for loan losses	40,412	26,510	5,120	2,273	1,523
Noninterest income	19,877	20,341	12,852	9,897	8,187
Noninterest expense	98,427	48,776	44,695	37,754	33,667
(Loss) income from continuing operations	(49,321)	11,738	24,044	21,107	17,558
Income tax (benefit) expense from continuing operations	(2,650)	3,672	8,098	7,357	6,300
Net (loss) income from continuing operations	(46,671)	8,066	15,946	13,750	11,258
Net (loss) income	$ (47,955)	$ 1,848	$ 17,255	$ 15,379	$ 11,275
PER SHARE DATA:					
Basic (loss) earnings per common share:					
From continuing operations	$ (3.82)	$ 0.63	$ 1.30	$ 1.25	$ 1.12
Total	(3.92)	0.14	1.41	1.40	1.12
Diluted (loss) earnings per common share:					
From continuing operations	(3.82)	0.63	1.27	1.21	1.05
Total	(3.92)	0.14	1.37	1.35	1.05
Cash dividends paid on common shares	0.21	0.21	0.21	0.18	0.14
Book value per common share	10.25	14.33	13.91	11.50	8.83
Tangible book value per common share	10.05	10.27	8.81	8.40	7.25
BALANCE SHEET DATA:					
Ending balances:					
Loans	1,833,260	2,201,457	1,784,278	1,376,452	1,048,302
Allowance for loan losses	42,995	33,808	22,585	17,475	13,332
Goodwill	953	48,512	57,177	29,983	12,042
Intangibles, net	1,643	3,504	6,053	5,789	4,548
Assets	2,365,655	2,493,767	2,141,329	1,600,004	1,332,673
Deposits	1,941,416	1,792,784	1,585,013	1,315,508	1,116,244
Subordinated debentures	85,081	85,081	56,807	35,054	30,930
Borrowings	167,438	392,926	312,427	105,481	82,854
Shareholders' equity	163,912	214,572	172,515	132,683	92,386
Average balances:					
Loans	2,098,275	2,001,073	1,599,596	1,214,436	1,014,697
Earning assets	2,334,700	2,125,581	1,723,214	1,355,704	1,150,997
Assets	2,462,237	2,298,882	1,856,466	1,440,685	1,198,795
Interest-bearing liabilities	2,025,339	1,883,904	1,469,258	1,110,845	910,348
Shareholders' equity	177,374	182,175	160,783	112,633	81,191
SELECTED RATIOS:					
Return on average common equity	(34.51) %	0.98 %	10.73 %	13.65 %	13.89 %
Return on average assets	(2.05)	0.08	0.93	1.07	0.94
Efficiency ratio	109.95	56.05	60.51	61.76	63.83

Average common equity to average assets	5.92	7.89	8.65	7.78	6.77
Yield on average interest-earning assets	5.15	6.04	7.63	7.34	6.28
Cost of interest-bearing liabilities	2.41	3.20	4.71	4.26	2.98
Net interest rate spread	2.74	2.84	2.92	3.08	3.31
Net interest rate margin	3.06	3.20	3.61	3.85	3.93
Nonperforming loans to total loans	2.10	1.61	0.71	0.47	0.14
Nonperforming assets to total assets	2.74	1.98	0.73	0.50	0.11
Net chargeoffs to average loans	1.42	0.76	0.13	0.10	0.02
Allowance for loan losses to total loans	2.35	1.54	1.27	1.27	1.27
Dividend payout ratio - basic	(5.62)	144.02	15.29	12.85	12.60

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The objective of this section is to provide an overview of the results of operations and financial condition of the Company for the three years ended December 31, 2009. It should be read in conjunction with the Consolidated Financial Statements, Notes and other financial data presented elsewhere in this report, particularly the information regarding the Company's business operations described in Item 1.

EXECUTIVE SUMMARY

This overview of management's discussion and analysis highlights selected information in this document and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, you should carefully read this entire document.

We accomplished a number of objectives in 2009 and early 2010 as we position our Company for continued growth when the credit cycle rebounds. In addition to bolstering our allowance for loan losses, we took significant steps to fortify our balance sheet and position the Company for economic recovery. In 2009, we strengthened our liquidity by growing core deposits more than 23% over 2008 and tightly controlled our operating expenses. In addition, on December 11, 2009, we completed an FDIC-assisted acquisition of Valley Capital Bank in Mesa, Arizona. This strategic acquisition positioned us to begin operating full-service branches in the Phoenix market. On January 20, 2010, we sold Millennium, a non-strategic subsidiary. And lastly, over the past fourteen months, we have added $75.0 million in new regulatory capital, including $15.0 million from a January 2010 private offering of our common stock. See "Supervision and Regulation", "Liquidity and Capital Resources" and Item 8, Note 3 – Acquisitions and Divestitures for more information.

During the third quarter of 2009, we determined that the Company did not have a formal process of reviewing existing contracts with continuing accounting significance and as a result did not detect an error in the accounting for loan participations executed subject to its standard participation agreement. This resulted in the restatement of our financial results at December 31, 2007, December 31, 2008, each quarter in 2008 and the first and second quarters of 2009. Except for labeling affected prior period financial statements as "Restated," no further changes are being made to our above described corrected financial statements and no further restatement of our financial statements is anticipated. All prior period results presented have been restated for the error. The overall effect of these adjustments from the original period of correction to December 31, 2009 was neutral to the Company's financial results. See "Loan Participations" below and Item 8, Note 2 – Loan Participation Restatement for more information.

Operating Results

For 2009, we reported a net loss of $48.0 million compared to a net loss of $1.8 million in 2008. After deducting preferred stock dividends, net loss available to common shareholders was $50.4 million, or $3.92 per diluted share, compared to net income available to common shareholders of $1.8 million, or $0.14 per diluted share in 2008. Included in 2009 results are:

- $45.4 million pre-tax, non-cash goodwill impairment charge related to our Banking reporting unit;
- $1.6 million pre-tax loss on the sale of Millennium;
- $7.4 million gain from the extinguishment of debt related to loan participations.

Goodwill impairment

The goodwill impairment charge is a non-cash accounting adjustment that does not reduce the Company's regulatory or tangible capital position, liquidity or cash flow and does not impact the Company's operations. The goodwill 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. See Item 8, Note 10 – Goodwill and Intangible Assets for more information.

Millennium sale

On January 20, 2010, we sold Millennium for $4.0 million in cash, resulting in a $1.6 million pre-tax loss on the sale. Millennium financial results are reported as discontinued operations for all periods presented herein. See "Noninterest income" for more information.

Loan Participations

During a review of loan participation agreements in the third quarter of 2009, the Company determined that certain of these 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 secured borrowing liabilities (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 borrowings. Additional provisions for loan losses and the related income tax effect were also recorded. However, under the terms of the agreements, the participating banks absorb credit losses, if any, on the participated portion of the loan. We have corrected the error by restating prior period financial statements and related financial information set forth herein.

As secured borrowings on our consolidated balance sheet, 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, we recorded a $5.3 million pre-tax gain 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 the fourth quarter of 2009, the Company obtained amended agreements that comply with sale accounting treatment from all of the participating banks. As a result, the Company eliminated the participated portion of the loans, net of the allowance for losses, and the related liability from our December 31, 2009 consolidated balance sheet, and recognized an additional gain from the extinguishment of debt of $2.1 million in the fourth quarter of 2009. The overall effect of these adjustments from the original period of correction to December 31, 2009 was neutral to the Company's financial results and key ratios. The error is described in more detail in Item 8, Note 2 – Loan Participation Restatement and Item 9A.

Operating Results

We reported a net loss from continuing operations of $46.7 million, or $3.82 per diluted share, for 2009, compared to net income of $8.1 million, or $0.63 per diluted share, for 2008. For 2009, net loss from discontinued operations was $1.3 million, or $0.10 per diluted share, compared to a net loss of $6.2 million, or $0.49 per diluted share in 2008.

On a pre-tax, pre-provision basis, the Company's operating income from continuing operations was $31.9 million, for the year 2009 compared to $35.2 million in 2008. The reduction in 2009 operating income from continuing operations compared to 2008 is largely attributable to the fair value adjustments on state tax credits held for sale and the related interest rate caps used to hedge market risk along with increases in loan legal and other real estate expenses.

We are presenting pre-tax, pre-provision income from continuing operations, which is a non-GAAP (Generally Accepted Accounting Principles) financial measure, because we believe adjusting our results to exclude discontinued operations, loan loss provision expense, impairment charges, special FDIC assessments and unusual gains or losses provides shareholders with a more comparable basis for evaluating period-to-period operating results. A schedule reconciling pre-tax income (loss) from continuing operations to pre-tax, pre-provision income from continuing operations is provided in the attached tables.

	For the Quarter Ended				
			Restated	Restated	
	Dec 31,	Sep 30,	Jun 30,	Mar 31,	Total Year
(In thousands)	2009	2009	2009	2009	2009
Pre-tax income (loss) from continuing operations	$ 8	$ 7,003	$ (1,634)	$ (54,698)	$ (49,321)
Goodwill impairment charge	-	-	-	45,377	45,377
Sales and fair value writedowns of other real estate	1,166	602	508	549	2,825
Sale of securities	(3)	-	(636)	(316)	(955)
Gain on extinguishment of debt	(2,062)	(5,326)	-	-	(7,388)
FDIC special assessment (included in Other noninterest expense)	-	(105)	1,100	-	995
(Loss) income before income tax	(891)	2,174	(662)	(9,088)	(8,467)
Provision for loan losses	8,400	6,480	9,073	16,459	40,412
Pre-tax, pre-provision income from continuing operations	$ 7,509	$ 8,654	$ 8,411	$ 7,371	$ 31,945

	For the Quarter Ended (Restated)				
	Dec 31,	Sep 30,	Jun 30,	Mar 31,	Total Year
(In thousands)	2008	2008	2008	2008	2008
Pre-tax (loss) income from continuing operations	$ (6,291)	$ 8,214	$ 4,386	$ 5,429	$ 11,738
Sales and fair value writedowns of other real estate	91	(242)	(351)	9	(492)
Sale of securities	(88)	-	(73)	-	(161)
Gain on sale of Kansas City nonstrategic branches/charter	0	(2,840)	19	(579)	(3,400)
Retention payment	875	125	-	-	1,000
(Loss) income before income tax	(5,413)	5,257	3,981	4,859	8,685
Provision for loan losses	16,296	3,007	4,378	2,829	26,510
Pre-tax, pre-provision income from continuing operations	$ 10,883	$ 8,264	$ 8,359	$ 7,688	$ 35,195

Below are highlights of our Banking and Wealth Management segments. For more information on our segments, see Item 8, Note 21 – Segment Reporting. Unless otherwise noted, this discussion excludes discontinued operations.

Banking

For 2009, the Banking segment recorded a net loss of $43.2 million compared to net income of $10.5 million for 2008. Excluding the non-tax deductible goodwill impairment of $45.4 million, the Banking segment recorded net income of $2.2 million for 2009. Below is a summary of 2009:

- Loan demand – At December 31, 2009, portfolio loans were $1.833 billion, a decrease of $368.0 million, or 17%, from December 31, 2008. Net of the loan participations, portfolio loans declined $144.0 million, or 7%.

  Loan demand appears to be soft as business clients postpone expansion efforts and pare back debt. Our loan portfolio mix at December 31, 2009, from a collateral perspective, changed significantly from December 31, 2008 in two categories. Construction loans collateralized by real estate totaled $224.4 million or 12% of the portfolio, at December 31, 2009 compared to $378.1 million or 17% of the portfolio at December 31, 2008. This reduction reflects the soft real estate markets and the Company's intentional efforts to reduce our construction loan exposure. Loans collateralized by commercial real estate totaled $820.2 million, or 45% of the portfolio at December 31, 2009 compared to $888.0 million, or 40% of the portfolio at December 31, 2008. Approximately $318.0 million, or 39%, of that total, represented real estate that was "owner-occupied" by commercial and industrial businesses compared to $333.0 million, or 38% at December 31, 2008.

  We expect modest loan growth in 2010 as business activity should improve slightly and additional capacity from new hires and focused sales teams take effect.

- Deposit growth – Our focus for 2009 was to reduce our reliance on brokered deposits, grow our core deposits, and increase our percentage of non-interest bearing deposits. We adjusted our incentive programs to focus our associates on deposit gathering efforts and aggressively managed deposit rates to achieve this objective.

  Total deposits were $1.94 billion at December 31, 2009, an increase of $149.0 million, or 8%, from December 31, 2008. Total deposits increased $88.0 million, or 5%, during the fourth quarter of 2009. Noninterest-bearing demand deposits represented 15% of total deposits at December 31, 2009 compared to 14% at December 31, 2008. Noninterest-bearing demand deposit growth was particularly strong in the fourth quarter of 2009, with an increase of $32.0 million, or 12%.

  Excluding brokered certificates of deposit, "core" deposits grew $328.0 million, or 23%, from a year ago, and $139.0 million, or 9%, during the fourth quarter of 2009. Core deposits include certificates of deposit sold to clients through the reciprocal CDARS program. As of December 31, 2009, Enterprise had $135.0 million of reciprocal CDARS deposits outstanding compared to $60.0 million at December 31, 2008.

  Brokered deposits declined $180.0 million, or 53%, from December 31, 2008 to $156.0 million. For the year ended December 31, 2009, brokered deposits represented 8% of total deposits compared to 19% for the year ended December 31, 2008.

- Asset quality – We are entering the fourth year of slow residential housing activity in St. Louis and Kansas City. In addition, commercial real estate markets, especially retail, are softening.

  Nonperforming loans were $38.5 million, or 2.10%, of portfolio loans at December 31, 2009. The allowance for loan losses was $43.0 million, or 2.35%, of portfolio loans versus $33.8 million, or 1.54% of portfolio loans, at the end of 2008. In 2009, we incurred $29.8 million of net charge-offs, or 1.42% of average loans compared to $15.2 million of net charge-offs, or 0.76% of average loans in 2008.

  Management expects 2010 nonperforming assets and chargeoff levels to remain elevated.

- Net Interest Rate Margin – Our fully tax-equivalent net interest rate margin was 3.06% for 2009 versus 3.20% for 2008. The margin has been compressed as a result of sharply lower interest rates, a higher percentage of earning assets in securities and short-term investments, higher levels of nonperforming loans and a change in core deposit mix from money market deposits to higher rate time deposits. We expect wider margins in 2010 based on better earning asset mix, risk-based pricing, and continued discipline on funding costs.

- Arizona Expansion – On December 11, 2009, Enterprise acquired certain assets and assumed certain liabilities of Valley Capital Bank in Mesa, Arizona from the FDIC. At December 31, 2009, Valley Capital had approximately $37 million in deposits and $18 million in loans and foreclosed real estate at fair value. As part of the transaction, Enterprise and the FDIC entered into a loss sharing arrangement on the assets acquired.

  This acquisition represents the expansion of our Arizona growth strategy, which began with the establishment of a loan production office in Phoenix in late 2007. The acquisition allows us to operate a full-service bank in Arizona and enables us to open additional locations in the greater Phoenix area, subject to the normal regulatory approvals. After receiving regulatory approval, Enterprise opened a new branch location in the western suburbs of Phoenix on February 16, 2010.

  In connection with this transaction, we recorded $953,000 of goodwill based on the fair value of the assets purchased and liabilities assumed. We estimate approximately $3.5 million of the discount on assets will accrete into income over the expected life of the assets and expect the transaction to be accretive to earnings in 2010. We did not record a core deposit intangible, as most of the acquired deposits were high-rate, internet CDs that are being re-priced and are expected to run off.

  Please refer to Item 8, Note 3 – Acquisitions and Divestitures for more information.

Wealth Management

The Wealth Management segment is comprised of Enterprise Trust and our state tax credit brokerage activities. Wealth Management is a strategic line of business consistent with our Company mission of "guiding our clients to a lifetime of financial success." It is a driver of fee income and is intended to help us diversify our dependency on bank spread incomes.

For 2009, Wealth Management recorded a $608,000 net loss from continuing operations compared to net income from continuing operations of $1.9 million in 2008. Revenues for Trust are net of commissions and other direct investment expenses such as custody charges and investment management expenses.

- Trust revenues – Revenues from the Trust division decreased $1.4 million, or 24%, for the year. The decline was primarily due to reduced sales and client attrition related to reorganization and staff changes. Trust assets under administration were $1.280 billion at December 31, 2009, a 5% increase over one year ago.

- State tax credit brokerage activities – In 2009, gains from state tax credit brokerage activities were $1.0 million compared to $4.2 million in 2008. The net effects from fair value adjustments on the tax credit assets and related interest rate caps used to economically hedge the tax credits represents $3.8 million of the decline.

RESULTS OF CONTINUING OPERATIONS ANALYSIS

Net Interest Income
Comparison of 2009 vs. 2008
Net interest income is the primary source of the Company’s revenue. Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on interest-bearing deposits and other borrowings used to fund interest earning and other assets. The amount of net interest income is affected by changes in interest rates and by the amount and composition of interest-earning assets and interest-bearing liabilities, such as the mix of fixed vs. variable rate loans. When and how often loans and deposits mature and re-price also impacts net interest income.

Net interest spread and net interest rate margin are utilized to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest-earning assets and the rate paid for interest-bearing liabilities that fund those assets. The net interest rate margin is expressed as the percentage of net interest income to average interest-earning assets. The net interest rate margin exceeds the interest rate spread because noninterest-bearing sources of funds (net free funds), principally demand deposits and shareholders’ equity, also support earning assets.

Net interest income (on a tax-equivalent basis) increased $3.3 million, or 5%, from $68.1 million for 2008 to $71.4 million for 2009. Total interest income decreased $8.2 million while total interest expense decreased $11.5 million.

Average interest-earning assets were $2.335 billion in 2009, an increase of $209.0 million, or 10%, from 2008. Securities and short-term investments accounted for the majority of the growth, increasing by $112.0 million, or 90%, to $236 million. Loans increased $97.0 million, or 5%, to $2.098 billion. Interest income on loans increased $6.1 million from growth and decreased by $14.6 million due to the impact of rates, for a net decrease of $8.5 million versus 2008.

Average interest-bearing liabilities increased $141.0 million, or 7%, to $2.025 billion compared to $1.884 billion for 2008. The growth in interest-bearing liabilities resulted from a $132.0 million increase in interest-bearing core deposits, a $15.0 million increase in brokered certificates of deposit, and a $26.0 million increase in subordinated debentures. Borrowed funds declined by $32.0 million in 2009. For 2009, interest expense on interest-bearing liabilities increased $6.4 million due to growth while the impact of declining rates decreased interest expense on interest-bearing liabilities by $17.9 million, for a net decrease of $11.5 million versus 2008. See “Liquidity and Capital Resources” for more information.

For the year ended December 31, 2009, the tax-equivalent net interest rate margin was 3.06% compared to 3.20% for 2008. The margin has been compressed as a result of sharply declining interest rates, an increase in securities and short-term investments as a percentage of earning assets, higher levels of nonperforming loans and a change in core deposit mix from money market deposits to higher rate time deposits. In 2010, we expect wider margins due to improved earning asset mix, risk-based loan pricing and continued discipline on funding costs.

Comparison of 2008 vs. 2007
Net interest income (on a tax-equivalent basis) increased $5.9 million, or 9%, from $62.2 million for 2007 to $68.1 million for 2008. Total interest income decreased $3.0 million while total interest expense decreased $8.9 million.

Average interest-earning assets were $2.126 billion in 2008, an increase of $402.0 million, or 23%, from 2007. Loans accounted for the majority of the growth, increasing by $401.0 million, or 25%, to $2.001 billion. Interest income on loans increased $27.8 million from growth and decreased by $30.8 million due to the impact of rates, for a net decrease of $3.0 million versus 2007.

Average interest-bearing liabilities increased $415.0 million, or 28%, to $1.884 billion compared to $1.469 billion for 2007. The growth in interest-bearing liabilities resulted from a $100.0 million increase in interest-bearing core deposits, a $93.0 million increase in brokered certificates of deposit, a $5.0 million increase in subordinated debentures, and a $147.0 million increase in borrowed funds including FHLB advances and federal funds purchased. Secured borrowings related to our loan participations increased $69.0 million. In December 2008, we began utilizing the Federal Reserve discount window, due to its lower borrowing rates. For 2008, interest expense on interest-bearing liabilities increased $18.1 million due to growth while the impact of declining rates decreased interest expense on interest-bearing liabilities by $27.0 million, for a net decrease of $8.9 million versus 2007. See "Liquidity and Capital Resources" for more information.

For the year ended December 31, 2008, the tax-equivalent net interest rate margin was 3.20% compared to 3.61% for 2007. The margin was compressed as a result of sharply declining short-term rates along with an increased volume of wholesale funding to support loan growth along with higher average levels of nonperforming loans in 2008 versus the prior year.

Average Balance Sheet

The following table presents, for the periods indicated, certain information related to our average interest-earning assets and interest-bearing liabilities, as well as, the corresponding interest rates earned and paid, all on a tax equivalent basis.

The loans and deposits associated with Great American are included for ten months of 2007. Approximately $30.0 million of deposits associated with the DeSoto branch are included for seven months of 2008.

	For the years ended December 31,								
	2009			Restated 2008			Restated 2007		
(in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets									
Interest-earning assets:									
Taxable loans (1)	$ 2,044,449	$ 109,451	5.35%	$ 1,958,806	$ 119,018	6.08%	$ 1,561,851	$ 122,522	7.84%
Tax-exempt loans (2)	53,826	4,868	9.04	42,267	3,850	9.11	37,745	3,287	8.71
Total loans	2,098,275	114,319	5.45	2,001,073	122,868	6.14	1,599,596	125,809	7.87
Taxable investments in debt and equity securities	172,815	5,778	3.34	111,902	5,268	4.71	111,332	5,093	4.57
Non-taxable investments in debt and equity securities (2)	634	37	5.84	804	48	5.97	936	53	5.66
Short-term investments	62,976	136	0.22	11,802	254	2.15	11,350	498	4.39
Total securities and short-term investments	236,425	5,951	2.52	124,508	5,570	4.47	123,618	5,644	4.57
Total interest-earning assets	2,334,700	120,270	5.15	2,125,581	128,438	6.04	1,723,214	131,453	7.63
Noninterest-earning assets:									
Cash and due from banks	23,959			40,349			44,417		
Other assets	146,671			159,832			108,879		
Allowance for loan losses	(43,093)			(26,880)			(20,044)		
Total assets	$ 2,462,237			$ 2,298,882			$ 1,856,466		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing transaction accounts	$ 122,563	$ 662	0.54%	$ 121,371	1,554	1.28%	$ 120,418	3,078	2.56%
Money market accounts	636,350	6,079	0.96	687,867	13,786	2.00	579,029	23,578	4.07
Savings	9,147	35	0.38	9,594	55	0.57	11,126	125	1.12
Certificates of deposit	786,631	23,427	2.98	588,561	24,525	4.17	503,926	26,083	5.18
Total interest-bearing deposits	1,554,691	30,203	1.94	1,407,393	39,920	2.84	1,214,499	52,864	4.35
Subordinated debentures	85,081	5,171	6.08	58,851	3,536	6.01	53,500	3,859	7.21
Borrowed funds	385,567	13,471	3.49	417,660	16,882	4.04	201,260	12,519	6.22
Total interest-bearing liabilities	2,025,339	48,845	2.41	1,883,904	60,338	3.20	1,469,259	69,242	4.71
Noninterest-bearing liabilities:									
Demand deposits	250,435			221,925			215,610		
Other liabilities	9,089			10,878			10,814		
Total liabilities	2,284,863			2,116,707			1,695,683		
Shareholders' equity	177,374			182,175			160,783		
Total liabilities & shareholders' equity	$ 2,462,237			$ 2,298,882			$ 1,856,466		
Net interest income		$ 71,425			$ 68,100			$ 62,211	
Net interest spread			2.74%			2.84%			2.92%
Net interest rate margin (3)			3.06			3.20			3.61

(1) Average balances include non-accrual loans. The income on such loans is included in interest but is recognized only upon receipt. Loan fees, net of amortization of deferred loan origination fees and costs, included in interest income are approximately $1,626,000, $1,394,000 and $690,000 for the years ended December 31, 2009, 2008, and 2007, respectively.
(2) Non-taxable income is presented on a fully tax-equivalent basis using the combined statutory federal and state income tax in effect for the year. The tax-equivalent adjustments reflected in the above table are approximately $1,784,000, $1,417,000 and $1,204,000 for the years ended December 31, 2009, 2008, and 2007, respectively.
(3) Net interest income divided by average total interest-earning assets.

Rate/Volume

The following table sets forth, on a tax-equivalent basis for the periods indicated, a summary of the changes in interest income and interest expense resulting from changes in yield/rates and volume.

The loans and deposits associated with Great American are included for ten months of 2007. Approximately $30.0 million of deposits associated with the DeSoto branch are included for seven months of 2008.

	2009 compared to 2008 Increase (decrease) due to			Restated 2008 compared to 2007 Increase (decrease) due to		
(in thousands)	Volume(1)	Rate(2)	Net	Volume(1)	Rate(2)	Net
Interest earned on:						
Taxable loans	$ 5,038	$ (14,605)	$ (9,567)	$ 27,419	(30,923)	$ (3,504)
Nontaxable loans (3)	1,045	(27)	1,018	407	156	563
Taxable investments in debt and equity securities	2,326	(1,816)	510	26	149	175
Nontaxable investments in debt and equity securities (3)	(10)	(1)	(11)	(8)	3	(5)
Short-term investments	281	(399)	(118)	19	(263)	(244)
Total interest-earning assets	$ 8,680	$ (16,848)	$ (8,168)	$ 27,863	$ (30,878)	$ (3,015)
Interest paid on:						
Interest-bearing transaction accounts	$ 15	$ (907)	$ (892)	24	(1,548)	(1,524)
Money market accounts	(964)	(6,743)	(7,707)	3,824	(13,616)	(9,792)
Savings	(3)	(17)	(20)	(15)	(55)	(70)
Certificates of deposit	6,979	(8,077)	(1,098)	3,986	(5,544)	(1,558)
Subordinated debentures	1,594	41	1,635	362	(685)	(323)
Borrowed funds	(1,233)	(2,178)	(3,411)	9,905	(5,542)	4,363
Total interest-bearing liabilities	6,388	(17,881)	(11,493)	18,086	(26,990)	(8,904)
Net interest income	$ 2,292	$ 1,033	$ 3,325	$ 9,777	$ (3,888)	$ 5,889

(1) Change in volume multiplied by yield/rate of prior period.
(2) Change in yield/rate multiplied by volume of prior period.
(3) Nontaxable income is presented on a fully tax-equivalent basis using the combined statutory federal and state income tax rate in effect for each year.
NOTE: The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Provision for loan losses. The provision for loan losses was $40.4 million for 2009 compared to $26.5 million for 2008. The increase was due to an increase in nonperforming loans and adverse risk rating changes primarily in the residential and commercial real estate portfolios.

The provision for loan losses was $26.5 million for 2008 compared to $5.1 million for 2007. The increase was due to strong loan growth, an increase in nonperforming loans and adverse risk rating changes primarily in the residential builder portfolio.

See the sections below captioned “Loans” And “Allowance for Loan Losses” for more information on our loan portfolio and asset quality.

Noninterest Income

The following table presents a comparative summary of the major components of noninterest income.

	Years ended December 31,			Change 2009	Change 2008
(in thousands)	2009	2008	2007	over 2008	over 2007
Wealth Management revenue	$ 4,524	$ 5,916	$ 7,159	$ (1,392)	$ (1,243)
Service charges on deposit accounts	5,012	4,376	3,228	636	1,148
Other service charges and fee income	963	1,000	852	(37)	148
Sale of branches/charter	-	3,400	-	(3,400)	3,400
Sale of other real estate	(436)	552	(48)	(988)	600
State tax credit activity, net	1,035	4,201	792	(3,166)	3,409
Sale of securities	955	161	233	794	(72)

Extinguishment of debt	7,388	-	-	7,388	-
Miscellaneous income	436	735	636	(299)	99
Total noninterest income	$ 19,877	$ 20,341	$ 12,852	$ (464)	$ 7,489

Comparison 2009 vs. 2008

Noninterest income decreased 2% during 2009. The 2009 results include a $7.4 million pre-tax gain from the extinguishment of debt. See Item 8, Note 2 – Loan Participation Restatement for more information. The 2008 results include a $3.4 million pre-tax gain on the sale of the Great American charter along with the Desoto, Kansas and the Liberty, Missouri branches. Excluding these amounts, noninterest income decreased $4.5 million, or 26%, during 2009. This decrease is mainly due to lower wealth management revenue and lower gains from the state tax credit activities.

Wealth Management revenue from the Trust division decreased $1.4 million, or 24%. The revenue declines were primarily due to lower average asset values from net client attrition and adverse financial markets in late 2008 and early 2009. Assets under administration were $1.3 billion at December 31, 2009, a $59 million, or 5% increase from one year ago due to stronger fourth quarter financial markets.

Increases in Service charges on deposit accounts were primarily due to the declining earnings crediting rate on commercial accounts, which increased service charges earned.

In 2009, we sold $22.3 million of other real estate at a loss of $436,000. In 2008, we sold $7.9 million of other real estate at a gain of $552,000.

Gains from state tax credit brokerage activities were $1.0 million in 2009, compared to $4.2 million in 2008. The $3.2 million decrease is primarily due to a $5.9 million negative fair value adjustment on the tax credit assets offset by a $2.1 million increase in the fair value adjustment on the related interest rate caps used to economically hedge the tax credits and a $660,000 increase from the sale of state tax credits to clients.

In 2009, given the anticipated acceleration in prepayments on mortgage-backed securities and resultant loss in fair value, we elected to sell and reinvest a portion of our investment portfolio. We sold approximately $49.0 million of agency mortgage backed securities realizing a gain of $955,000 on these sales. With the proceeds from the securities sales, certain borrowings and excess cash, we purchased approximately $272.0 million of fixed rate agency mortgage backed, floating rate Small Business Administration securities and Municipal securities in 2009.

In 2009, we recorded a $7.4 million pre-tax gain from the extinguishment of debt resulting from the foreclosure of one of our participated loans and the amendment of all participation agreements. See Item 8, Note 2 – Loan Participation Restatement for more information on the accounting treatment of the loan participations.

The decrease in Miscellaneous income resulted from a $530,000 loss realized in 2009 from the termination of two interest rate swaps and a $638,500 gain recognized in 2008 for ineffectiveness related to a terminated cash flow hedge. See Item 8, Note 8 – Derivative Financial Instruments for more information.

Our ratio of noninterest income to total revenue was 22% for the year ended December 31, 2009 compared to 23% for the year ended December 31, 2008.

Comparison 2008 vs. 2007

Noninterest income increased 58% during 2008. Our ratio of noninterest income to total revenue at December 31, 2008 was 23%, compared to 17% in 2007.

Wealth Management revenue decreased $1.2 million, or 17%, from 2007. This decrease is a result of lower revenue and margins from the Trust division due to the declining market value of assets under management and client attrition related to advisor turnover. Assets under administration were $1.2 billion at December 31, 2008, a 28% decrease from 2007.

Increases in Service charges on deposit accounts were primarily due to the declining earnings crediting rate on commercial accounts, which increased service charges earned. Other service charges and fee income increases were the result of higher fee volumes on debit cards, merchant processing, and fee income from our International Banking operation.

In 2008, gain on sale of branches/charter includes a $550,000 pre-tax gain on the sale of the Liberty branch and a $2.8 million pre-tax gain on the sale of the Great American charter along with the Desoto Kansas branch.

In 2008, we sold $7.9 million of other real estate at a net gain of $552,000. In 2007, we sold $5.6 million of other real estate at a net loss of $48,000.

In the fourth quarter of 2007, we signed an agreement whereby we will purchase the rights to receive ten-year streams of state tax credits at agreed upon discount rates and then re-sell them to our clients for a profit. Gains from state tax credit brokerage activities were $4.2 million in 2008, compared to $792,000 in 2007. Of the 2008 total, $3.1 million represented the net effects from fair value adjustments on the tax credit assets and related interest rate caps used to economically hedge the tax credits. The remaining increase of $1.1 million reflects the full year of the brokerage activity compared to a partial year in 2007 and was consistent with the Company's performance expectations for its first full year of operations.

Noninterest Expense

The following table presents a comparative summary of the major components of noninterest expense.

	Years ended December 31,				
				Change 2009	Change 2008
(in thousands)	2009	2008	2007	over 2008	over 2007
Employee compensation and benefits	$ 25,969	$ 27,656	$ 27,412	$ (1,687)	$ 244
Occupancy	4,709	3,985	3,651	724	334
Furniture and equipment	1,425	1,390	1,366	35	24
Data processing	2,147	2,139	1,873	8	266
Communications	556	536	502	20	34
Director related expense	459	481	409	(22)	72
Meals and entertainment	1,037	1,181	1,317	(144)	(136)
Marketing and public relations	504	674	622	(170)	52
FDIC and other insurance	4,204	1,617	911	2,587	706
Amortization of intangibles	482	599	692	(117)	(93)
Goodwill impairment charges	45,377	-	-	45,377	-
Postage, courier, and armored car	772	863	891	(91)	(28)
Professional, legal, and consulting	2,278	1,971	1,417	307	554
Loan, legal and other real estate expense	4,788	1,717	501	3,071	1,216
Other taxes	566	542	471	24	71
Other	3,154	3,425	2,660	(271)	765
Total noninterest expense	$ 98,427	$ 48,776	$ 44,695	$ 49,651	$ 4,081

Comparison of 2009 vs. 2008

Noninterest expense increased $49.7 million, or 102%, in 2009. The increase was primarily due to a $45.4 million goodwill impairment charge associated with the banking segment. Excluding the goodwill impairment charge, noninterest expenses increased $4.3 million, or 9%. The Company's efficiency ratio for 2009 was 110%. Excluding the goodwill impairment charge, the efficiency ratio was 59%, compared to 56% in 2008.

Employee compensation and benefits. Employee compensation and benefits decreased $1.7 million, or 6%, over 2008. Included in the 2008 results are expenses of $1.0 million related to the final stock payment pursuant to the expiration of an executive retention agreement associated with the acquisition of Great American. Excluding this amount, employee compensation and benefits decreased $687,000 or 3%, primarily due to headcount reductions and stringent controls on staffing and compensation levels.

All other expense categories. All other expense categories include $45.4 million for the goodwill impairment charge associated with the banking segment. Excluding this charge, all other expense categories increased $6.0 million, or 28%, over 2008.

Occupancy expense increases were due to scheduled rent increases on various Company facilities and expenses related to a new Wealth Management location which was occupied in the fourth quarter of 2008.

FDIC and other insurance increased $2.6 million primarily due to additional FDIC premiums for the FDIC special assessment and newly implemented rate structure. On December 29, 2009, we were required to prepay an estimated quarterly risk-based assessment for fourth quarter 2009 and for all of 2010, 2011 and 2012. The prepayment amount was $11.5 million, which will be expensed over the subsequent three years. See "Supervision and Regulation – Deposit Insurance Fund" in Part I – Item I for more information.

Professional, legal and consulting increased due to various legal and consulting projects related to new federal regulations, compensation committee assistance, board governance, significant accounting issues and litigation defense.

Loan legal and other real estate expense increased $3.1 million due to increased levels of nonperforming loans and other real estate properties. The increase includes $2.4 million of fair value adjustments on other real estate due to the softening real estate markets for both residential and commercial properties.

Comparison of 2008 vs. 2007
Noninterest expenses increased $4.0 million, or 9%, in 2008. The Company's efficiency ratio for 2008 is 56% compared to 61% in 2007.

Employee compensation and benefits. Employee compensation and benefits increased $244,000, or 1%, over 2007. Included in the increase is $1.0 million related to the final stock payment pursuant to the expiration of an executive retention agreement associated with the acquisition of Great American. Excluding this charge, employee compensation and benefits decreased $756,000 or 3% due to lower variable compensation expenses driven by Company financial results.

All other expense categories. All other expense categories increased $3.8 million or 22% over 2007.

Occupancy expense increases were due to scheduled rent increases on various Company facilities along with leasehold improvements completed at the Operations Center and our Clayton headquarters.

Furniture and equipment increases were due to expansion at the Operations Center and in the Kansas City region.

Data processing expenses increased due to upgrades to the Company's main operating system, licensing fee increases for our core banking system as a result of our increased asset size and increased maintenance fees for various Company systems.

Meals and entertainment expenses decreased due to less travel and controlled customer-related entertainment expenses.

FDIC and other insurance increased $706,000 due to higher FDIC insurance premiums (due to a higher rate structure imposed by the FDIC on all insured financial institutions.) Professional, legal and consulting increased due to the Arizona de novo bank activities, consulting services in Wealth Management and various legal matters.

Increases in Loan legal and other real estate expenses were due to increased levels of nonperforming loans and other real estate properties.

Discontinued Operations
On January 20, 2010, we sold Millennium to an investor group led mostly by former managers of Millennium for $4.0 million in cash, resulting in a $1.6 million pre-tax loss. As a result of the sale, we have reclassified the results of Millennium for the current and prior periods to discontinued operations. The amount of the loss on the sale is primarily due to the write-off of the remaining goodwill associated with the Millennium reporting unit.

For 2009, net loss from discontinued operations was $1.3 million, compared to a net loss of $6.2 million from discontinued operations in 2008 and $1.3 million of net income from discontinued operations in 2007. The 2008 loss includes $9.2 million of pre-tax goodwill impairment charges. Lower levels of paid premium sales and lower sales margins over the last two years significantly reduced Millennium's operating results.

Income Taxes
In 2009, the Company recorded income tax benefit of $3.4 million on a pre-tax loss of $51.3 million, resulting in an effective tax rate of (6.6%). The goodwill impairment charge of $45.4 million was not tax-deductible. The pre-tax loss includes a loss of $1.6 million related to the sale of Millennium which is reported as discontinued operations for all periods. The following items were included in Income tax (benefit) expense and impacted the 2009 effective tax rate:

- the expiration of the statute of limitations for the 2005 tax year warranted the release of $324,000 of reserves related to certain state tax positions;
- reserves associated with various tax benefits of $115,000 related to certain federal tax items were released;
- recognition of federal tax benefits of $720,000 related to low income housing tax credits from a limited partnership interest.

In 2008, the Company recorded income tax expense of $1.6 million on pre-tax income of $6.0 million, resulting in an effective tax rate of 26.3%. The following items were included in Income tax expense and impacted the 2008 effective tax rate:

- the expiration of the statute of limitations for the 2004 tax year warranted the release of $436,000 of reserves related to certain state tax positions;
- reserves associated with various tax benefits of $80,000 related to certain federal tax items were released; and
- recognition of federal tax benefits of $511,000 related to low income housing tax credits from a limited partnership interest.

Fourth Quarter 2009 Discussion

Fourth quarter 2009 net income from continuing operations was $380,000 compared to a net loss from continuing operations of $3.4 million for the prior year period. After deducting dividends on preferred stock, the Company reported a net loss available to common shareholders of $0.02 per diluted share for the fourth quarter of 2009 compared to net loss available to common shareholders of $0.28 per diluted share for the fourth quarter of 2008.

Including discontinued operations, the Company reported a net loss of $1.5 million, or $0.12 per diluted share, for the fourth quarter of 2009, compared to a net loss of $5.4 million, or $0.43 per share, for the fourth quarter of 2008.

The tax-equivalent net interest rate margin was 3.15% for the fourth quarter of 2009 as compared to 3.09% for the same period in 2008. Net interest income in the fourth quarter of 2009 increased $531,000 from the fourth quarter of 2008. This increase in net interest income was the result of a $4.2 million decrease in interest expense offset by a $3.7 million decrease in interest income. The yield on average interest-earning assets decreased from 5.60% during the fourth quarter of 2008 to 4.89% during the same period in 2009. The decline was primarily due to higher levels of securities and short-term investments as a percentage of earning assets and higher levels of nonperforming loans. The cost of interest-bearing liabilities decreased from 2.82% for the fourth quarter of 2008 to 2.06% for the same period in 2009.

The provision for loan losses was $8.4 million for the fourth quarter of 2009 compared to $6.5 million for the third quarter of 2009, and $16.3 million in the fourth quarter of 2008. Changes in the provision for loan losses from quarter to quarter are due to changes in loan risk ratings. Additional provision is the result of increases in adverse loan risk rating changes, while decreases are the result of fewer adverse loan risk rating changes. Provision for loan losses on the participated loan balances were $349,000 in the fourth quarter of 2009, compared to ($420,000) in the third quarter of 2009, and $2.2 million in the fourth quarter of 2008.

Noninterest income was $4.2 million during the fourth quarter of 2009, a $1.9 million decrease over noninterest income of $6.1 million for the same period in 2008. The decrease is due to state tax credit brokerage activities which generated $62,000 in gains in the fourth quarter of 2009 versus $2.6 million in the fourth quarter of 2008. While sales activity remained strong, as the Company generated $975,000 in gains from the sale of state tax credits in the fourth quarter of 2009 compared to $708,000 in the prior year period, recording the tax credit assets and related interest rate hedges to fair value offset $913,000 of the sales gains in the fourth quarter.

Other items contributing to the decrease include declining Trust revenues, additional losses on Other real estate and a decrease in Other income related to a 2008 gain reclassified from accumulated other comprehensive income to earnings for measured ineffectiveness of cash flow hedges. Offsetting these decreases was $2.1 million gain from the extinguishment of debt related to the accounting for loan participations.

Noninterest expenses were $13.7 million during the fourth quarter of 2009 versus $13.3 million during the same period in 2008.

Income tax benefit related to continuing operations was $372,000 during the fourth quarter of 2009 compared to $2.9 million in the same period in 2008. The effective tax rate was (46.5%) for the fourth quarter of 2009 compared to (45.4%) for the fourth quarter of 2008.

FINANCIAL CONDITION

Comparison for December 31, 2009 and 2008

Total assets at December 31, 2009 were $2.37 billion compared to $2.49 billion at December 31, 2008, a decrease of $128.0 million, or 5%. Loan participations of $224.0 million were included in Total assets at December 31, 2008. These assets were removed from the balance sheet as of December 31, 2009.

Excluding the impact of loan participations, total assets increased $96.0 million, or 4% during 2009. The increase was primarily driven by a $186.0 million increase in securities available for sale and a $64.0 million increase in cash and cash equivalents, partially offset by a $143.9 million, or 7%, decrease in loans.

Investments were $295.7 million at December 31, 2009 compared to $108.3 million at December 31, 2008. In 2009, the portfolio grew with additions to the government sponsored agency debentures, mortgage backed securities (including CMO's) and government guaranteed securities. We also began to build a portfolio of tax free municipal securities.

Goodwill and intangible assets were $2.6 million at December 31, 2009, compared to $52.0 million at December 31, 2008, a decrease of $49.4 million. The decrease in goodwill and intangible assets was due to $45.4 million of impairment charges related to the Banking segment and the write-off of the remaining Millennium goodwill and intangible as a result of the Millennium sale. See Item 8, Note 10 – Goodwill and Intangible Assets for more information.

At December 31, 2009, Other assets included $11.5 million of prepaid FDIC insurance and $8.5 million of indemnification receivable from the FDIC as a result of our Arizona acquisition.

At December 31, 2009, deposits were $1.94 billion, an increase of $149.0 million, or 8%, from $1.79 billion at December 31, 2008. Total brokered CD's at December 31, 2009 were $156.0 million compared to $336.0 million at December 31, 2008, a decrease of $180.0 million. Excluding brokered deposits, core deposits increased $328.0 million, or 23%, in 2009.

Other borrowings at December 31, 2008 contain $227.0 million of secured borrowing related to the loan participations. These secured borrowings were removed from the balance sheet as of December 31, 2009.

At December 31, 2008, the Company had $0 outstanding on its $16.0 million line of credit. The line of credit expired in April 2009 and we did not replace this line of credit in 2009. We believe our current level of cash at the holding company will be sufficient to meet all projected cash needs in 2010. See "Liquidity and Capital Resources" for more information.

On December 19, 2008, the Company sold 35,000 shares of preferred stock and a warrant to purchase 324,074 shares of EFSC common stock, for an aggregate investment by the U.S. Treasury of $35.0 million. See Item 8, Note 5 – Preferred Stock and Common Stock Warrants for more information. On January 25, 2010, the Company completed the sale of 1,931,610 shares, or $15.0 million of its common stock in a private placement offering.

Loans

Total loans, less unearned loan fees, decreased $368.0 million, or 17% during 2009. Net of loan participations, loans outstanding declined $139.0 million, or 7%. The Company's lending strategy emphasizes commercial, residential real estate, real estate construction and commercial real estate loans to small and medium sized businesses and their owners in the St. Louis, Kansas City and Phoenix metropolitan markets. Consumer lending is minimal. Weak loan demand and lower line usage due to the stressed real estate markets, business deleveraging, and lackluster local economies, along with higher net charge-offs all contributed to the decline in loan balances.

A common underwriting policy is employed throughout the Company. Lending to small and medium sized businesses is riskier from a credit perspective than lending to larger companies, but the risk is appropriately considered with higher loan pricing and ancillary income from cash management activities. As additional risk mitigation, the Company will generally hold only $10.0 million or less of aggregate credit exposure (both direct and indirect) with one borrower, in spite of a legal lending limit of over $60.0 million. There are five borrowing relationships where we have committed more than $10.0 million with the largest being a $20.0 million line of credit with minimal usage. For the $1.8 billion loan portfolio, the Company's average loan relationship size was just under $1.0 million, and the average note size was under $500,000.

The Company also buys and sells loan participations with other banks to help manage its credit concentration risk. At December 31, 2009 the Company had purchased $264.0 million ($176.0 million outstanding) and had sold $382.0 million ($293.0 million outstanding.) Approximately 50 borrowers make up our participations purchased, with an average outstanding loan balance of $3.5 million. Eighteen relationships, or $91.9 million of the $176.0 million in participations purchased, met the definition of a "Shared National Credit"; however, only three of the relationships, or $12.8 million, were considered out of our market.

The following table sets forth the composition of the Company's loan portfolio by type of loans as reported in the quarterly Federal Financial Institutions Examination Council Report of Condition and Income ("Call report") at the dates indicated. A review of our Call report data during the preparation of our regulatory reports resulted in some immaterial changes between loan types. Therefore, the data presented below and in our Call report is different than the data presented in our 2009 earnings press release on Form 8-K dated January 26, 2010.

	December 31,				
		Restated	Restated	Restated	Restated
(in thousands)	2009	2008	2007	2006	2005
Commercial and industrial	$ 558,016	$ 675,216	$ 549,479	$ 380,065	$ 278,996
Real estate:					
Commercial	820,248	887,963	720,072	597,547	424,390
Construction	224,389	378,092	301,710	207,189	151,185
Residential	214,067	235,019	175,258	156,109	157,115
Consumer and other	16,540	25,167	37,759	35,542	36,616
Total Loans	$ 1,833,260	$ 2,201,457	$ 1,784,278	$ 1,376,452	$ 1,048,302

	December 31,				
		Restated	Restated	Restated	Restated
	2009	2008	2007	2006	2005
Commercial and industrial	30.4%	30.7%	30.8%	27.6%	26.6%
Real estate:					
Commercial	44.7%	40.3%	40.4%	43.4%	40.5%
Construction	12.2%	17.2%	16.9%	15.1%	14.4%
Residential	11.7%	10.7%	9.8%	11.3%	15.0%
Consumer and other	1.0%	1.1%	2.1%	2.6%	3.5%
Total Loans	100.0%	100.0%	100.0%	100.0%	100.0%

Commercial and industrial loans are made based on the borrower's character, experience, general credit strength, and ability to generate cash flows for repayment from income sources, even though such loans may also be secured by real estate or other assets. Only $11.1 million of this balance at December 31, 2009 was unsecured. The credit risk related to commercial loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations. Commercial and industrial loans are primarily made to borrowers operating within the manufacturing industry.

Real estate loans are also based on the borrower's character, but more emphasis is placed on the estimated collateral values.

Approximately $318.0 million, or 17%, of commercial real estate loans were owner-occupied by commercial and industrial businesses where the primary source of repayment is dependent on sources other than the underlying collateral. Multifamily properties and other commercial properties on which income from the property is the primary source of repayment represent the balance of this category. The majority of this category of loans is secured by commercial and multi-family properties located within our two primary metropolitan markets. These loans are underwritten based on the cash flow coverage of the property, typically meet the Company's loan to value guidelines, and generally require either the limited or full guaranty of principal sponsors of the credit.

Real estate construction loans, relating to residential and commercial properties, represent financing secured by raw ground or real estate under development for eventual sale. Approximately $48.0 million of these loans include the use of interest reserves and follow standard underwriting guidelines. Construction projects are monitored by the officer and a centralized independent loan disbursement function is employed. Given the weak demand and stress in both the residential and commercial real estate markets, the Company reduced the level of these loan types in 2009.

Residential real estate loans include residential mortgages, which are loans that, due to size, do not qualify for conventional home mortgages that the Company sells into the secondary market, second mortgages and home equity lines. Residential mortgage loans are usually limited to a maximum of 80% of collateral value.

Consumer and other loans represent loans to individuals on both a secured and unsecured basis. Credit risk is mitigated by thoroughly reviewing the creditworthiness of the borrowers prior to origination.

Following is a further breakdown of our loan categories using Call report codes at December 31, 2009:

	% of portfolio	
	2009	Restated 2008
Real Estate:		
Construction & Land Development	12%	18%
Commercial Owner Occupied		
Commercial & Industrial	19%	15%
Churches/ Schools/ Nursing Homes/ Other	1%	1%
Total	20%	16%
Commercial Non Owner Occupied		
Retail	8%	6%
Commercial Office	7%	6%
Multi-Family Housing	5%	4%
Industrial/ Warehouse	3%	3%
Churches/ Schools/ Nursing Homes/ Other	2%	2%
Total	25%	21%
Residential:		
Owner Occupied	8%	7%
Non Owner Occupied	4%	3%
Total	12%	10%
Total Real Estate	69%	65%
Non Real Estate		
Commercial & Industrial	30%	34%
Consumer & Other	1%	1%
	31%	35%
	100%	100%

The Construction and Land Development category represents $224.4 million, or 12%, of the total loan portfolio. Within that category, there was $24.1 million of loans secured by raw ground, $99.4 million of commercial construction, $99.9 million of residential construction, and $1.0 million of mixed use construction.

The commercial construction component of the portfolio consisted of approximately 80 loan relationships with an average outstanding loan balance of $1.2 million. The largest loans were an $8.0 million line of credit secured by commercially zoned land in St. Louis, a $5.8 million fixed line secured by commercially zoned land in Kansas City, and a $5.3 million development loan for construction of a hotel in Phoenix, Arizona.

The residential construction component of the portfolio consists of single family housing development properties primarily in our St. Louis and Kansas City markets. There were approximately 140 loan relationships in this category with an average outstanding loan balance of $713,000. The largest loan was a $5.9 million residential development in Kansas City.

The largest segments of the non-owner occupied components of the commercial real estate portfolio are retail and commercial office permanent loans. At December 31, 2009, we had $149.8 million of non-owner occupied permanent loans secured by retail properties. There were approximately 100 loan relationships in this category with an average outstanding loan balance of $1.5 million. The three largest loans outstanding at year end were an $8.8 million loan secured by various retail properties in Kansas City, an $8.3 million loan secured by a retail strip center in St. Louis, and a $6.9 million loan secured by a single tenant retail store in Florida.

Vacancy rates for retail space in the St. Louis and Kansas City markets totaled 9.8% and 9.0%, respectively at year end, as compared to the national retail vacancy rate of 12.4%.

At December 31, 2009, we had $134.9 million of non-owner occupied permanent loans secured by commercial office properties. There were approximately 90 loan relationships with an average outstanding loan balance of $1.5 million. The three largest loans outstanding at year end were an $8.8 million loan secured by a single tenant office building in Kansas City, a $7.9 million loan secured by several office properties in Kansas City, and a $7.4 million loan secured by an office building in St. Louis.

Vacancy rates for commercial office space in the St. Louis and Kansas City markets totaled 15.6% and 16.9%, respectively at year end, as compared to the national commercial office vacancy rate of 16.3%.

Factors that are critical to managing overall credit quality are sound loan underwriting and administration, systematic monitoring of existing loans and commitments, early identification of potential problems, an adequate allowance for loan losses, and sound non-accrual and charge-off policies.

Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At December 31, 2009, no significant concentrations exceeding 10% of total loans existed in the Company's loan portfolio, except as described above.

Loans at December 31, 2009 mature or reprice as follows:

	Loans Maturing or Repricing			
(in thousands)	In One Year or Less	After One Through Five Years	After Five Years	Total
Fixed Rate Loans (1)				
Commercial and industrial	$ 79,249	$ 120,855	$ 7,535	$ 207,639
Real estate:				
Commercial	197,842	377,561	25,046	600,449
Construction	71,107	18,836	9,997	99,940
Residential	49,045	70,085	854	119,984
Consumer and other	3,296	1,629	0	4,925
Total	$ 400,539	$ 588,966	$ 43,432	$ 1,032,937
Variable Rate Loans (1)(2)				
Commercial and industrial	$ 350,377	$ -	$ -	$ 350,377
Real estate:				
Commercial	219,799	-	-	219,799
Construction	124,449	-	-	124,449
Residential	94,083	-	-	94,083
Consumer and other	11,615	-	-	11,615
Total	$ 800,323	$ -	$ -	$ 800,323
Loans (1)(2)				
Commercial and industrial	$ 429,626	$ 120,855	$ 7,535	$ 558,016
Real estate:				
Commercial	417,641	377,561	25,046	820,248
Construction	195,556	18,836	9,997	224,389
Residential	143,128	70,085	854	214,067
Consumer and other	14,911	1,629	0	16,540
Total	$ 1,200,862	$ 588,966	$ 43,432	$ 1,833,260

(1) Loan balances include unearned loan (fees) costs, net.

(2) Not adjusted for impact of interest rate swap agreements.

Fixed rate loans comprise approximately 56% of the loan portfolio at December 31, 2009 and 47% at December 31, 2008. However, most of this increase in fixed rate loans matures or reprices within one year. Variable rate loans are based on the prime rate or the London Interbank Offered Rate ("LIBOR"). The Bank's "prime rate" has been 4.00% since late 2008 when the Federal Reserve lowered the targeted Fed Funds rate to 0.25%. Some of the variable rate loans also use the "Wall Street Journal Prime Rate" which has been 3.25% since late 2008. Most loan originations have one to three year maturities. While the loan relationship has a much longer life, the shorter maturities allow the Company to revisit the underwriting and pricing on each relationship periodically. Management monitors this mix as part of its interest rate risk management. See "Interest Rate Risk" section.

Of the $417.6 million of commercial real estate loans maturing in one year or less, $172.4 million or 41% represents loans secured by non-owner occupied commercial properties.

Allowance for Loan Losses

The loan portfolio is the primary asset subject to credit risk. Credit risk is controlled and monitored through the use of lending standards, a thorough review of potential borrowers, and ongoing review of loan payment performance. Active asset quality administration, including early problem loan identification and timely resolution of problems, further ensures appropriate management of credit risk. Credit risk management for each loan type is discussed briefly in the section entitled "Loans."

The allowance for loan losses represents management's estimate of an amount adequate to provide for probable credit losses in the loan portfolio at the balance sheet date. Various quantitative and qualitative factors are analyzed and provisions are made to the allowance for loan losses. Such provisions are reflected in our consolidated statements of income. The evaluation of the adequacy of the allowance for loan losses is based on management's ongoing review and grading of the loan portfolio, consideration of past loss experience, trends in past due and nonperforming loans, risk characteristics of the various classifications of loans, existing economic conditions, the fair value of underlying collateral, and other factors that could affect probable credit losses. Assessing these numerous factors involves significant judgment and could be significantly impacted by the current economic conditions. Management considers the allowance for loan losses a critical accounting policy. See "Critical Accounting Policies" for more information.

In determining the allowance and the related provision for loan losses, three principal elements are considered:

1) specific allocations based upon probable losses identified during a quarterly review of the loan portfolio,

2) allocations based principally on the Company's risk rating formulas, and

3) an unallocated allowance based on subjective factors.

The first element reflects management's estimate of probable losses based upon a systematic review of specific loans considered to be impaired. These estimates are based upon collateral exposure, if they are collateral dependent for collection. Otherwise, discounted cash flows are estimated and used to assign loss. At December 31, 2009 the allocated allowance for loan losses on individually impaired loans was $8.1 million, or 21% of the total impaired loans, with the largest allocation being $1.5 million on one residential real estate project. At December 31, 2008, the allocated allowance for loan losses on individually impaired loans was $7.4 million, or 22% of the total impaired loans, with the largest allocation being $1.3 million on commercial ground.

The second element reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Loans are rated and assigned a loss allocation factor for each category that is based on a loss migration analysis using the Company's loss experience and heavily weighting the most recent twelve months. The higher the rating assigned to a loan, the greater the loss allocation percentage that is applied.

The unallocated allowance is based on management's evaluation of conditions that are not directly reflected in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they may not be identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the unallocated allowance include the following:

- general economic and business conditions affecting our key lending areas;
- credit quality trends (including trends in nonperforming loans expected to result from existing conditions);
- collateral values;
- competitive factors resulting in shifts in underwriting criteria; and
- findings of our loan monitoring process.

Executive management reviews these conditions quarterly in discussion with our entire lending staff. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such conditions may be reflected as a specific allowance, applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the probable loss related to such condition is reflected in the unallocated allowance.

The allocation of the allowance for loan losses by loan category is a result of the analysis above. The allocation methodology applied by the Company, designed to assess the adequacy of the allowance for loan losses, focuses on changes in the size and character of the loan portfolio, changes in levels of impaired and other nonperforming loans, the risk inherent in specific loans, concentrations of loans to specific borrowers or industries, existing economic conditions, and historical losses on each portfolio category. Because each of the criteria used is subject to change, the allocation of the allowance for loan losses is made for analytical purposes and is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the portfolio. Management continues to target and maintain the allowance for loan losses equal to the allocation methodology plus an unallocated portion, as determined by economic conditions and other qualitative and quantitative factors affecting the Company's borrowers, as described above.

Management is currently evaluating a more refined “dual risk rating system” wherein each borrower is assigned a “probability of default” and a “loss given default” rating. The probability of default is primarily based on borrower cash flow and the loss given default is based on the adequacy of the collateral value relative to the loan amount. Management believes that this more refined rating system will allow the Company to more accurately assess the risk elements in the portfolio. If adopted, it is not anticipated that the new system will have a material effect on the current level of the allowance for loan losses. Management believes that the allowance for loan losses is adequate at December 31, 2009.

The following table summarizes changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off, by loan category, and additions to the allowance charged to expense.

(in thousands)	At December 31, 2009	Restated 2008	Restated 2007	Restated 2006	Restated 2005
Allowance at beginning of year	$ 33,808	$ 22,585	$ 17,475	$ 13,331	$ 11,974
(Disposed) acquired allowance for loan losses	-	(50)	2,010	3,069	-
Release of allowance related to loan participations sold	(1,383)	-	-	-	-
Loans charged off:					
Commercial and industrial	3,663	3,783	238	1,067	171
Real estate:					
Commercial	5,710	1,384	43	25	424
Construction	15,086	8,044	705	-	-
Residential	5,931	2,367	1,418	504	-
Consumer and other	42	31	125	2	49
Total loans charged off	30,432	15,609	2,529	1,598	644
Recoveries of loans previously charged off:					
Commercial and industrial	62	64	347	362	209
Real estate:					
Commercial	66	-	15	1	74
Construction	28	241	25	-	-
Residential	422	56	17	31	177
Consumer and other	12	11	105	6	19
Total recoveries of loans	590	372	509	400	479
Net loan chargeoffs	29,842	15,237	2,020	1,198	165
Provision for loan losses	40,412	26,510	5,120	2,273	1,522
Allowance at end of year	$ 42,995	$ 33,808	$ 22,585	$ 17,475	$ 13,331
Average loans	$ 2,098,275	$ 2,001,073	$ 1,599,596	$ 1,214,437	$ 1,014,697
Total portfolio loans	1,833,260	2,201,457	1,784,278	1,376,452	1,048,302
Nonperforming loans	38,540	35,487	12,720	6,475	1,421
Net chargeoffs to average loans	1.42%	0.76%	0.13 %	0.10%	0.02%
Allowance for loan losses to loans	2.35	1.54	1.27	1.27	1.27

The following table is a summary of the allocation of the allowance for loan losses for the five years ended December 31, 2009:

	December 31, 2009		Restated 2008		Restated 2007		Restated 2006		Restated 2005	
(in thousands)	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans	Allowance	Percent by Category to Total Loans
Commercial and industrial	$ 9,715	30.4%	$ 6,431	30.7%	$ 4,582	30.8 %	$ 3,673	27.6%	$ 3,295	26.6%
Real estate:										
Commercial	19,600	44.8	11,085	40.3	7,229	40.4	5,900	43.4	4,315	40.5
Construction	4,289	12.2	7,886	17.2	5,418	16.9	2,970	15.1	1,116	14.4
Residential	3,859	11.7	2,762	10.7	2,632	9.8	2,070	11.3	1,817	15.0
Consumer and other	45	0.9	188	1.1	438	2.1	513	2.6	313	3.5
Not allocated	5,487		5,456		2,286		2,349		2,476	
Total allowance	$ 42,995	100.0%	$ 33,808	100.0%	$ 22,585	100.0%	$ 17,475	100.0%	$ 13,332	100.0%

Nonperforming assets

Nonperforming loans are defined as loans on non-accrual status, loans 90 days or more past due but still accruing, and restructured loans that are still accruing interest or in a non-accrual status. Restructured loans involve the granting of a concession to a borrower experiencing financial difficulty involving the modification of terms of the loan, such as changes in payment schedule or interest rate. Nonperforming assets include nonperforming loans plus foreclosed real estate.

Nonperforming loans exclude credit-impaired loans that were acquired in the December 2009 FDIC-assisted transaction in Arizona. These purchased credit-impaired loans are accounted for on a pool basis, and the pools are considered to be performing. See Item 8, Note 3 – Acquisition and Divestitures for more information on these loans.

Loans are placed on non-accrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectibility of principal or interest on loans, it is management's practice to place such loans on non-accrual status immediately, rather than delaying such action until the loans become 90 days past due. Previously accrued and uncollected interest on such loans is reversed. Income is recorded only to the extent that a determination has been made that the principal balance of the loan is collectable and the interest payments are subsequently received in cash, or for a restructured loan, the borrower has made six consecutive contractual payments. If collectability of the principal is in doubt, payments received are applied to loan principal.

Loans past due 90 days or more but still accruing interest are also included in nonperforming loans. Loans past due 90 days or more but still accruing are classified as such where the underlying loans are both well secured (the collateral value is sufficient to cover principal and accrued interest) and are in the process of collection.

The Company's nonperforming loans meet the definition of "impaired loans" under U.S. GAAP. As of December 31, 2009, 2008, and 2007, the Company had 39, 26, and 19 impaired loan relationships, respectively.

The following table presents the categories of nonperforming assets and certain ratios as of the dates indicated:

	At December 31,				
		Restated	Restated	Restated	Restated
(in thousands)	2009	2008	2007	2006	2005
Non-accrual loans	$ 37,441	$ 35,487	$ 12,720	$ 6,363	$ 1,421
Loans past due 90 days or more and still accruing interest	-	-	-	112	-
Restructured loans	1,099	-	-	-	-
Total nonperforming loans	38,540	35,487	12,720	6,475	1,421
Foreclosed property	26,372	13,868	2,963	1,500	-
Total nonperforming assets	$ 64,912	$ 49,355	$ 15,683	$ 7,975	$ 1,421
Total assets	$ 2,365,655	$ 2,493,767	$ 2,141,329	$ 1,600,004	$ 1,332,673
Total loans	1,833,260	2,201,457	1,784,278	1,376,452	1,048,302
Total loans plus foreclosed property	1,859,632	2,215,325	1,787,241	1,377,952	1,048,302
Nonperforming loans to loans	2.10%	1.61%	0.71%	0.47%	0.14%
Nonperforming assets to loans plus foreclosed property	3.49	2.23	0.88	0.58	0.14
Nonperforming assets to total assets	2.74	1.98	0.73	0.50	0.11
Allowance for loan losses to nonperforming loans	112.00%	95.00%	178.00%	270.00%	938.00%

Nonperforming loans

Nonperforming loans at December 31, 2009 based on Call Report codes were as follows:

(in thousands)	Amount
Construction Real Estate/ Land Acquisition and Development	$ 21,682
Commercial Real Estate	9,384
Residential Real Estate	4,130
Commercial and Industrial	3,254
Consumer & Other	90
Total	$ 38,540

The following table summarizes the changes in nonperforming loans by quarter for 2009.

	2009				
			Restated	Restated	
(in thousands)	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Total Year
Nonperforming loans beginning of period	$ 46,982	$ 54,699	$ 54,421	$ 35,487	$ 35,487
Additions to nonaccrual loans	16,318	17,900	26,790	31,421	92,429
Additions to restructured loans	1,099	-	-	-	1,099
Chargeoffs	(11,519)	(6,254)	(5,018)	(7,051)	(29,842)
Other principal reductions	(559)	(4,113)	(5,252)	(2,596)	(12,520)
Moved to Other real estate	(11,339)	(9,903)	(11,497)	(978)	(33,717)
Moved to performing	(2,442)	(5,347)	(4,745)	(1,862)	(14,396)
Nonperforming loans end of period	$ 38,540	$ 46,982	$ 54,699	$ 54,421	$ 38,540

Approximately, $5.3 million of the decline between third and fourth quarter of 2009 was the result of amending the loan participation agreements so that they qualified for sale accounting treatment. At December 31, 2009, the nonperforming loans represent 39 relationships. The largest of these is a $4.0 million commercial real estate loan. Five relationships comprise 41% of the nonperforming loans. Approximately 52% of the nonperforming loans were in the Kansas City market, 47% were in the St. Louis market and less than 1% were in the Phoenix market.

At December 31, 2008, of the total nonperforming loans, $23.6 million, or 67%, related to five relationships: $10.6 million secured by a partially completed retail center; $3.5 million secured by commercial ground; $4.7 million secured by a medical office building; $2.8 million secured by a single family residence; and $1.9 million secured by a residential development. The remaining nonperforming loans consisted of 20 relationships. Eighty-four percent of the total nonperforming loans are located in the Kansas City market.

At December 31, 2007, of the total nonperforming loans, $7.3 million, or 57%, were related to eight residential homebuilders in St. Louis and Kansas City. The two largest related to a residential builder in Kansas City totaling $2.2 million and a single-family rehab builder in Kansas City totaling $1.6 million. The remaining nonperforming loans consisted of 11 relationships, nearly all of which were related to the soft residential housing markets in St. Louis and Kansas City.

Two credits in the Kansas City market secured by real estate represented $3.7 million of the total nonperforming loans at December 31, 2006. Six of the remaining ten relationships on non-accrual at December 31, 2006 and approximately 50% of the nonperforming loan balances related to smaller relationships acquired in the NorthStar transaction. At December 31, 2005, the nonperforming loans consisted of five accounts with two credits accounting for 68% of the total.

Other real estate

Other real estate at December 31, 2009 was $26.4 million, an increase of $12.5 million over 2008. The increase includes $3.5 million of other real estate acquired through the FDIC-assisted transaction. At December 31, 2009, Other real estate was comprised of 22% completed homes, 30% residential lots and 48% commercial real estate. The largest single component of Other real estate is a medical office building with a book value of $5.0 million.

	2009				
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	Year-to-date
Other real estate at beginning of period	$ 19,273	$ 16,053	$ 13,251	$ 13,868	$ 13,868
Additions and expenses capitalized to prepare property for sale	11,342	9,915	11,788	1,155	34,200
Addition of Valley Capital ORE	3,455	-	-	-	3,455
Writedowns in fair value	(587)	(688)	(506)	(608)	(2,389)
Sales	(7,111)	(6,007)	(8,480)	(1,164)	(22,762)
Other real estate at end of period	$ 26,372	$ 19,273	$ 16,053	$ 13,251	$ 26,372

The writedowns in fair value were recorded in Loan legal and other real estate owned based on current market activity shown in the appraisals. In addition, the Company realized a net loss of $436,000 on sales of other real estate and recorded these losses as part of Noninterest income. Management believes it is prudent to sell these properties, rather than wait for an improved real estate market.

Potential problem loans

Potential problem loans, which are not included in nonperforming loans, amounted to approximately $83.2 million, or 4.54% of total loans outstanding at December 31, 2009, compared to $15.8 million, or 0.80% of total loans outstanding at December 31, 2008. The $67.4 million increase in potential problem loans consists primarily of five commercial and industrial relationships totaling $18.6 million, five commercial real estate credits totaling $25.9 million, and two residential construction credits totaling $4.8 million. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. Given this level of potential problem loans combined with the Company's demonstrated ability to work through this adverse credit cycle so far, we believe that nonperforming asset levels will remain elevated in 2010 but manageable.

Investments

At December 31, 2009, our investment portfolio was $296.0 million, or 13%, of total assets. Our debt securities portfolio is primarily comprised of U.S. government agency obligations, mortgage-backed pools, and collateralized mortgage obligations ("CMO's"). Our other investments primarily consist of the common stock investment of our trust preferred securities and other private equity investments. The size of the investment portfolio is generally 5-15% of total assets and will vary within that range based on liquidity. Typically, management classifies securities as available for sale to maximize management flexibility, although securities may be purchased with the intention of holding to maturity. Securities available-for-sale are carried at fair value, with related unrealized net gains or losses, net of deferred income taxes, recorded as an adjustment to equity capital.

The table below sets forth the carrying value of investment securities held by the Company at the dates indicated:

	December 31, 2009		2008		2007	
(in thousands)	Amount	%	Amount	%	Amount	%
Obligations of U.S. Government agencies	$ 27,189	9.2%	$ -	0.0%	$ -	0.0%
Obligations of U.S. Government sponsored enterprises	75,814	25.6%	-	0.0%	28,720	34.5%
Obligations of states and political subdivisions	3,408	1.2%	772	0.7%	949	1.1%
Residential mortgage-backed securities	176,050	59.5%	95,659	88.4%	41,087	49.3%
FHLB capital stock	8,476	2.9%	7,517	6.9%	9,106	10.9%
Other investments	4,713	1.6%	4,367	4.0%	3,471	4.2%
	$ 295,650	100.0%	$ 108,315	100.0%	$ 83,333	100.0%

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In 2009 the portfolio grew with additions to the government sponsored agency debentures, mortgage backed securities (including CMO's) and government guaranteed securities. All residential mortgage-backed securities were issued by government sponsored enterprises. This combination gives us an appropriate balance between return and cashflow certainty given the current interest rate environment. We also began to build a portfolio of federally tax free municipal securities.

At December 31, 2009, of the $8.5 million in FHLB capital stock, $2.7 million is required for FHLB membership and $5.8 million is required to support our outstanding advances. Historically, it has been the FHLB practice to automatically repurchase activity-based stock that became excess because of a member's reduction in advances. The FHLB has the discretion, but is not required, to repurchase any shares that a member is not required to hold.

The Company had no securities classified as trading at December 31, 2009, 2008, or 2007.

The following table summarizes expected maturity and yield information on the investment portfolio at December 31, 2009:

	Within 1 year		1 to 5 years		5 to 10 years		Over 10 years		No Stated Maturity		Total
(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
Obligations of U.S. Government agencies	$ -	0.00%	$ 19,266	2.00%	$ 2,720	2.21%	$ 5,203	2.04%	$ -	0.00%	$ 27,189
Obligations of U.S. Government sponsored enterprises	56,281	1.22%	14,202	1.14%	-	0.00%	5,331	3.55%	-	0.00%	75,814
Obligations of states and political subdivisions	280	4.40%	298	6.07%	310	5.94%	2,520	0.61%	-	0.00%	3,408
Residential mortgage-backed securities	8,740	3.91%	137,459	3.53%	24,690	3.53%	5,161	5.12%	-	0.00%	176,050
FHLB capital stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	8,476	1.78%	8,476
Other investments	-	0.00%	-	0.00%	-	0.00%	-	0.00%	4,713	3.57%	4,713
Total	$ 65,301	1.59%	$ 171,225	3.16%	$ 27,720	3.42%	$ 18,215	3.15%	$ 13,189	2.42%	$ 295,650

Yields on tax exempt securities are computed on a taxable equivalent basis using a tax rate of 36%. Expected maturities will differ from contractual maturities, as borrowers may have the right to call on repay obligations with or without prepayment penalties.

Deposits

The following table shows, for the periods indicated, the average annual amount and the average rate paid by type of deposit:

	For the year ended December 31,					
	2009		2008		2007	
(in thousands)	Average balance	Weighted average rate	Average balance	Weighted average rate	Average balance	Weighted average rate
Interest-bearing transaction accounts	$ 122,563	0.54%	$ 121,371	1.28%	$ 120,418	2.56%
Money market accounts	636,350	0.96%	687,867	2.00%	579,029	4.07%
Savings accounts	9,147	0.38%	9,594	0.57%	11,126	1.12%
Certificates of deposit	786,631	2.98%	588,561	4.17%	503,926	5.18%
	1,554,691	1.94%	1,407,393	2.84%	1,214,499	4.35%
Noninterest-bearing demand deposits	250,435	--	221,925	--	215,610	--
	$ 1,805,126	1.67%	$ 1,629,318	2.45%	$ 1,430,109	3.70%

Our deposit focus for 2009 was to reduce our reliance on brokered deposits, grow our core deposits, and increase our percentage of non-interest bearing deposits. We adjusted our incentive programs to focus our associates on deposit gathering efforts and aggressively managed deposit rates to achieve this objective. Our marketing efforts centered primarily around growing our base of commercial clients through direct calling efforts. Many new relationships were developed with closely-held businesses that prefer building strong relationships with locally owned banks. Such relationships are typically long term, stable sources of deposits.

Treasury management continued to be an important part of our offering as businesses sought to use these products and services to help minimize expenses and improve back room efficiency. The Bank originated 83 new treasury management relationships during 2009 representing over $80.0 million in new deposits and $239,000 in annualized fee income.

Greater emphasis was placed on our retail banking program through increased sales training, and media and direct mail promotions. Nearly $120.0 million was raised in a 13-15 month certificate of deposit campaign and approximately $21.0 million was raised through direct mail money market campaigns. Management also focused on reducing the dependency on brokered certificates of deposits and used successful retail campaigns to help replace these funds. Brokered certificates of deposits declined $180 million, or 53%, from $336.0 million at December 31, 2008 to $156.0 million at December 31, 2009. For the year ended December 31, 2009, brokered certificates of deposits represented 8% of total deposits compared to 19% for the year ended December 31, 2008. Noninterest-bearing demand deposits represented 15% of total deposits at December 31, 2009 compared to 14% at December 31, 2008. Noninterest-bearing demand deposit growth was particularly strong in the fourth quarter of 2009, with an increase of $32.0 million, or 12%.

Maturities of certificates of deposit of $100,000 or more were as follows as of December 31, 2009:

(in thousands)	Total
Three months or less	$ 98,862
Over three through six months	113,068
Over six through twelve months	146,102
Over twelve months	85,034
Total	$ 443,067

Liquidity and Capital Resources

Since September 2008, we have raised $75.0 million in regulatory capital, raising our risk-based capital ratio to 13.32% - well in excess of the regulatory guidelines. On December 12, 2008, we completed a private placement of $25.0 million in Convertible Trust Preferred Securities that qualify as Tier II regulatory capital until they would convert to EFSC common stock. On December 19, 2008, we received $35.0 million from the U.S. Treasury under the Capital Purchase Program. In January, 2010, the Company added $15.0 million in common equity in a private placement offering to accredited investors. On a pro-forma basis, the additional equity increased the Company's tangible common equity ratio to 6.08% from 5.48% at year end 2009 and its total risk-based regulatory capital ratio to 14.05% from 13.32%, enhancing its already well-capitalized position. A reconciliation of shareholders' equity to tangible common equity and total assets to tangible assets is provided below in "Capital Resources". The tangible common equity ratio is widely followed by analysts of bank and financial holding companies and we believe it is an important financial measure of capital strength even though it is considered to be a non-GAAP measure.

As of December 31, 2008, $20.0 million of the capital funds were used to pay off the Company's line of credit and term loan. In December 2008, we also injected $18.0 million into Enterprise to support continued loan growth and bolster its capital ratios. Subject to other demands for cash, we expect to use our capital funds to support continuing loan growth and strengthening our capital position as appropriate. Some portion of this additional capital may also be deployed to take advantage of acquisition opportunities that may emerge from the current unsettled nature of the financial industry. We may also seek the approval of our regulators to utilize cash available to us to repurchase all or a portion of the securities that we issued to the U. S. Treasury.

Liquidity

The objective of liquidity management is to ensure we have the ability to generate sufficient cash or cash equivalents in a timely and cost-effective manner to meet our commitments as they become due. Typical demands on liquidity are deposit run-off from demand deposits, maturing time deposits which are not renewed, and fundings under credit commitments to customers. Funds are available from a number of sources, such as from the core deposit base and from loans and securities repayments and maturities. Additionally, liquidity is provided from sales of the securities portfolio, fed fund lines with correspondent banks, the Federal Reserve and the FHLB, the ability to acquire large and brokered deposits and the ability to sell loan participations to other banks. These alternatives are an important part of our liquidity plan and provide flexibility and efficient execution of the asset-liability management strategy.

Our Asset-Liability Management Committee oversees our liquidity position, the parameters of which are approved by the Board of Directors. Our liquidity position is monitored monthly by producing a liquidity report, which measures the amount of liquid versus non-liquid assets and liabilities. Our liquidity management framework includes measurement of several key elements, such as the loan to deposit ratio, a liquidity ratio, and a dependency ratio. The Company's liquidity framework also incorporates contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. While core deposits and loan and investment repayments are principal sources of liquidity, funding diversification is another key element of liquidity management and is achieved by strategically varying depositor types, terms, funding markets, and instruments.

For the year ended December 31, 2009, net cash provided by operating activities was $8.5 million more than for 2008. Net cash used in investing activities was $66.0 million for 2009 versus $437.0 million in 2008. The decrease of $370.0 million was primarily due to a decrease in loan volume. Net cash provided by financing activities was $102.0 million in 2009 versus $305.0 million in 2008. The change in cash provided by financing activities is due to a decrease in interest-bearing deposits.

Strong capital ratios, credit quality and core earnings are essential to retaining cost-effective access to the wholesale funding markets. Deterioration in any of these factors could have a negative impact on the Company's ability to access these funding sources and, as a result, these factors are monitored on an ongoing basis as part of the liquidity management process. Enterprise is subject to regulations and, among other things, may be limited in its ability to pay dividends or transfer funds to the parent Company. Accordingly, consolidated cash flows as presented in the consolidated statements of cash flows may not represent cash immediately available for the payment of cash dividends to the Company's shareholders or for other cash needs.

Parent Company liquidity

The parent company's liquidity is managed to provide the funds necessary to pay dividends to shareholders, service debt, invest in subsidiaries as necessary, and satisfy other operating requirements. The parent company had cash and cash equivalents of $19.5 million and $23.8 million, respectively, at December 31, 2009 and 2008. The parent company's primary funding sources to meet its liquidity requirements are dividends from Enterprise and proceeds from the issuance of equity (i.e. stock option exercises). We believe our current level of cash at the holding company will be sufficient to meet all projected cash needs in 2010.

Another source of funding for the parent company includes the issuance of subordinated debentures. As of December 31, 2009, the Company had $82.6 million of outstanding subordinated debentures as part of nine Trust Preferred Securities Pools. These securities are classified as debt but are included in regulatory capital and the related interest expense is tax-deductible, which makes them a very attractive source of funding. See Item 8, Note 12 – Subordinated Debentures for more information.

Enterprise liquidity

Enterprise has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed at December 31, 2009, Enterprise could borrow an additional $118.5 million available from the FHLB of Des Moines under blanket loan pledges and an additional $279.7 million available from the Federal Reserve Bank under pledged loan agreements. Enterprise has unsecured federal funds lines with three correspondent banks totaling $30.0 million.

Investment securities are another important tool to Enterprise's liquidity objective. As of December 31, 2009, the entire investment portfolio was available for sale. Of the $282.5 million investment portfolio available for sale, $211.6 million was pledged as collateral for public deposits, treasury, tax and loan notes, and other requirements. The remaining debt securities could be pledged or sold to enhance liquidity, if necessary.

In July 2008, Enterprise joined the Certificate of Deposit Account Registry Service, or CDARS, which allows us to provide our customers with access to additional levels of FDIC insurance coverage. The CDARS program is designed to provide full FDIC insurance on deposit amounts larger than the stated minimum by exchanging or reciprocating larger depository relationships with other member banks. Our depositors' funds are broken into smaller amounts and placed with other banks that are members of the network. Each member bank issues CDs in amounts that are eligible for FDIC insurance. CDARS are considered brokered deposits according to banking regulations; however, the Company considers the reciprocal deposits placed through the CDARS program as core funding since the original funds came from clients and does not report the balances as brokered sources in its external financial reports. Enterprise must remain "well-capitalized" in order to utilize the CDARS program. As of December 31, 2009, Enterprise had $135.0 million of reciprocal CDARS deposits outstanding.

In addition to the reciprocal deposits available through CDARS, we also have access to the "one-way buy" program, which allows us to bid on the excess deposits of other CDARS member banks. The Company will report any outstanding "one-way buy" funds as brokered funds in its internal and external financial reports. At December 31, 2009, we had no outstanding "one-way buy" deposits.

As long as Enterprise remains "well-capitalized", we have the ability to sell certificates of deposit through various national or regional brokerage firms, if needed. At December 31, 2009, we had $156.0 million of brokered certificates of deposit outstanding.

Over the normal course of business, Enterprise enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through the Company's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of Enterprise's liquidity. Enterprise has $458.0 million in unused loan commitments as of December 31, 2009. While this commitment level would be very difficult to fund given Enterprise's current liquidity resources, the nature of these commitments is such that the likelihood of funding them is very low.

At December 31, 2009 and 2008, approximately $8,405,000 and $10,018,000, respectively, of cash and due from banks represented required reserves on deposits maintained by Enterprise in accordance with Federal Reserve Bank requirements.

Capital Resources

As a financial holding company, the Company is subject to "risk based" capital adequacy guidelines established by the Federal Reserve. Risk-based capital guidelines were designed to relate regulatory capital requirements to the risk profile of the specific institution and to provide for uniform requirements among the various regulators. Currently, the risk-based capital guidelines require the Company to meet a minimum total capital ratio of 8.0% of which at least 4.0% must consist of Tier 1 capital. Tier 1 capital consists of (a) common shareholders' equity (excluding the unrealized market value adjustments on the available-for-sale securities and cash flow hedges), (b) qualifying perpetual preferred stock and related additional paid in capital subject to certain limitations specified by the FDIC, and (c) minority interests in the equity accounts of consolidated subsidiaries less (d) goodwill, (e) mortgage servicing rights within certain limits, and (f) any other intangible assets and investments in subsidiaries that the FDIC determines should be deducted from Tier 1 capital. The FDIC also requires a minimum leverage ratio of 3.0%, defined as the ratio of Tier 1 capital to average total assets for banking organizations deemed the strongest and most highly rated by banking regulators. A higher minimum leverage ratio is required of less highly rated banking organizations. Total capital, a measure of capital adequacy, includes Tier 1 capital, allowance for loan losses, and subordinated debentures.

The Company met the definition of "well-capitalized" (the highest category) at December 31, 2009, 2008, and 2007. The following table summarizes the Company's risk-based capital and leverage ratios at the dates indicated:

	At December 31,		
(Dollars in thousands)	2009	2008	2007
Tier 1 capital to risk weighted assets	10.67%	8.89%	9.32%
Total capital to risk weighted assets	13.32%	12.81%	10.54%
Leverage ratio (Tier 1 capital to average assets)	8.96%	8.67%	8.62%
Tangible common equity to tangible assets	5.48%	5.38%	5.24%
Tier 1 capital	$ 215,099	$ 190,253	$ 164,957
Total risk-based capital	$ 268,454	$ 273,978	$ 186,549

Below is a reconciliation of shareholders' equity to tangible common equity and total assets to tangible assets. The tangible common equity ratio is presented because management believes it is an important financial measure of capital strength even though it is considered to be a non-GAAP measure.

	For the years ended December 31,		
		Restated	Restated
(In thousands)	2009	2008	2007
Shareholders' equity	$ 163,912	$ 214,572	$ 172,149
Less: Preferred stock	(31,802)	(31,116)	-
Less: Goodwill	(953)	(48,512)	(57,177)
Less: Intangible assets	(1,643)	(3,504)	(6,053)
Tangible common equity	$ 129,515	$ 131,440	$ 108,919
Total assets	$ 2,365,655	$ 2,493,767	$ 2,141,329
Less: Goodwill	(953)	(48,512)	(57,177)
Less: Intangible assets	(1,643)	(3,504)	(6,053)
Tangible assets	$ 2,363,059	$ 2,441,751	$ 2,078,099
Tangible common equity to tangible assets	5.48%	5.38%	5.24%

Risk Management

Market risk arises from exposure to changes in interest rates and other relevant market rate or price risk. The Company faces market risk in the form of interest rate risk through transactions other than trading activities. Market risk from these activities, in the form of interest rate risk, is measured and managed through a number of methods. The Company uses financial modeling techniques to measure interest rate risk. These techniques measure the sensitivity of future earnings due to changing interest rate environments. Guidelines established by the Bank's Asset/Liability Management Committee and approved by the Company's Board of Directors are used to monitor exposure of earnings at risk. General interest rate movements are used to develop sensitivity as the Company feels it has no primary exposure to a specific point on the yield curve. These limits are based on the Company's exposure to a 100 basis points and 200 basis points immediate and sustained parallel rate move, either upward or downward.

Interest Rate Risk

Our interest rate sensitivity management seeks to avoid fluctuating interest margins to enhance consistent growth of net interest income through periods of changing interest rates. Interest rate sensitivity varies with different types of interest-earning assets and interest-bearing liabilities. We attempt to maintain interest-earning assets, comprised primarily of both loans and investments, and interest-bearing liabilities, comprised primarily of deposits, maturing or repricing in similar time horizons in order to minimize or eliminate any impact from market interest rate changes. In order to measure earnings sensitivity to changing rates, the Company uses a static gap analysis and earnings simulation model.

The static GAP analysis starts with contractual repricing information for assets, liabilities, and off-balance sheet instruments. These items are then combined with repricing estimations for administered rate (interest-bearing demand deposits, savings, and money market accounts) and non-rate related products (demand deposit accounts, other assets, and other liabilities) to create a baseline repricing balance sheet. In addition, mortgage-backed securities are adjusted based on industry estimates of prepayment speeds.

The following table represents the estimated interest rate sensitivity and periodic and cumulative gap positions calculated as of December 31, 2009. Significant assumptions used for this table include: loans will repay at historic repayment rates; interest-bearing demand accounts and savings accounts are interest sensitive due to immediate repricing, and fixed maturity deposits will not be withdrawn prior to maturity. A significant variance in actual results from one or more of these assumptions could materially affect the results reflected in the table.

(in thousands)	Year 1	Year 2	Year 3	Year 4	Year 5	Beyond 5 years or no stated maturity	Total
Interest-Earning Assets							
Securities available for sale	$ 118,701	$ 40,556	$ 43,266	$ 17,030	$ 58,897	$ 4,011	$ 282,461
Other investments	-	-	-	-		13,189	13,189
Interest-bearing deposits	83,430	-	-	-	-	-	83,430
Federal funds sold	7,472	-	-	-	-	-	7,472
Loans (1)	1,201,974	187,344	169,030	182,070	92,842	-	1,833,260
Loans held for sale	4,243	-	-	-	-	-	4,243
Total interest-earning assets	$ 1,415,820	$ 227,900	$ 212,296	$ 199,100	$ 151,739	$ 17,200	$ 2,224,055
Interest-Bearing Liabilities							
Savings, NOW and Money market deposits	$ 841,435	$ -	$ -	$ -	$ -	$ -	$ 841,435
Certificates of deposit	668,183	89,363	25,059	26,769	949	-	810,323
Subordinated debentures	42,374	-	14,433	25,774	-	-	82,581
Other borrowings	60,138	5,300	22,000	-	-	80,000	167,438
Total interest-bearing liabilities	$ 1,612,130	$ 94,663	$ 61,492	$ 52,543	$ 949	$ 80,000	$ 1,901,777
Interest-sensitivity GAP							
GAP by period	$ (196,310)	$ 133,237	$ 150,804	$ 146,557	$ 150,790	$ (62,800)	$ 322,278
Cumulative GAP	$ (196,310)	$ (63,073)	$ 87,731	$ 234,288	$ 385,078	$ 322,278	$ 322,278
Ratio of interest-earning assets to interest-bearing liabilities							
Periodic	0.88	2.41	3.45	3.79	159.89	0.22	1.17
Cumulative GAP as of December 31, 2009	0.88	0.96	1.05	1.13	1.21	1.17	1.17

(1) Adjusted for the impact of the interest rate swaps.

At December 31, 2009, the Company was asset sensitive on a cumulative basis for all periods based on contractual maturities. Asset sensitive means that assets will reprice faster than liabilities.

Along with the static GAP analysis, determining the sensitivity of short-term future earnings to a hypothetical plus or minus 100 and 200 basis point parallel rate shock can be accomplished through the use of simulation modeling. In addition to the assumptions used to create the static gap, simulation of earnings includes the modeling of the balance sheet as an ongoing entity. Future business assumptions involving administered rate products, prepayments for future rate-sensitive balances, and the reinvestment of maturing assets and liabilities are included. These items are then modeled to project net interest income based on a hypothetical change in interest rates. The resulting net interest income for the next 12-month period is compared to the net interest income amount calculated using flat rates. This difference represents the Company's earnings sensitivity to a plus or minus 100 basis points parallel rate shock.

The resulting simulations for December 31, 2009 demonstrated that the Company's balance sheet was relatively neutral to interest rate changes. The simulations projected that the annual net interest income of Enterprise would decrease by approximately 1.7% if rates increased by 100 basis points under a parallel rate shock, primarily due to holding the Enterprise prime rate at 4.0% and implementing floors on variable rate loans to protect a higher level of current earnings. The simulations also projected that net interest income would decrease by 2.17% if rates decreased by 100 basis points under a parallel rate shock, based primarily on the assumption that deposit rates are near a minimum. Given the very low level of short term interest rates, the falling interest rate shock simulations are fairly irrelevant.

The Company occasionally uses interest rate derivative financial instruments as an asset/liability management tool to hedge mismatches in interest rate exposure indicated by the net interest income simulation described above. They are used to modify the Company's exposures to interest rate fluctuations and provide more stable spreads between loan yields and the rate on their funding sources. At December 31, 2009, the Company had $30.3 million in notional amount of outstanding interest rate swaps to help manage interest rate risk. Derivative financial instruments are also discussed in Item 8, Note 8 – Derivative Financial Instruments.

Contractual Obligations, Off-Balance Sheet Risk, and Contingent Liabilities

Through the normal course of operations, the Company has entered into certain contractual obligations and other commitments. Such obligations relate to funding of operations through deposits or debt issuances, as well as leases for premises and equipment. As a financial services provider, the Company routinely enters into commitments to extend credit. While contractual obligations represent future cash requirements of the Company, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans made by the Company.

The required contractual obligations and other commitments, excluding any contractual interest(1), at December 31, 2009 were as follows:

(in thousands)	Total	Less Than 1 Year	Over 1 Year Less than 5 Years	Over 5 Years
Operating leases	$ 18,625	$ 1,984	$ 8,574	$ 8,067
Certificates of deposit	810,323	668,260	141,603	460
Subordinated debentures	85,081	-	-	85,081
Federal Home Loan Bank advances	128,100	20,800	27,300	80,000
Commitments to extend credit	457,776	322,855	109,457	25,464
Standby letters of credit	32,263	32,263	-	-
Private equity bank fund	2,842	-	2,842	-

(1) In the banking industry, interest-bearing obligations are principally utilized to fund interest-earning assets. As such, interest charges on related contractual obligations were excluded from reported amounts as the potential cash outflows would have corresponding cash inflows from interest-earning assets.

The Company also enters into derivative contracts under which the Company either receives cash from or pays cash to counterparties depending on changes in interest rates. Derivative contracts are carried at fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. The fair value of these contracts changes daily as market interest rates change. Derivative liabilities are not included as contractual cash obligations as their fair value does not represent the amounts that may ultimately be paid under these contracts.

CRITICAL ACCOUNTING POLICIES

The following accounting policies are considered most critical to the understanding of the Company's financial condition and results of operations. These critical accounting policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. Because these estimates and judgments are based on current circumstances, they may change over time or prove to be inaccurate based on actual experiences. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of a materially different financial condition and/or results of operations could reasonably be expected. The impact and any associated risks related to our critical accounting policies on our business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Item 8, Note 1 – Significant Accounting Policies.

The Company has prepared all of the consolidated financial information in this report in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Company makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates include the valuation of loans, goodwill, intangible assets, and other long-lived assets, along with assumptions used in the calculation of income taxes, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Decreasing real estate values, illiquid credit markets, volatile equity markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statement in future periods. There can be no assurances that actual results will not differ from those estimates.

Allowance for Loan Losses

The Company maintains an allowance for loan losses ("the allowance"), which is intended to be management's best estimate of probable inherent losses in the outstanding loan portfolio. The allowance is based on management's continuing review and evaluation of the loan portfolio. The review and evaluation combines several factors including: consideration of past loan loss experience; trends in past due and nonperforming loans; risk characteristics of the various classifications of loans; existing economic conditions; the fair value of underlying collateral; and other qualitative and quantitative factors which could affect probable credit losses. Because current economic conditions can change and future events are inherently difficult to predict, the anticipated amount of estimated loan losses, and therefore the adequacy of the allowance, could change significantly. As an integral part of their examination process, various regulatory agencies also review the allowance for loan losses. These agencies may require that certain loan balances be charged off when their credit evaluations differ from those of management, based on their judgments about information available to them at the time of their examination. The Company believes the allowance for loan losses is adequate and properly recorded in the consolidated financial statements.

Acquisitions and Divestitures

Assets and liabilities of acquired entities are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The purchase price allocation process requires an analysis of the fair values of the assets acquired and the liabilities assumed. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company includes that adjustment in the cost of the combination when the contingent consideration is determinable beyond a reasonable doubt and can be reliably estimated. The results of operations of the acquired business are included in the Company's consolidated financial statements from the respective date of acquisition. As a general rule, goodwill established in connection with a stock purchase is nondeductible for tax purposes.

Assets classified as held for sale are reported at the lower of its carrying value at the date the assets is initially classified as held for sale or its fair value less costs to sell. The results of operations of a component that either has been disposed of or held for sale is reported as discontinued operation if:

- the operations and cash flows of the disposal group will be eliminated from the ongoing operations as a result of the disposal transaction; and
- the Company will not have any significant continuing involvement in the operations of the entity after the disposal transaction.

Any incremental direct costs incurred to transact the sale are allocated against the gain or loss on the sale. These costs would include items like legal fees, title transfer fees, broker fees, etc. Any goodwill associated with the portion of the reporting unit that constitutes a business to be disposed of is included in the carrying amount of the business in determining the gain or loss on the sale. Also, any intangible assets or write down to fair value associated with the entity to be disposed of is also included in the carrying amount of the business in determining the gain or loss on the sale. The gain or loss on the sale is classified in the consolidated statements of income as noninterest income.

Goodwill and Other Intangible Assets
Our goodwill impairment tests are completed as of December 31 each year and for goodwill and intangible assets whenever events or changes in circumstances indicate that the Company may not be able to recover the respective asset's carrying amount. Such tests involve the use of various estimates and assumptions. Management believes that the estimates and assumptions utilized are reasonable. However, the Company may incur impairment charges related to goodwill or intangible assets in the future due to changes in business prospects or other matters that could affect our estimates and assumptions.

Goodwill is tested for impairment at the reporting unit level. Reporting units are defined as the same level as, or one level below, an operating segment. An operating segment is a component of a business for which separate financial information is available that management regularly evaluates in deciding how to allocate resources and assess performance. The Company's reporting units are Trust and the Banking operations of Enterprise. At December 31, 2009 and 2008, the Trust reporting unit had no goodwill.

Businesses must identify potential impairments by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Goodwill impairment does not occur as long as the fair value of the unit is greater than its carrying value. The second step of the impairment test is only required if a goodwill impairment is identified in step one. The second step of the test compares the implied fair market value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair market value, an impairment loss is recognized. That loss is equal to the carrying amount of goodwill that is in excess of its implied fair market value.

Intangible assets other than goodwill, such as core deposit intangibles, that are determined to have finite lives are amortized over their estimated remaining useful lives. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

There are three general approaches commonly used in business valuation: income approach, asset-based approach, and market approach. Within each of these approaches, there are various techniques for determining the value of a business using the definition of value appropriate for the appraisal assignment. Professional judgment is required to determine which valuation methods are the most appropriate. The valuation may utilize one or more of the approaches. Generally, the income approaches determine value by calculating the net present value of the benefit stream generated by the business (discounted cash flow); the asset-based approaches determine value by adding the sum of the parts of the business (net asset value); and the market approaches determine value by comparing the subject company to other companies in the same industry, of the same size, and/or within the same region.

Banking reporting unit
The Banking reporting unit's goodwill and intangible assets were evaluated for impairment as of March 31, 2009. In connection with these tests, we determined that 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 required a goodwill impairment charge. As a result, the Company recorded a $45.4 million, pre-tax goodwill impairment charge as of March 31, 2009 thus eliminating all goodwill in the Banking segment at that time.

The 2008 and 2007 annual impairment evaluations of the goodwill and intangible balances did not identify any impairment for the Banking reporting unit.

In conjunction with the December 2009 FDIC-assisted transaction, we recorded $953,000 of goodwill based on the fair value of the assets purchased and liabilities assumed.

State Tax Credits Held for Sale
The Company purchases the rights to receive 10-year streams of state tax credits at agreed upon discount rates and sells such tax credits to Wealth Management clients. All state tax credits purchased prior to 2009 are accounted for at fair value. All state tax credits purchased in 2009 are accounted for at lower of cost or fair value. The Company elected not to account for the state tax credits purchased in 2009 at fair value in order to limit the volatility of the fair value changes in our consolidated statements of operations.

The Company is not aware of an active financial market for the 10-year streams of state tax credit financial instruments. However, the Company's principal market for these tax credits consists of state residents who buy them to reduce their state tax exposure. The state tax credits purchased by the Company are held until they are "usable" and then are sold to our clients for a profit.

The Company utilizes a discounted cash flow analysis (income approach) to determine the fair value of the state tax credits. The fair value measurement is calculated using an internal valuation model. The inputs to the fair value calculation include: the amount of tax credits generated each year, the anticipated sale price of the tax credit, the timing of the sale and a discount rate. The discount rate is defined as the LIBOR swap curve at a point equal to the remaining life in years of credits plus a risk premium spread. With the exception of the discount rate, the inputs to the fair value calculation are observable and readily available. The discount rate is an "unobservable input" and is based on the Company's assumptions. As a result, fair value measurement for these instruments falls within Level 3 of the fair value hierarchy.

At December 31, 2009, the discount rates utilized in our state tax credits fair value calculation ranged from 2.30% to 6.01%. Changes in the fair value of the state tax credits held for sale reduced the State tax credit activity, net in the consolidated statement of operations for the year ended December 31, 2009 by $1.3 million. A rate simulation with a 100 basis point parallel rate shock to the discount rate was run for December 31, 2009. The resulting simulation indicates that if the LIBOR swap curve were to increase by 100 basis points, the fair value of the state tax credits would be lower by approximately $1.1 million. We would expect a portion of this decline would be offset by a change in the value of derivative financial instruments used to economically hedge the state tax credits.

These Level 3 fair value measurements are based primarily upon our own estimates and are calculated based on the current economic and regulatory environment, interest rate risks and other factors. Therefore, the results cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including the discount rate and estimate of future cash flows, could significantly affect the fair value measurement amounts.

Derivative Financial Instruments
The Company uses derivative financial instruments to assist in managing interest rate sensitivity. The derivative financial instruments used are interest rate swaps and caps. Derivative financial instruments are required to be measured at fair value and recognized as either assets or liabilities in the consolidated financial statements. Fair value represents the payment the Company would receive or pay if the item were sold or bought in a current transaction. As of December 31, 2009, the Company used nondesignated derivative financial instruments to economically hedge changes in the fair value of state tax credits held for sale and changes in the fair value of certain loans accounted for as trading instruments. In addition, the Company also offers an interest-rate hedge program that includes interest rate swaps to assist its customers in managing their interest-rate risk profile. In order to eliminate the interest-rate risk associated with offering these products, the Company enters into derivative contracts with third parties to offset the customer contracts. These customer accommodation interest rate swap contracts are not designated as hedging instruments.

- Cash Flow Hedges – Derivatives designated as cash flow hedges are recorded at fair value. The effective portion of the change in fair value is recorded (net of taxes) as a component of other comprehensive income ("OCI") in shareholders' equity. Amounts recorded in OCI are subsequently reclassified into interest income or expense (depending on whether the hedged item is an asset or liability) when the underlying transaction affects earnings. The ineffective portion of the change in fair value is recorded in noninterest income. Upon dedesignation of a derivative financial instrument from a cash flow hedge relationship, any remaining amounts in OCI are recorded in noninterest income over the expected remaining life of the underlying forecasted hedge transaction. The net interest differential between the hedged item and the hedging derivative financial instrument are recorded as an adjustment to interest income or interest expense of the related asset or liability.

- Fair Value Hedges – For derivatives designated as fair value hedges, the change in fair value of the derivative instrument and related hedged item are recorded in the related interest income or expense, as applicable, except for the ineffective portion, which is recorded in noninterest income in the consolidated statements of income. The swap agreement is accounted for on an accrual basis with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability.

- Non-Designated Hedges – Certain derivative financial instruments are not designated as cash flow or as fair value hedges for accounting purposes. These non-designated derivatives are entered into to provide interest rate protection on net interest income or noninterest income but do not meet hedge accounting treatment. Changes in the fair value of these instruments are recorded in interest income or noninterest income in the consolidated statements of operations depending on the underlying hedged item.

The judgments and assumptions most critical to the application of this accounting policy are those affecting the estimation of fair value and hedge effectiveness. Changes in assumptions and conditions could result in greater than expected inefficiencies that, if large enough, could reduce or eliminate the economic benefits anticipated when the hedges were established and/or invalidate continuation of hedge accounting. Greater inefficiency and discontinuation of hedge accounting can result in increased volatility in reported earnings. For cash flow hedges, this would result in more or all of the change in the fair value of the related derivative financial instruments being reported in income. In December 2008, the Company discontinued hedge accounting on two prime based loan hedge relationships as a result of the significant decrease in the prime rate. As a result of the dedesignation, the changes in the fair value of the related derivative financial instruments are being reported in income without a corresponding and offsetting change in the fair value for the loans previously hedged.

Deferred Tax Assets and Liabilities
The Company accounts for income taxes under the asset/liability method. Deferred tax assets and liabilities are recognized for future tax effects of temporary differences, net operating loss carry forwards and tax credits. Deferred tax assets are reduced if necessary, by a deferred tax asset valuation allowance. A valuation allowance is established when in the judgment of management, it is more likely than not that such deferred tax assets will not become realizable. In this case, we would adjust the recorded value of our deferred tax assets, which would result in a direct charge to income tax expense in the period that the determination is made. Likewise, we would reverse the valuation allowance when realization of the deferred tax asset is expected.

Effects of New Accounting Pronouncements
See Item 8, Note 24 – New Authoritative Accounting Guidance for information on recent accounting pronouncements and their impact, if any, on our consolidated financial statements.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to "Risk Factors" included in Item 1A and "Risk Management" included in Management's Discussion and Analysis under Item 7.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Enterprise Financial Services Corp and subsidiaries

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Enterprise Financial Services Corp:

We have audited the accompanying consolidated balance sheets of Enterprise Financial Services Corp and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders’ equity and comprehensive (loss) income, and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the 2008 and 2007 financial statements have been restated to correct a misstatement.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2010 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

St. Louis, MO
March 12, 2010

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Balance Sheets
Years ended December 31, 2009 and 2008

(In thousands, except share and per share data)	December 31, 2009	Restated 2008
Assets		
Cash and due from banks	$ 16,064	$ 25,626
Federal funds sold	7,472	2,637
Interest-bearing deposits	83,430	14,384
Total cash and cash equivalents	106,966	42,647
Securities available for sale	282,461	96,431
Other investments, at cost	13,189	11,884
Loans held for sale	4,243	2,632
Portfolio loans	1,833,260	2,201,457
Less: Allowance for loan losses	42,995	33,808
Portfolio loans, net	1,790,265	2,167,649
Other real estate	26,372	13,868
Fixed assets, net	22,301	25,158
Accrued interest receivable	7,751	7,557
State tax credits, held for sale, including $32,485 and $39,142 carried at fair value, respectively	51,258	39,142
Goodwill	953	48,512
Intangibles, net	1,643	3,504
Assets of discontinued operations held for sale	4,000	-
Other assets	54,253	34,783
Total assets	$ 2,365,655	$ 2,493,767
Liabilities and Shareholders' Equity		
Deposits:		
Demand deposits	$ 289,658	$ 247,361
Interest-bearing transaction accounts	142,061	126,644
Money market accounts	690,552	702,886
Savings	8,822	7,826
Certificates of deposit:		
$100k and over	443,067	520,197
Other	367,256	187,870
Total deposits	1,941,416	1,792,784
Subordinated debentures	85,081	85,081
Federal Home Loan Bank advances	128,100	119,957
Other borrowings	39,338	272,969
Accrued interest payable	2,125	2,473
Other liabilities	5,683	5,931
Total liabilities	2,201,743	2,279,195
Shareholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized; 35,000 shares issued and outstanding	31,802	31,116
Common stock, $0.01 par value; 30,000,000 shares authorized; 12,958,820 and 12,876,981 shares issued, respectively	130	129
Treasury stock, at cost; 76,000 shares	(1,743)	(1,743)
Additional paid in capital	117,000	115,112
Retained earnings	15,790	68,710
Accumulated other comprehensive income	933	1,248
Total shareholders' equity	163,912	214,572
Total liabilities and shareholders' equity	$ 2,365,655	$ 2,493,767

See accompanying notes to consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31, 2009, 2008 and 2007

(In thousands, except per share data)	Years ended December 31, 2009	Restated 2008	Restated 2007
Interest income:			
Interest and fees on loans	$ 112,548	$ 121,467	$ 124,624
Interest on debt securities:			
Taxable	5,459	4,722	4,571
Nontaxable	24	31	34
Interest on federal funds sold	6	211	481
Interest on interest-bearing deposits	130	43	17
Dividends on equity securities	319	547	522
Total interest income	118,486	127,021	130,249
Interest expense:			
Interest-bearing transaction accounts	662	1,554	3,078
Money market accounts	6,079	13,786	23,578
Savings	35	55	125
Certificates of deposit:			
$100 and over	15,592	18,127	18,329
Other	7,835	6,398	7,754
Subordinated debentures	5,171	3,536	3,859
Federal Home Loan Bank advances	4,797	6,649	4,277
Notes payable and other borrowings	8,674	10,233	8,242
Total interest expense	48,845	60,338	69,242
Net interest income	69,641	66,683	61,007
Provision for loan losses	40,412	26,510	5,120
Net interest income after provision for loan losses	29,229	40,173	55,887
Noninterest income:			
Wealth Management revenue	4,524	5,916	7,159
Service charges on deposit accounts	5,012	4,376	3,228
Other service charges and fee income	963	1,000	852
Sale of branches/charter	-	3,400	-
Sale of other real estate	(436)	552	(48)
State tax credit activity, net	1,035	4,201	792
Sale of investment securities	955	161	233
Extinguishment of debt	7,388	-	-
Miscellaneous income	436	735	636
Total noninterest income	19,877	20,341	12,852
Noninterest expense:			
Employee compensation and benefits	25,969	27,656	27,412
Occupancy	4,709	3,985	3,651
Furniture and equipment	1,425	1,390	1,366
Data processing	2,147	2,139	1,873
Amortization of intangibles	482	599	692
Goodwill impairment charge	45,377	-	-
Loan legal and other real estate expense	4,788	1,717	501
Other	13,530	11,290	9,200
Total noninterest expense	98,427	48,776	44,695
(Loss) income from continuing operations before income tax (benefit) expense	(49,321)	11,738	24,044
Income tax (benefit) expense	(2,650)	3,672	8,098
(Loss) income from continuing operations	(46,671)	8,066	15,946
(Loss) income from discontinued operations before income tax (benefit) expense	(408)	(9,757)	2,045
Loss on disposal before income tax benefit	(1,587)	-	-
Income tax (benefit) expense	(711)	(3,539)	736
(Loss) income from discontinued operations	(1,284)	(6,218)	1,309
Net (loss) income	$ (47,955)	$ 1,848	$ 17,255

Net (loss) income available to common shareholders	$ (50,369)	$ 1,769	$ 17,255
Basic (loss) earnings per common share:			
From continuing operations	$ (3.82)	$ 0.63	$ 1.30
From discontinued operations	(0.10)	(0.49)	0.11
Total	$ (3.92)	$ 0.14	$ 1.41
Diluted (loss) earnings per common share:			
From continuing operations	$ (3.82)	$ 0.63	$ 1.27
From discontinued operations	(0.10)	(0.49)	0.10
Total	$ (3.92)	$ 0.14	$ 1.37

See accompanying notes to consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity and Comprehensive (Loss) Income
Years ended December 31, 2007, 2008, and 2009

(in thousands, except per share data)	Preferred	Common Stock	Treasury	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance December 31, 2006 (Restated)	$ -	$ 115	$ -	$ 78,026	$ 55,133	$ (592)	$ 132,682
Cumulative effect of adoption of FIN 48	-	-	-	-	138	-	138
Balance January 1, 2007 (Restated)	$ -	$ 115	$ -	$ 78,026	$ 55,271	$ (592)	$ 132,820
Net income (Restated)	-	-	-	-	17,255	-	17,255
Change in fair value of investment securities, net of tax	-	-	-	-	-	858	858
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	-	-	-	-	-	(149)	(149)
Total comprehensive income (Restated)							17,964
Cash dividends paid on common shares, $0.21 per share	-	-	-	-	(2,638)	-	(2,638)
Issuance under equity compensation plans, net, 194,737 shares	-	2	-	1,486	-	-	1,488
Purchase of Treasury Stock, 76,000 shares	-	-	(1,743)	-	-	-	(1,743)
Acquisition of Clayco Banc Corporation, 698,733 shares	-	7	-	21,193	-	-	21,200
Additional contingent shares issued in connection with acquisition of NorthStar Bancshares, Inc., 49,348 shares	-	1	-	1,281	-	-	1,282
Share-based compensation	-	-	-	1,760	-	-	1,760
Excess tax benefit related to equity compensation plans	-	-	-	381	-	-	381
Balance December 31, 2007 (Restated)	$ -	$ 125	$ (1,743)	$ 104,127	$ 69,888	$ 117	$ 172,514
Cumulative effect of adoption of SFAS No. 159		-	-	-	(365)	-	(365)
Balance January 1, 2008 (Restated)	$ -	$ 125	$ (1,743)	$ 104,127	$ 69,523	$ 117	$ 172,149
Net income (Restated)	-	-	-	-	1,848	-	1,848
Change in fair value of available for sale securities, net of tax	-	-	-	-	-	816	816
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	-	-	-	-	-	(103)	(103)
Change in fair value of cash flow hedges, net of tax	-	-		-	-	418	418
Total comprehensive income (Restated)							2,979
Cash dividends paid on common shares, $0.21 per share	-	-	-	-	(2,661)	-	(2,661)
Issuance of preferred stock and associated warrants, 35,000 shares	31,116	-	-	3,884	-	-	35,000
Issuance under equity compensation plans, net 361,665 shares	-	4	-	3,555	-	-	3,559
Additional share-based compensation in connection with acquisition of Clayco Banc Corporation, 32,959 shares	-	-	-	1,000	-	-	1,000
Share-based compensation	-	-	-	2,085	-	-	2,085
Excess tax benefit related to equity compensation plans	-	-	-	460	-	-	460
Balance December 31, 2008 (Restated)	$ 31,116	$ 129	$ (1,743)	$ 115,112	$ 68,710	$ 1,248	$ 214,572
Net loss	-	-	-	-	(47,955)	-	(47,955)
Change in fair value of available for sale securities, net of tax	-	-	-	-	-	455	455
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	-	-	-	-	-	(611)	(611)
Reclassification of cash flow hedge, net of tax	-	-	-	-	-	(159)	(159)
Total comprehensive loss							(48,270)
Cash dividends paid on common shares, $0.21 per share	-	-	-	-	(2,694)	-	(2,694)
Cash dividends paid on preferred stock	-	-	-	-	(1,585)	-	(1,585)
Preferred stock accretion of discount and issuance cost	686	-	-	(130)	(686)	-	(130)
Issuance under equity compensation plans, net, 81,839 shares	-	1	-	322	-	-	323
Share-based compensation	-	-	-	2,034	-	-	2,034
Excess tax expense on additional share-based compensation in connection with acquisition of Clayco Banc Corporation	-	-	-	(364)	-	-	(364)
Excess tax benefit related to equity compensation plans	-	-	-	26	-	-	26
Balance December 31, 2009	$ 31,802	$ 130	$ (1,743)	$ 117,000	$ 15,790	$ 933	$ 163,912

See accompanying notes to consolidated financial statements.

(in thousands)	Years ended December 31, 2009	Restated 2008	Restated 2007
Cash flows from operating activities:			
Net (loss) income	$ (47,955)	$ 1,848	$ 17,255
Adjustments to reconcile net (loss) income to net cash from operating activities			
Depreciation	3,595	2,690	2,465
Provision for loan losses	40,412	26,510	5,120
Deferred income taxes	(2,545)	(7,699)	565
Net amortization of debt securities	1,415	545	(195)
Amortization of intangible assets	1,078	1,444	1,604
Gain on sale of investment securities	(955)	(161)	(233)
Mortgage loans originated	(91,884)	(46,416)	(81,221)
Proceeds from mortgage loans sold	89,636	47,300	80,551
Loss (gain) on sale of other real estate	436	(552)	48
Gain on state tax credits, net	(1,035)	(4,201)	(792)
Additional share-based compensation from acquisition of Clayco	-	1,000	-
Excess tax expense on additional share-based compensation from acquisition of Clayco	364	-	-
Excess tax benefits of share-based compensation	(26)	(460)	(381)
Share-based compensation	2,202	2,255	1,944
Gain on sale of branches/charter	-	(3,400)	-
Loss on disposal of Millennium Brokerage Group	1,587	-	-
Goodwill impairment charge	45,377	9,200	-
Changes in:			
Accrued interest receivable and income tax receivable	2,230	(3,054)	720
Accrued interest payable and other liabilities	(214)	(2,203)	(1,013)
Prepaid FDIC insurance	(11,472)	-	-
Other, net	(3,498)	(4,356)	(1,220)
Net cash provided by operating activities	28,748	20,290	25,217
Cash flows from investing activities:			
Cash paid in sale of branch/charter, net of cash and cash equivalents received	-	(20,736)	(9,375)
Cash received from acquisition	15,105	-	-
Net decrease (increase) in loans	98,239	(369,123)	(168,032)
Proceeds from the sale/maturity/redemption/recoveries of:			
Debt and equity securities, available for sale	85,377	41,505	104,212
Other investments	426	21,216	11,622
State tax credits held for sale	7,709	4,422	4,578
Other real estate	16,034	6,753	5,260
Loans previously charged off	590	372	509
Payments for the purchase/origination of:			
Available for sale debt and equity securities	(271,954)	(71,699)	(67,066)
Other investments	(2,184)	(26,707)	(1,831)
State tax credits held for sale	(15,227)	(15,271)	(27,726)
Fixed assets	(552)	(7,467)	(3,379)
Net cash used in investing activities	(66,437)	(436,735)	(151,228)
Cash flows from financing activities:			
Net increase (decrease) in noninterest-bearing deposit accounts	39,592	(28,868)	28,313
Net increase in interest-bearing deposit accounts	65,686	273,312	90,092
Proceeds from issuance of subordinated debentures	-	28,274	18,557
Paydown of subordinated debentures	-	-	(4,124)
Net proceeds from Federal Home Loan Bank advances	8,143	(32,943)	96,303
Net proceeds from federal funds purchased	(19,400)	19,400	-
Net increase in other borrowings	12,578	16,080	923
Net proceeds from notes payable	-	(6,000)	1,999
Cash dividends paid on common stock	(2,694)	(2,661)	(2,638)
Excess tax expense on additional share-based compensation from acquisition of Clayco	(364)	-	-
Excess tax benefits of share-based compensation	26	460	381
Issuance of preferred stock and warrants	-	35,000	-
Cash dividends paid on preferred stock	(1,585)	-	-
Preferred stock issuance cost	(130)	-	-
Repurchase of common stock	-	-	(1,743)
Proceeds from the exercise of common stock options	156	3,389	1,304
Net cash provided by financing activities	102,008	305,443	229,367
Net increase (decrease) in cash and cash equivalents	64,319	(111,002)	103,356

Cash and cash equivalents, beginning of period	42,647	153,649	50,293
Cash and cash equivalents, end of period	$ 106,966	$ 42,647	$ 153,649
Supplemental disclosures of cash flow information:			
Cash (received) paid during the period for:			
Interest	$ 49,193	$ 52,495	$ 61,223
Income taxes	(2,817)	11,579	7,854
Noncash transactions:			
Common stock issued for acquisitions	$ -	$ -	$ 22,482
Transfer to other real estate owned in settlement of loans	33,717	18,432	5,979
Sales of other real estate financed	6,258	1,840	-

See accompanying notes to consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies used by the Company in the preparation of the consolidated financial statements are summarized below:

Business and Consolidation
Enterprise Financial Services Corp (the “Company” or “EFSC”) is a financial holding company that provides a full range of banking and wealth management services to individuals and corporate customers located in the St. Louis, Kansas City and Phoenix metropolitan markets through its banking subsidiary, Enterprise Bank & Trust (“Enterprise”). The consolidated financial statements include the accounts of the Company, and its subsidiaries, all of which are wholly owned. Millennium results are reported as discontinued operations for all periods presented (see Note 3). All material intercompany accounts and transactions have been eliminated.

On January 20, 2010, the Company sold its interest in Millennium Brokerage Group, LLC (“Millennium”) for $4.0 million in cash. Enterprise acquired 60% of Millennium in October 2005 and acquired the remaining 40% in December 2007. As a result of the sale, Millennium financial results are reported as discontinued operations for all periods presented.

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

On July 31, 2008, the Company sold its remaining interest in Great American Bank (“Great American”).

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

The Company is subject to competition from other financial and nonfinancial institutions providing financial services in the markets served by the Company’s subsidiary. Additionally, the Company and its banking subsidiary are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

Accounting Standards Codification
The Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) became effective on July 1, 2009. At that date, the ASC became FASB’s officially recognized source of authoritative U.S. generally accepted accounting principles (“U.S. GAAP”) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (“AICPA”), Emerging Issues Task Force (“EITF”) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Use of Estimates
The consolidated financial statements of the Company and its subsidiaries have been prepared in conformity with U.S. GAAP and conform to predominant practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions, which significantly affect the reported amounts in the consolidated financial statements. Such estimates include the valuation of loans, goodwill, intangible assets, and other long-lived assets, along with assumptions used in the calculation of income taxes, among others. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Decreasing real estate values, illiquid credit markets, volatile equity markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statement in future periods.

Fair Value

Effective January 1, 2008, the Company adopted the Fair Value Measurements and Disclosures provisions of ASC 820 (as amended), which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs. See Note 20 – Fair Value Measurements for more information.

Cash Flow Information

For purposes of reporting cash flows, the Company considers cash and due from banks, interest-bearing deposits and federal funds sold to be cash and cash equivalents. At December 31, 2009 and 2008, approximately $8,405,000 and $10,018,000, respectively, of cash and due from banks represented required reserves on deposits maintained by the Company in accordance with Federal Reserve Bank requirements.

Reclassification

Certain immaterial reclassifications have been made to the 2008 and 2007 amounts to conform to the current year presentation. Such reclassifications had no effect on previously reported consolidated net income or shareholders' equity. In addition, as described in Note 2 – Loan Participation Restatement, amounts related to loan participations have been restated in 2008 and 2007.

Investments

The Company has classified all investments in debt securities as available for sale.

Securities classified as available for sale are carried at estimated fair value. Unrealized holding gains and losses for available for sale securities are excluded from earnings and reported as a net amount in a separate component of shareholders' equity until realized. All previous fair value adjustments included in the separate component of shareholders' equity are reversed upon sale.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in operations as realized losses. In estimating other-than-temporary impairment losses, management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) the present value of the cash flows expected to be collected compared to the amortized cost of the security, (2) duration and magnitude of the decline in value, (3) the financial condition of the issuer or issuers, (4) structure of the security, and (5) the intent to sell the security or whether its more likely than not that the Company would be required to sell the security before its anticipated recovery in market value.

Premiums and discounts are amortized or accreted over the expected lives of the respective securities as an adjustment to yield using the interest method. Dividend and interest income is recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Loans Held for Sale

The Company provides long-term financing of one-to-four-family residential real estate by originating fixed and variable rate loans. Long-term, fixed and variable rate loans are sold into the secondary market without recourse. Upon receipt of an application for a real estate loan, the Company determines whether the loan will be sold into the secondary market or retained in the Company's loan portfolio. The interest rates on the loans sold are locked with the buyer and the Company bears no interest rate risk related to these loans. Mortgage loans held for sale are carried at the lower of cost or fair value, which is determined on a specific identification method. The Company does not retain servicing on any loans sold, nor did the Company have any capitalized mortgage servicing rights at December 31, 2009 or 2008. Gains on the sale of loans held for sale are reported net of direct origination fees and costs in the Company's consolidated statements of operations.

Portfolio Loans

Loans are reported at the principal balance outstanding net of unearned fees and costs. Loan origination fees and direct origination costs are deferred and recognized over the lives of the related loans as a yield adjustment using a method, which approximates the interest method.

Interest income on loans is accrued to income based on the principal amount outstanding. The recognition of interest income is discontinued when a loan becomes 90 days past due or a significant deterioration in the borrower's credit has occurred which, in management's opinion, negatively impacts the collectability of the loan.

Subsequent interest payments received on such loans are applied to principal if any doubt exists as to the collectability of such principal; otherwise, such receipts are recorded as interest income. Loans that have not been restructured are returned to accrual status when management believes full collectability of principal and interest is expected. Non-accrual loans that have been restructured will remain in a nonaccrual status until the borrower has made six consecutive contractual payments.

Loans Acquired Through Transfer
Loans acquired through the completion of a transfer, including loans acquired in a business combination, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable 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. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loans over their remaining lives. Decreases in expected cash flows are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

Impaired Loans
A loan is considered impaired when management believes it is probable that collection of all amounts due, both principal and interest, according to the contractual terms of the loan agreement will not occur. Non-accrual loans, loans past due greater than 90 days and still accruing, and restructured loans qualify as "impaired loans." Loans are also considered "impaired" when it becomes probable that the Company will be unable to collect all amounts due according to the loan's contractual terms. Restructured loans involve the granting of a concession to a borrower experiencing financial difficulty involving the modification of terms of the loan, such as changes in payment schedule or interest rate.

When measuring impairment, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate. Alternatively, impairment is measured by reference to an observable market price, if one exists, or the fair value of the collateral for a collateral-dependent loan. Interest income on impaired loans is recorded when cash is received and only if principal is considered to be fully collectible. Loans and leases, which are deemed uncollectable, are charged off and deducted from the allowance for loan losses, while recoveries of amounts previously charged off are credited to the allowance for loan losses.

Impaired loans exclude credit-impaired loans that were acquired in the December 2009 FDIC-assisted transaction in Arizona. These purchased credit-impaired loans are accounted for on a pool basis, and the pools are considered to be performing. See Note 3 – Acquisition and Divestitures for more information on these loans.

Allowance For Loan Losses
The allowance for loan losses is increased by provision charged to expense and is available to absorb charge offs, net of recoveries. Management utilizes a systematic, documented approach in determining the appropriate level of the allowance for loan losses. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unexpected losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.

Management believes the allowance for loan losses is adequate to absorb probable losses in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Bank's loan portfolio. Such agencies may require additions to the allowance for loan losses based on their judgments and interpretations of information available to them at the time of their examinations.

Other Real Estate
Other real estate represents property acquired through foreclosure or deeded to the Company in lieu of foreclosure on loans on which the borrowers have defaulted as to the payment of principal and interest. Other real estate is recorded on an individual asset basis at the lower of cost or fair value less estimated costs to sell. The fair value of other real estate is based upon estimates of future cash flows, market value of similar assets, if available or independent appraisals. These estimates involve significant uncertainties and judgments and cannot be determined with certainty. As a result, fair value estimates may not be realizable in a current sale or settlement of the other real estate. Subsequent reductions in fair value are expensed.

Gains and losses resulting from the sale of other real estate are credited or charged to current period earnings. Costs of maintaining and operating other real estate are expensed as incurred, and expenditures to complete or improve other real estate properties are capitalized if the expenditures are expected to be recovered upon ultimate sale of the property.

Fixed Assets
Buildings, leasehold improvements, and furniture, fixtures, equipment, and capitalized software are stated at cost less accumulated depreciation and amortization is computed using the straight-line method over their respective estimated useful lives. Furniture, fixtures and equipment is depreciated over three to ten years and buildings and leasehold improvements over ten to forty years based upon lease obligation periods.

State Tax Credits Held for Sale
The Company purchases the rights to receive 10-year streams of state tax credits at agreed upon discount rates and sells such tax credits to Wealth Management customers. All state tax credits purchased prior to 2009 are accounted for at fair value. All state tax credits purchased in 2009 are accounted for at the lower of cost or fair value. The Company elected not to account for the state tax credits purchased in 2009 at fair value in order to limit the volatility of the fair value changes in the Company’s consolidated statements of operations.

Goodwill and Other Intangible Assets
The Company tests goodwill for impairment on an annual basis and whenever events or changes in circumstances indicate that the Company may not be able to recover the respective asset’s carrying amount. Such tests involve the use of estimates and assumptions. Core deposit intangibles are amortized using an accelerated method over an estimated useful life of approximately 10 years.

Businesses must identify potential goodwill impairments by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Goodwill impairment is not indicated as long as the fair value of the reporting unit is greater than its carrying value. The second step of the impairment test is only required if a goodwill impairment is identified in step one. The second step of the test compares the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized. That loss is equal to the carrying amount of goodwill that is in excess of its implied fair market value.

Impairment of Long-Lived Assets
Long-lived assets, such as fixed assets and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Derivative Financial Instruments and Hedging Activities
The Company uses derivative financial instruments to assist in the management of interest rate sensitivity and to modify the repricing, maturity and option characteristics of certain assets and liabilities. In addition, the Company also offers an interest-rate hedge program that includes interest rate swaps to assist its customers in managing their interest-rate risk profile. In order to eliminate the interest-rate risk associated with offering these products, the Company enters into derivative contracts with third parties to offset the customer contracts.

Derivative instruments are required to be measured at fair value and recognized as either assets or liabilities in the consolidated financial statements. Fair value represents the payment the Company would receive or pay if the item were sold or bought in a current transaction. The accounting for changes in fair value (gains or losses) of a hedged item is dependent on whether the related derivative is designated and qualifies for “hedge accounting.” The Company assigns derivatives to one of these categories at the purchase date: fair value hedge, cash flow hedge or non-designated derivatives. An assessment of the expected and ongoing hedge effectiveness of any derivative designated a fair value hedge or cash flow hedge is performed as required by the accounting standards. Derivatives are included in other assets and other liabilities in the consolidated balance sheets. Generally, the only derivative instruments used by the Company have been interest rate swaps and interest rate caps.

The following is a summary of the Company's accounting policies for derivative instruments and hedging activities.

- Cash Flow Hedges – Derivatives designated as cash flow hedges are recorded at fair value. The effective portion of the change in fair value is recorded (net of taxes) as a component of other comprehensive income ("OCI") in shareholders' equity. Amounts recorded in OCI are subsequently reclassified into interest income or expense (depending on whether the hedged item is an asset or liability) when the underlying transaction affects earnings. The ineffective portion of the change in fair value is recorded in noninterest income. Upon dedesignation of a derivative financial instrument from a cash flow hedge relationship, any remaining amounts in OCI are recorded in noninterest income over the expected remaining life of the underlying forecasted hedge transaction. The net interest differential between the hedged item and the hedging derivative financial instrument are recorded as an adjustment to interest income or interest expense of the related asset or liability.

- Fair Value Hedges – For derivatives designated as fair value hedges, the change in fair value of the derivative instrument and related hedged item are recorded in the related interest income or expense, as applicable, except for the ineffective portion, which is recorded in noninterest income in the consolidated statements of income. The swap agreement is accounted for on an accrual basis with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability.

- Non-Designated Hedges – Certain derivative financial instruments are not designated as cash flow or as fair value hedges for accounting purposes. These non-designated derivatives are intended to provide interest rate protection on net interest income or noninterest income but do not meet hedge accounting treatment. Customer accommodation interest rate swap contracts are not designated as hedging instruments. Changes in the fair value of these instruments are recorded in interest income or noninterest income in the consolidated statements of income depending on the underlying hedged item.

Income Taxes
The Company and its subsidiaries file consolidated federal income tax returns. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized if the Company determines it is more likely than not that all or some portion of the deferred tax asset will not be recognized. In estimating accrued taxes, the Company assesses the relative merits and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of the tax position. Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment given specific facts and circumstances. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions regarding the estimated amounts of accrued taxes.

Stock-Based Compensation
Stock-based compensation is recognized as an expense in the financial statements and measured at the grant date fair value for all equity classified awards.

Acquisitions and Divestitures
The Company accounts for business combinations using the purchase method of accounting. Accordingly, the assets and liabilities of the acquired entities have been recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The Company has one year to finalize the fair values and resulting goodwill resulting from any business combination.

The purchase price allocation process requires an estimation of the fair values of the assets acquired and the liabilities assumed. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company includes that adjustment in the cost of the combination when the contingent consideration is determinable beyond a reasonable doubt and can be reliably estimated. The results of operations of the acquired business are included in the Company's consolidated financial statements from the respective date of acquisition. As a general rule, goodwill established in connection with a stock purchase is nondeductible for tax purposes.

For divestitures, the Company measures an asset (disposal group) classified as held for sale at the lower of its carrying value at the date the asset is initially classified as held for sale or its fair value less costs to sell. The Company reports the results of operations of a component that either has been disposed of or held to sale as discontinued operations if:

- The operations and cash flows of the disposal group will be eliminated from the ongoing operations as a result of the disposal transaction, and
- The Company will not have any significant continuing involvement in the operations of the entity after the disposal transaction.

Any incremental direct costs incurred to transact the sale are allocated against the gain or loss on the sale. These costs would include items like legal fees, title transfer fees, broker fees, etc. Any goodwill and intangible assets associated with the portion of the reporting unit to be disposed of is included in the carrying amount of the business in determining the gain or loss on the sale.

NOTE 2—LOAN PARTICIPATION RESTATEMENT

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

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

The Company has corrected the error by restating the prior period consolidated financial statements. Accordingly, the consolidated statements of operations, shareholders' equity and comprehensive (loss) income and cash flows for the years ended December 31, 2008 and 2007, and the December 31, 2008 consolidated balance sheet presented herein have been restated to correct the error.

The effect of correcting the error in the consolidated statements of operations for the years ended December 31, 2008 and 2007 is presented below.

	For the Year ended December 31,	
	2008	2007