

ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
August 08, 2012

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2012.

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

Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

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

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

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

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

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

As of August 3, 2012, the Registrant had 17,874,541 shares of outstanding common stock.

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

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
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PART 1 – ITEM 1 – FINANCIAL STATEMENTS

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share data)

	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$29,832	\$20,791
Federal funds sold	58	143
Interest-bearing deposits (including \$3,520 and \$2,650 pledged as collateral)	46,087	167,209
Total cash and cash equivalents	75,977	188,143
Interest-bearing deposits greater than 90 days	1,502	1,502
Securities available for sale	599,736	593,182
Mortgage loans held for sale	4,928	6,494
Portfolio loans not covered under FDIC loss share	1,948,994	1,897,074
Less: Allowance for loan losses	36,304	37,989
Portfolio loans not covered under FDIC loss share, net	1,912,690	1,859,085
Portfolio loans covered under FDIC loss share, net of the allowance for loan losses (\$1,889 and \$1,635, respectively)	240,599	298,975
Portfolio loans, net	2,153,289	2,158,060
Other real estate not covered under FDIC loss share	17,443	17,217
Other real estate covered under FDIC loss share	19,832	36,471
Other investments, at cost	14,501	14,527
Fixed assets, net	21,739	18,986
Accrued interest receivable	9,665	9,193
State tax credits, held for sale, including \$24,836 and \$26,350 carried at fair value, respectively	65,648	50,446
FDIC loss share receivable	88,436	184,554
Goodwill	30,334	30,334
Intangibles, net	8,310	9,285
Other assets	71,794	59,385
Total assets	\$3,183,134	\$3,377,779
Liabilities and Shareholders' Equity		
Demand deposits	\$623,956	\$585,479
Interest-bearing transaction accounts	275,288	253,504
Money market accounts	957,428	1,084,304
Savings	70,227	51,145
Certificates of deposit:		
\$100 and over	468,766	550,535
Other	208,608	266,386
Total deposits	2,604,273	2,791,353
Subordinated debentures	85,081	85,081
Federal Home Loan Bank advances	90,500	102,000
Other borrowings	132,479	154,545
Accrued interest payable	1,459	1,762
Other liabilities	13,454	3,473
Total liabilities	2,927,246	3,138,214
Shareholders' equity:		
	33,703	33,293

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Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 35,000 shares issued and outstanding		
Common stock, \$0.01 par value; 30,000,000 shares authorized; 17,933,051 and 17,849,862 shares issued, respectively	179	178
Treasury stock, at cost; 76,000 shares	(1,743	) (1,743)
Additional paid in capital	170,717	169,138
Retained earnings	46,892	35,097
Accumulated other comprehensive income	6,140	3,602
Total shareholders' equity	255,888	239,565
Total liabilities and shareholders' equity	\$3,183,134	\$3,377,779
See accompanying notes to condensed consolidated financial statements.		

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Interest income:				
Interest and fees on loans	\$37,272	\$34,951	\$71,633	\$62,582
Interest on debt securities:				
Taxable	2,366	3,243	4,812	5,813
Nontaxable	236	155	470	265
Interest on federal funds sold	—	—	—	1
Interest on interest-bearing deposits	65	113	142	261
Dividends on equity securities	90	97	187	170
Total interest income	40,029	38,559	77,244	69,092
Interest expense:				
Interest-bearing transaction accounts	193	206	384	395
Money market accounts	1,240	2,124	2,670	4,206
Savings	72	9	141	18
Certificates of deposit:				
\$100 and over	1,840	2,305	3,809	4,662
Other	696	800	1,506	1,853
Subordinated debentures	980	1,126	2,129	2,247
Federal Home Loan Bank advances	768	888	1,606	1,788
Notes payable and other borrowings	107	97	237	211
Total interest expense	5,896	7,555	12,482	15,380
Net interest income	34,133	31,004	64,762	53,712
Provision for loan losses not covered under FDIC loss share	75	4,300	1,793	7,900
Provision for loan losses covered under FDIC loss share	206	275	2,491	275
Net interest income after provision for loan losses	33,852	26,429	60,478	45,537
Noninterest income:				
Wealth Management revenue	1,991	1,658	3,700	3,341
Service charges on deposit accounts	1,413	1,194	2,743	2,331
Other service charges and fee income	578	331	1,172	641
Gain on sale of other real estate	1,256	99	2,413	522
Gain on state tax credits, net	587	987	924	1,142
Gain on sale of investment securities	134	506	1,156	680
Change in FDIC loss share receivable	(5,694	) (1,081	) (8,650	) (365
Miscellaneous income	580	524	1,370	889
Total noninterest income	845	4,218	4,828	9,181
Noninterest expense:				
Employee compensation and benefits	11,052	8,265	21,515	16,953
Occupancy	1,379	1,141	2,763	2,280
Furniture and equipment	386	431	850	785
Data processing	829	604	1,649	1,230
FDIC and other insurance	843	1,133	1,796	2,355
Loan legal and other real estate expense	1,955	3,255	4,029	5,691
Other	4,970	3,195	10,176	6,695
Total noninterest expense	21,414	18,024	42,778	35,989

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Income before income tax expense	13,283	12,623	22,528	18,729
Income tax expense	4,517	4,350	7,577	6,344
Net income	\$8,766	\$8,273	\$14,951	\$12,385
Net income available to common shareholders	\$8,122	\$7,643	\$13,666	\$11,129
Earnings per common share				
Basic	\$0.46	\$0.45	\$0.77	\$0.71
Diluted	0.44	0.43	0.75	0.70

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income	\$8,766	\$8,273	\$14,951	\$12,385
Other comprehensive income, net of tax:				
Unrealized gain on investment securities arising during the period, net of tax	1,482	4,101	3,278	5,058
Less reclassification adjustment for realized gain on sale of securities included in net income, net of tax	(86	) (324	) (740	) (435
Reclassification of cash flow hedge, net of tax	—	(28	) —	(56
Total other comprehensive income	1,396	3,749	2,538	4,567
Total comprehensive income	\$10,162	\$12,022	\$17,489	\$16,952

See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance January 1, 2012	\$33,293	\$ 178	\$(1,743)	\$169,138	\$35,097	\$ 3,602	\$ 239,565
Net income	—	—	—	—	14,951	—	14,951
Change in fair value of available for sale securities, net of tax	—	—	—	—	—	3,278	3,278
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	—	—	—	—	—	(740)	(740)
Total comprehensive income	—	—	—	—	—	—	17,489
Cash dividends paid on common shares, \$0.105 per share	—	—	—	—	(1,871)	—	(1,871)
Cash dividends paid on preferred stock	—	—	—	—	(875)	—	(875)
Preferred stock accretion of discount	410	—	—	—	(410)	—	—
Issuance under equity compensation plans, net, 83,189 shares	—	1	—	455	—	—	456
Share-based compensation	—	—	—	1,124	—	—	1,124
Balance June 30, 2012	\$33,703	\$ 179	\$(1,743)	\$170,717	\$46,892	\$ 6,140	\$ 255,888

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance January 1, 2011	\$32,519	\$ 150	\$(1,743)	\$133,673	\$15,775	\$(573)	\$ 179,801
Net income	—	—	—	—	12,385	—	12,385
Change in fair value of available for sale securities, net of tax	—	—	—	—	—	5,058	5,058
Reclassification adjustment for realized gain on sale of securities included in net income, net of tax	—	—	—	—	—	(435)	(435)
Reclassification of cash flow hedge, net of tax	—	—	—	—	—	(56)	(56)
Total comprehensive income	—	—	—	—	—	—	16,952
Cash dividends paid on common shares, \$0.105 per share	—	—	—	—	(1,712)	—	(1,712)
Cash dividends paid on preferred stock	—	—	—	—	(875)	—	(875)
Preferred stock accretion of discount	381	—	—	—	(381)	—	—
Issuance under equity compensation plans, net, 105,417 shares	—	1	—	1,312	—	—	1,313
	—	27	—	32,593	—	—	32,620

Issuance under public stock offering

2,743,900 shares

Share-based compensation	—	—	—	748	—	—	748
Excess tax expense related to equity compensation plans	—	—	—	14	—	—	14
Balance June 30, 2011	\$32,900	\$ 178	\$(1,743)	\$168,340	\$25,192	\$ 3,994	\$ 228,861

See accompanying notes to condensed consolidated financial statements.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$14,951	\$12,385
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,278	1,387
Provision for loan losses	4,284	8,175
Deferred income taxes	(1,622	) 4,683
Net amortization of debt securities	3,999	2,490
Amortization of intangible assets	975	265
Gain on sale of investment securities	(1,156	) (680
Mortgage loans originated for sale	(47,839	) (29,554
Proceeds from mortgage loans sold	49,158	33,374
Gain on sale of other real estate	(2,413	) (522
Gain on state tax credits, net	(924	) (1,142
Excess tax benefit of share-based compensation	—	(14
Share-based compensation	1,124	748
Valuation adjustment on other real estate	1,814	2,643
Net accretion of loan discount and indemnification asset	(5,011	) (9,465
Changes in:		
Accrued interest receivable	(472	) 36
Accrued interest payable	(303	) (50
Prepaid FDIC insurance	1,252	1,744
Other assets	(2,710	) (531
Other liabilities	9,981	(3,012
Net cash provided by operating activities	26,366	22,960
Cash flows from investing activities:		
Cash received from acquisition of Legacy Bank	—	8,926
Net decrease (increase) in loans	3,340	(48,536
Net cash proceeds received from FDIC loss share receivable	70,014	22,673
Proceeds from the sale of debt and equity securities, available for sale	110,876	35,423
Proceeds from the maturity of debt and equity securities, available for sale	63,233	62,840
Proceeds from the redemption of other investments	4,498	422
Proceeds from the sale of state tax credits held for sale	4,134	4,057
Proceeds from the sale of other real estate	34,327	12,897
Payments for the purchase/origination of:		
Available for sale debt and equity securities	(179,285	) (194,254
Other investments	(4,481	) (895
State tax credits held for sale	(18,347) —
Fixed assets	(3,904	) (309
Net cash provided by (used in) investing activities	84,405	(96,756
Cash flows from financing activities:		
Net increase in noninterest-bearing deposit accounts	38,477	77,751
Net decrease in interest-bearing deposit accounts	(225,558	) (77,815
Proceeds from Federal Home Loan Bank advances	91,500	—
Repayments of Federal Home Loan Bank advances	(103,000) (21,556
Net decrease in other borrowings	(22,066) (31,559

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Cash dividends paid on common stock	(1,871) (1,712)
Excess tax benefit of share-based compensation	—	14)
Cash dividends paid on preferred stock	(875	) (876)
Issuance of common stock	—	32,620)
Proceeds from the issuance of equity instruments	456	1,313)
Net cash used in financing activities	(222,937	) (21,820)
Net decrease in cash and cash equivalents	(112,166	) (95,616)
Cash and cash equivalents, beginning of period	188,143	293,668)
Cash and cash equivalents, end of period	\$75,977	\$198,052)
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$12,179	\$15,392)
Income taxes	10,378	9,337)
Noncash transactions:			
Transfer to other real estate owned in settlement of loans	\$13,481	\$14,686)
Sales of other real estate financed	2,673	1,562)
See accompanying notes to condensed consolidated financial statements.			

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Business and Consolidation

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

Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Basis of Financial Statement Presentation

The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and footnotes required by U.S. GAAP for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain 2011 amounts in the consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on Net income or Shareholders' equity as previously reported.

NOTE 2 - EARNINGS PER SHARE

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

The following table presents a summary of per common share data and amounts for the periods indicated.

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income as reported	\$8,766	\$8,273	\$14,951	\$12,385
Preferred stock dividend	(438	) (438	) (875	) (875
Accretion of preferred stock discount	(206	) (192	) (410	) (381
Net income available to common shareholders	\$8,122	\$7,643	\$13,666	\$11,129
Impact of assumed conversions				
Interest on 9% convertible trust preferred securities, net of income tax	371	371	742	742
Net income available to common shareholders and assumed conversions	\$8,493	\$8,014	\$14,408	\$11,871
Weighted average common shares outstanding	17,833	17,140	17,808	15,601
Incremental shares from assumed conversions of convertible trust preferred securities	1,439	1,439	1,439	1,439
Additional dilutive common stock equivalents	14	23	32	20
Diluted common shares outstanding	19,286	18,602	19,279	17,060
Basic earnings per common share:	\$0.46	\$0.45	\$0.77	\$0.71
Diluted earnings per common share:	\$0.44	\$0.43	\$0.75	\$0.70

For the three months ended June 30, 2012 and 2011, the amount of common stock equivalents that were excluded from the earnings per share calculations because their effect was anti-dilutive was 1.1 million (including 324,074 common stock warrants) and 782,266 common stock equivalents (including 324,074 common stock warrants), respectively. For the six months ended June 30, 2012 and 2011, the amount of common stock equivalents that were excluded from the earnings per share calculations because their effect was anti-dilutive was 1.0 million (including 324,074 common stock warrants) and 925,049 (including 324,074 common stock warrants), respectively.

NOTE 3 - INVESTMENTS

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

					June 30, 2012			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			Fair Value		
Available for sale securities:								
Obligations of U.S. Government sponsored enterprises	\$119,467	\$2,177	\$—			\$121,644		
Obligations of states and political subdivisions	41,070	2,056	(390	)		42,736		
Residential mortgage-backed securities	429,351	6,225	(220	)		435,356		
	\$589,888	\$10,458	\$(610	)		\$599,736		
					December 31, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			Fair Value		
Available for sale securities:								
Obligations of U.S. Government sponsored enterprises	\$126,305	\$678	\$(66	)		\$126,917		
Obligations of states and political subdivisions	38,489	1,729	(381	)		39,837		
Residential mortgage-backed securities	422,761	5,269	(1,602	)		426,428		
	\$587,555	\$7,676	\$(2,049	)		\$593,182		

At June 30, 2012, and December 31, 2011, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity, other than the U.S. government agencies and sponsored enterprises. The residential mortgage-backed securities are all issued by U.S. government sponsored enterprises. Available for sale securities having a fair value of \$242.5 million and \$287.8 million at June 30, 2012, and December 31, 2011, respectively, were pledged as collateral to secure deposits of public institutions and for other purposes as required by law or contract provisions.

The amortized cost and estimated fair value of debt securities classified as available for sale at June 30, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted average life of the mortgage-backed securities is approximately 3 years.

(in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	\$2,257	\$2,284
Due after one year through five years	113,163	115,615
Due after five years through ten years	40,811	42,347
Due after ten years	4,306	4,134
Mortgage-backed securities	429,351	435,356
	\$589,888	\$599,736

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

(in thousands)	June 30, 2012				Total Fair Value	Unrealized Losses
	Less than 12 months		12 months or more			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Obligations of the state and political subdivisions	\$3,298	\$33	\$3,043	\$357	\$6,341	\$390
Residential mortgage-backed securities	60,461	220	—	—	60,461	220
	\$63,759	\$253	\$3,043	\$357	\$66,802	\$610

(in thousands)	December 31, 2011				Total Fair Value	Unrealized Losses
	Less than 12 months		12 months or more			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Obligations of U.S. government sponsored enterprises	\$23,389	\$66	\$—	\$—	\$23,389	\$66
Obligations of the state and political subdivisions	1,503	8	3,027	373	4,530	381
Residential mortgage-backed securities	86,954	1,598	4,203	4	91,157	1,602
	\$111,846	\$1,672	\$7,230	\$377	\$119,076	\$2,049

The unrealized losses at both June 30, 2012, and December 31, 2011, were primarily attributable to changes in market interest rates since the securities were purchased. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) the present value of the cash flows expected to be collected compared to the amortized cost of the security, (2) duration and magnitude of the decline in value, (3) the financial condition of the issuer or issuers, (4) structure of the security and (5) the intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. At June 30, 2012, management performed its quarterly analysis of all securities with an unrealized loss and concluded no individual securities were other-than-temporarily impaired.

The gross gains and gross losses realized from sales of available-for-sale investment securities were as follows:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Gross gains realized	\$324	\$506	\$1,399	\$680
Gross losses realized	(190	) —	(243) —
Proceeds from sales	46,400	30,123	110,876	35,423

NOTE 4 - PORTFOLIO LOANS NOT COVERED BY LOSS SHARE ("Non-covered")

Below is a summary of Non-covered loans by category at June 30, 2012, and December 31, 2011:

(in thousands)	June 30, 2012	December 31, 2011
Real Estate Loans:		
Construction and Land Development	\$ 142,474	\$ 140,147
Commercial real estate - Investor Owned	479,492	477,154
Commercial real estate - Owner Occupied	322,491	334,416
Residential real estate	149,410	171,034
Total real estate loans	\$ 1,093,867	\$ 1,122,751
Commercial and industrial	841,383	763,202
Consumer & other	14,020	11,459
Portfolio Loans	\$ 1,949,270	\$ 1,897,412
Unearned loan costs, net	(276	) (338
Portfolio loans, including unearned loan costs	\$ 1,948,994	\$ 1,897,074

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

A summary of the year-to-date activity in the allowance for loan losses and the recorded investment in Non-covered loans by portfolio class and category based on impairment method through June 30, 2012, and at December 31, 2011, is as follows:

(in thousands)	Commercial & Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Investor Owned	Construction and Land Development	Residential Real Estate	Consumer & Other	Qualitative Adjustment	Total
Allowance for Loan Losses:								
Balance at December 31, 2011	\$ 11,945	\$ 6,297	\$ 6,751	\$ 5,847	\$ 3,931	\$ 14	\$ 3,204	\$ 37,989
Provision charged to expense	929	1,231	216	269	(555)	—	(372)	1,718
Losses charged off	(585)	(746)	(185)	(856)	(362)	—	—	(2,734)
Recoveries	96	2	15	152	356	2	—	623
Balance at March 31, 2012	\$ 12,385	\$ 6,784	\$ 6,797	\$ 5,412	\$ 3,370	\$ 16	\$ 2,832	\$ 37,596
Provision charged to expense	(3,201)	(744)	3,518	442	(189)	3	246	75
Losses charged off	(406)	(739)	(108)	(502)	(216)	—	—	(1,971)
Recoveries	203	5	15	97	284	—	—	604
Balance at June 30, 2012	\$ 8,981	\$ 5,306	\$ 10,222	\$ 5,449	\$ 3,249	\$ 19	\$ 3,078	\$ 36,304
(in thousands)	Commercial & Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Investor Owned	Construction and Land Development	Residential Real Estate	Consumer & Other	Qualitative Adjustment	Total
Balance June 30, 2012								
Allowance for Loan Losses - Ending Balance:								
Individually evaluated for impairment	\$ 2,098	\$ 2,257	\$ 2,244	\$ 1,408	\$ 544	\$ —	\$ —	\$ 8,551
Collectively evaluated for impairment	6,883	3,049	7,978	4,041	2,705	19	3,078	27,753
Total	\$ 8,981	\$ 5,306	\$ 10,222	\$ 5,449	\$ 3,249	\$ 19	\$ 3,078	\$ 36,304
Loans - Ending Balance:								
Individually evaluated for	\$ 4,667	\$ 10,130	\$ 9,937	\$ 11,278	\$ 4,543	\$ —	\$ —	\$ 40,555

impairment								
Collectively								
evaluated for	836,716	312,361	469,555	131,196	144,867	13,744	—	1,908,439
impairment								
Total	\$841,383	\$ 322,491	\$ 479,492	\$ 142,474	\$ 149,410	\$ 13,744	\$ —	\$ 1,948,994
Balance at								
December 31,								
2011								
Allowance for								
Loan Losses -								
Ending Balance:								
Individually								
evaluated for	\$3,214	\$ 1,377	\$ 2,315	\$ 2,927	\$ 896	\$—	\$—	\$ 10,729
impairment								
Collectively								
evaluated for	8,731	4,920	4,436	2,920	3,035	14	3,204	27,260
impairment								
Total	\$ 11,945	\$ 6,297	\$ 6,751	\$ 5,847	\$ 3,931	\$ 14	\$ 3,204	\$ 37,989
Loans - Ending								
Balance:								
Individually								
evaluated for	\$5,634	\$ 4,572	\$ 11,127	\$ 14,767	\$ 5,522	\$—	\$—	\$ 41,622
impairment								
Collectively								
evaluated for	757,568	329,844	466,027	125,380	165,512	11,121	—	1,855,452
impairment								
Total	\$ 763,202	\$ 334,416	\$ 477,154	\$ 140,147	\$ 171,034	\$ 11,121	\$ —	\$ 1,897,074

A summary of Non-covered loans individually evaluated for impairment by category at June 30, 2012, and December 31, 2011, is as follows:

(in thousands)	June 30, 2012					
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial & Industrial	\$4,786	\$601	\$4,066	\$4,667	\$2,098	\$7,784
Real Estate:						
Commercial - Owner Occupied	11,743	3,180	6,950	10,130	2,257	8,669
Commercial - Investor Owned	13,866	1,759	8,178	9,937	2,244	9,710
Construction and Land Development	17,216	5,946	5,332	11,278	1,408	12,266
Residential	4,854	1,704	2,839	4,543	544	5,012
Consumer & Other	—	—	—	—	—	—
Total	\$52,465	\$13,190	\$27,365	\$40,555	\$8,551	\$43,441
(in thousands)	December 31, 2011					
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial & Industrial	\$7,517	\$128	\$ 5,506	\$5,634	\$3,214	\$6,571
Real Estate:						
Commercial - Owner Occupied	5,099	—	4,572	4,572	1,377	2,711
Commercial - Investor Owned	15,676	914	10,213	11,127	2,315	10,562
Construction and Land Development	19,685	1,628	13,139	14,767	2,927	16,114
Residential	6,465	2,211	3,311	5,522	896	9,588
Consumer & Other	—	—	—	—	—	—
Total	\$54,442	\$4,881	\$ 36,741	\$41,622	\$10,729	\$45,546

There were no loans over 90 days past due and still accruing interest at June 30, 2012. If interest on impaired loans would have been accrued based upon the original contractual terms, such income would have been \$676,000 and \$1.5 million for the three and six months ended June 30, 2012, respectively. The cash amount collected and recognized as interest income on impaired loans was \$115,000 and \$241,000 for the three and six months ended June 30, 2012, respectively. The amount recognized as interest income on impaired loans continuing to accrue interest was \$79,000 and \$238,000 for the three and six months ended June 30, 2012, respectively. At June 30, 2012, there were \$1.1 million of unadvanced commitments on impaired loans. Other Liabilities include approximately \$212,000 for estimated losses attributable to the unadvanced commitments on impaired loans.

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The recorded investment in impaired Non-covered loans by category at June 30, 2012, and December 31, 2011, is as follows:

(in thousands)	June 30, 2012			Total
	Non-accrual	Restructured	Loans over 90 days past due and still accruing interest	
Commercial & Industrial	\$4,008	\$659	\$—	\$4,667
Real Estate:				
Commercial - Investor Owned	5,143	4,794	—	9,937
Commercial - Owner Occupied	10,130	—	—	10,130
Construction and Land Development	8,015	3,263	—	11,278
Residential	2,847	1,696	—	4,543
Consumer & Other	—	—	—	—
Total	\$30,143	\$10,412	\$—	\$40,555

(in thousands)	December 31, 2011			Total
	Non-accrual	Restructured	Loans over 90 days past due and still accruing interest	
Commercial & Industrial	\$4,475	\$1,159	\$—	\$5,634
Real Estate:				
Commercial - Investor Owned	6,647	4,480	—	11,127
Commercial - Owner Occupied	4,129	443	—	4,572
Construction and Land Development	10,335	3,677	755	14,767
Residential	5,299	223	—	5,522
Consumer & Other	—	—	—	—
Total	\$30,885	\$9,982	\$755	\$41,622

The recorded investment by category for the Non-covered loans that have been restructured for the three and six months ended June 30, 2012, is as follows:

(in thousands, except for number of loans)	Three months ended June 30, 2012			Six months ended June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial & Industrial	—	\$ —	\$ —	1	\$ 659	\$ 659
Real Estate:						
Commercial - Owner Occupied	—	—	—	—	—	—
Commercial - Investor Owned	—	—	—	1	4,365	4,794
Construction and Land Development	—	—	—	2	4,341	3,263
Residential	—	—	—	1	1,696	1,696

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Consumer & Other	—	—	—	—	—	—
Total	—	\$ —	\$ —	5	\$ 11,061	\$ 10,412

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The restructured Non-covered loans primarily resulted from interest rate concessions and changing the terms of the loans. As of June 30, 2012, the Company has allocated \$2.3 million of specific reserves to the loans that have been restructured. At June 30, 2012, the Company has a commitment to lend an additional \$741,000 to a customer with an outstanding loan that has been classified as restructured and has allocated a \$141,000 reserve to this loan.

The recorded investment by category for the Non-covered loans that have been restructured and subsequently defaulted for the three and six months ended June 30, 2012, is as follows:

(in thousands, except for number of loans)	Three months ended June 30, 2012		Six months ended June 30, 2012	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial & Industrial	—			