ENTERPRISE FINANCIAL SERVICES CORP
Form DEF 14A
March 15, 2007

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
x Definitive Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

ENTERPRISE FINANCIAL SERVICES CORP

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x Fee not required.
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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

ENTERPRISE FINANCIAL SERVICES CORP

150 N. MERAMEC
CLAYTON, MISSOURI 63105

NOTICE OF 2007 ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Enterprise Financial Services Corp (the Company) will be held at The Marriott West, 660 Maryville Centre Drive, St. Louis, Missouri 63141, on Wednesday, April 18, 2007, at 4:00 p.m. Central Standard time, for the following purposes:

1. To elect 11 directors to hold office until the next Annual Meeting of Shareholders or until their successors are elected and have qualified.

2. To ratify and approve KPMG LLP as the Company s independent registered public accounting firm for the year ending December 31, 2007.

3. To amend the Company s Certificate of Incorporation to increase the number of authorized shares of common stock.

4. To transact such other business as may properly be brought before the meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on February 21, 2007, as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

It is important that your shares be represented and voted at the meeting. You have three options for voting your shares:

1. complete and return the proxy card sent to you,
2. vote via the Internet, or
3. vote via the telephone.

For Internet or telephone voting, instructions are printed on the proxy card sent to you. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the accompanying proxy statement.

By Order of the Board of Directors,

Karen K. Sher, Secretary
Clayton, Missouri
March 15, 2007

ENTERPRISE FINANCIAL SERVICES CORP

150 N. MERAMEC
CLAYTON, MISSOURI 63105

PROXY STATEMENT

These proxy materials are delivered by the Board of Directors of Enterprise Financial Services Corp (the Company), in connection with the solicitation of proxies to be voted at the 2007 Annual Meeting of Shareholders or any adjournment or postponement thereof.

QUESTIONS ABOUT THE MEETING AND THESE PROXY MATERIALS

This Proxy Statement, the proxy card and our 2007 Annual Report were first mailed to shareholders on or about March 15, 2007.

What may I vote on?

1. Election of 11 directors to hold office until the next Annual Meeting of Shareholders or until their successors are elected and have qualified;
2. Ratification and approval of KPMG LLP as independent registered public accounting firm for fiscal 2007;
3. Approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR ALL ITEMS, 1 3.

Who can vote at the meeting? The Board of Directors has set February 21, 2007 as the record date for the Annual Meeting. All shareholders who owned common stock of the Company at the close of business on the record date may attend and vote at the Annual Meeting. On the Record Date, there were 11,769,854 shares of common stock outstanding. Shares held as of the record date include shares that are held directly in your name as the shareholder of record and those shares held for you as a beneficial owner through a stockbroker, bank or other nominee.

How do I vote my shares?
Shareholders of record may vote their shares by mail, by telephone or on the Internet. Instructions about these ways to vote appear on your proxy card. If you vote by telephone or on the Internet, please have your proxy card available.

Can I change my vote? Yes. If you are the shareholder of record, you may revoke your proxy at any time before the Annual Meeting by:

- entering a new vote by Internet or telephone;
- returning a later-dated proxy card;
- sending written notice of revocation to the Secretary of the Company; or
- attending the Annual Meeting and voting by ballot.

How many votes must be present to hold the Annual Meeting? The presence in person or by proxy of the holders of a majority of the shares of Common Stock entitled to vote constitutes a quorum at the Meeting for the election of directors and for other proposals. If a quorum is not present at the time the Annual Meeting is convened, the Company may adjourn or postpone the Annual Meeting.

How many votes are needed to approve the proposals? Each holder of Common Stock is entitled to one vote for each share of Common Stock held with respect to each matter to be voted upon; provided, however, that cumulative voting shall be available for the election of directors. Under cumulative voting, each shareholder is entitled to cast a number of votes equal to the number of shares held by such shareholder multiplied by the total number of directors to be elected. These votes may be divided among all nominees equally or may be voted for one or more of the nominees, either in equal or unequal amounts, as the shareholder may elect. A plurality of votes cast at the Annual Meeting is required for the election of each director.

Approval of an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock requires the affirmative vote of a majority of the Company s outstanding shares.

Ratification of the selection of independent registered public accounting firm and approval of any other proposal that may be brought before the meeting each requires the affirmative vote of a majority of the shares present at the meeting and entitled to vote on the matter.

An abstention from voting on a matter by a shareholder present in person or by proxy will have no effect on the election of directors but will have the same legal effect as a vote against any other proposal. If a broker or other nominee holder indicates on the Proxy Card that it does not have discretionary authority to vote the shares it holds of record on a proposal, those shares will not be considered as present and entitled to vote on the proposal.

All shares of Common Stock represented at the Annual Meeting by properly executed proxies received prior to or at the Annual Meeting which are not properly revoked will be voted at the Annual Meeting in accordance with the instructions indicated on such proxies. If no instructions are indicated, such proxies will be voted FOR the election of the Board s director nominees, FOR the ratification of the recommended independent registered public accounting firm; and FOR an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock.

Who pays for this proxy solicitation? The Company will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to solicitation by mail, proxies may be solicited in person or by telephone or by other means by the Company s directors, officers or employees, who will not receive any additional compensation for solicitation activities. The Company has engaged Automatic Data Processing, Inc., for a fee to be determined, to assist in the distribution and tabulation of proxies. The Company will also reimburse brokerage firms and other nominees, custodians and fiduciaries for costs incurred by them in mailing proxy materials to the beneficial owners of common stock as of the record date.

The date of this Proxy Statement is March 15, 2007.

ELECTION OF DIRECTORS (Proposal No. 1)

The Board of Directors, upon recommendations of its Nominating and Governance Committee, has nominated for election the 11 persons named below. As previously announced, Director Masinton has decided not to stand for reelection. The Nominating and Corporate Governance Committee has decided not to fill his seat on the Board with the result that the Board will consist of 11 directors after the Annual Meeting. It is intended that proxies solicited will be voted for such nominees. The Board of Directors believes that each nominee named below will be able to serve, but should any nominee be unable to serve as a director, the persons named in the proxies have advised that they will vote for the election of such substitute nominee as the Board of Directors may propose.

The following biographical information is furnished with respect to each member of the Board of Directors of the Company, some of whom also serve as directors and officers of one or more of the Company s subsidiaries, including Enterprise Bank & Trust (the Bank).

There are no family relationships between or among any directors or executive officers of the Company. Except as noted below, none of the Company s directors or executive officers serves as a director of (1) any company that has a class of securities registered under or that is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, or (2) any investment company registered under the Investment Company Act of 1940.

Name	Principal Occupation and Five Year Business Experience	Age	Director Since
James J. Murphy, Jr.	President and Chief Executive Officer, Murphy Company (mechanical specialty contracting firm) since 1979. Lead Director of the Company since November 2005.	63	2002
Kevin C. Eichner	President and Chief Executive Officer of the Company since July 2002; Chairman, Enterprise Trust division since 2004; Vice Chairman of the Company since 1995; Chief Executive Officer, GenAmerica Financial Corporation (financial services) 2000-2002.	56	1995
Peter F. Benoist	Executive Vice President and Chairman and Chief Executive Officer of the Bank since 2002, and Chairman of the Company s Board since November 2005; Executive Director, St. Louis Regional Housing and Community Development Alliance 1999-2002.	59	2002
Paul R. Cahn	President, Elan Polo Imports, Inc. (importer of women s and children s casual shoes) since 1976.	81	1996
William H. Downey	President & Chief Operating Officer, Great Plains Energy Inc. (electric utilities) since 2003; Director, Great Plains Energy Inc. (NYSE: GXP) since 2003; President and Chief Executive Officer, Kansas City Power & Light Company since 2000; Executive Vice President, Great Plains Energy, Inc. 2002-2003; Director, Grubb & Ellis Realty Advisors since 2005.	62	2002
Robert E. Guest, Jr.	Partner, Doster Mickes James Ullom Benson & Guest, LLC (law firm) since 2005; Partner, Benson & Guest LLP (law firm) from 1986 - 2005.	52	2002
Lewis A. Levey	Chairman & CEO, Enhanced Value Strategies, Inc. (real estate consultant) since 1997. Trust Manager (Director) and member of Audit Committee, Camden Property Trust (a REIT focused on multi-family residential housing) (NYSE: CPT) since 1997.	64	2005
Birch M. Mullins	President, Lindbergh Warson Properties (real estate investments) since 1988.	63	1996
Robert E. Saur	Chairman and President, Conrad Properties (developer of commercial and residential real estate properties) since 1975.	63	1995

Name	Principal Occupation and Five Year Business Experience	Age	Director Since
Sandra A. Van Trease	Senior Executive Officer and Group President, BJC HealthCare (not-for-profit operator of hospitals) since 2004; President and Chief Executive Officer, UNICARE (an operating unit of Well Point Inc., a health insurance company) 2002-2004; President, Chief Financial Officer and Chief Operating Officer of RightChoice (health insurance company) 2000-2002. Director and member of Audit Committee for Peabody Energy (NYSE: BTU) since 2002.	46	2005
Henry D. Warshaw	President, Virtual Realty Enterprises (real estate investments) since 1998.	53	1996

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE INDIVIDUALS LISTED FOR ELECTION AS DIRECTORS OF THE COMPANY.

BOARD AND COMMITTEE MEETINGS

All Committee members are appointed by the Board. In addition, the Board has established membership standards for each committee which require that a certain number of committee members must be   independent directors   , as that term is defined in Rule 4200 (a)(15) of the NASDAQ rules.

The Board met 10 times in 2006. All directors attended at least 75% of all meetings of the full Board and of those committees on which they served in 2006. The Company   s Board of Directors periodically held executive sessions of the members of the Board who meet the then current standards of independence. Executive sessions of the Board were presided over by the Lead Director. In 2007, the Board is scheduled to meet seven times, with an optional eighth meeting.

Executive Committee

The Executive Committee is empowered to act on behalf of, and to exercise the powers of, the full Board of Directors in the management of the business and affairs of the Company when the full Board of Directors is not in session, except to the extent limited by applicable Delaware law. The charter for the Executive Committee may be found at the Company   s website at www.enterprisebank.com. All actions by the committee are reported at the next regular Board of Directors meeting. In addition, approved Executive Committee minutes are shared with all Directors. In 2006, the committee met once.

The Committee consists of at least five non-employee directors who are   independent directors   as defined in the NASDAQ standards. For 2006, the Executive Committee consisted of Directors Benoist, Eichner, Mullins, Murphy, Saur, Van Trease and Warshaw.

Audit Committee

The Audit Committee oversees the Company   s financial reporting process on behalf of the Board of Directors by reviewing all audit processes and fees, the financial information provided to the shareholders and the Company   s systems of internal financial controls. The Audit Committee has the authority and responsibility to select and evaluate and, where appropriate, replace the Company   s independent registered public accounting firm (the   independent auditors   ).

The Committee shall consist of three or more directors who meet the NASDAQ independence standards. In 2006, the Audit Committee consisted of Directors Masinton, Guest, and Van Trease, who served the full year, and Director Levey, who left the Audit Committee when he moved to the Compensation Committee and the Nominating and Governance Committee in May 2006. The Audit Committee met five times in 2006.

The Board of Directors has determined that Directors Masinton, Levey, Guest and Van Trease satisfy the requirements of a   financial expert   as defined in Item 401(h)(2) of Regulation S-K and satisfy the definition of   financially sophisticated   under NASDAQ Rule 4350(d).

In the opinion of the Company   s Board, none of the Directors on the Audit Committee has a relationship with the Company or the Bank that would interfere with the exercise of independent judgment in carrying out their responsibilities as director. None of them is or has been for the past three years an employee of the Company or the Bank, and none of their immediate family members are or have for the past three years been executive officers of the Company or the Bank.

As noted in the Audit Committee   s charter, the Company   s management is responsible for preparing the Company   s financial statements. The Committee   s charter is attached hereto as Appendix A and is also available on the Company   s website at www.enterprisebank.com. The Company   s independent auditors are responsible for auditing the financial statements. The activities of the Audit Committee are in no way designed to supersede or alter those traditional responsibilities. The Audit Committee   s role does not provide any special assurances with regard to the Company   s financial statements, nor does it involve a professional evaluation of quality of audits performed by the independent auditors.

The Audit Committee has considered whether the provision by KPMG LLP of the services covered by the audit fees is compatible with maintaining the firm s independence and concluded that it is compatible.

The Audit Committee is responsible for pre-approving all auditing services and permitted non-auditing services to be performed by the Company s independent auditors. The Chairperson of the Audit Committee has authority to approve in advance all audit or non-audit services to be provided by the independent auditors if presented to the full Audit Committee at the next regularly scheduled meeting.

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the report by reference therein.

AUDIT COMMITTEE REPORT

The Audit Committee submits the following report:

The Audit Committee operates under a written charter approved by the Board of Directors.

Management is responsible for the Company s internal controls and financial reporting process. The independent auditors are responsible for performing an independent audit of the Company s consolidated financial statements and internal control over financial reporting in accordance with generally accepted auditing standards and to issue reports thereon. The Audit Committee s responsibility is to monitor and oversee these processes.

The Audit Committee has reviewed and discussed the Company s audited financial statements and internal control report with management and the independent auditors. The Audit Committee discussed with the independent auditors the matters required by Statement on Auditing Standards No. 61, *Communications with Audit Committees*. The Audit Committee received written disclosures from the independent auditors as required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and discussed with the auditors their independence. The Audit Committee has concluded that the independent auditors are independent from the Company and its management.

Based on the reports and discussions described above, the Audit Committee recommended to the Board of Directors that the Company s audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission.

Respectfully submitted by the Audit Committee,

Sandra A. Van Trease, Chairperson Robert E. Guest Jr. Richard S. Masinton

Principal Accounting Fees

The following table sets forth fees billed to the Company for the years ended December 31, 2006 and 2005 by the Company s principal accounting firm KPMG LLP:

	December 31,	
	2006	2005
Audit fees (1)	$ 278,400	$ 295,457
Audit related fees		
All other fees		
	$ 278,400	$ 295,457

(1) Includes professional services rendered for the audit of the Company s consolidated annual financial statements, reports on internal control and review of financial statements in the Company s reports on Form 10-Q and services normally provided in connection with regulatory filings including consultation on various accounting matters.

The decrease in audit fees for 2006 from 2005 was primarily attributable to audit expenses incurred related to the Company s acquisition of Millennium Brokerage Group, LLC in October of 2005 partially offset by audit fees in connection with the acquisition of NorthStar Bancshares, Inc. in July 2006.

Financial Information Systems Design and Implementation Fees

KPMG LLP did not perform any services and therefore billed no fees relating to operating or supervising the operation of the Company s information systems or local area network or for designing or implementing the Company s financial information management systems during 2006.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee assists the Board in identifying and recommending qualified director nominees for election at the shareholders annual meeting. The charter for the Nominating and Corporate Governance Committee may be found at the Company s website at www.enterprisebank.com. The Committee also recommends membership on Board committees recommends corporate governance guidelines and oversees an annual Board self-evaluation.

The Committee shall consist of no fewer than three directors who meet the NASDAQ independence standards. Nominating and Governance Committee members for 2006 were Directors Cahn, Murphy and Saur as well as Director Levey, who joined the Committee as Chairman in May 2006. The Committee met five times in 2006.

The Nominating and Corporate Governance Committee may consider candidates for Board membership coming to its attention through current Board members, search firms, shareholders and other persons. Suggestions for nominees from shareholders are evaluated in the same manner as other nominees. Any shareholder nomination must be submitted in writing to the Secretary, Enterprise Financial Services Corp, 150 North Meramec, Clayton, Missouri 63105 and should include the shareholder s name, address and number of the Company s shares owned by the shareholder along with the nominee s name and qualifications. There are no nominees for election to the Company s Board of Directors at the 2007 Annual Meeting of shareholders other than directors standing for re-election by the shareholders.

Shareholders may communicate directly to the Board of Directors by sending a letter to the Board at: Enterprise Financial Services Corp Board of Directors, 150 North Meramec, Clayton, Missouri 63105. All communications directed to the Board of Directors will be received and processed by the Secretary of the Company and will be transmitted to the Chairman of the Nominating and Corporate Governance Committee without any editing or screening.

Code of Ethics and Business Conduct

On November 21, 2006, the Board of Directors adopted a new Code of Ethics applicable to all employees, officers and directors. The Code of Ethics may be found at the Company s website at www.enterprisebank.com.

Compensation Committee

The Compensation Committee consists of Directors Downey (Chairman), Levey, Mullins, Murphy and Warshaw. The Compensation Committee met eight times in 2006. The Compensation Committee is comprised solely of non-employee directors, all of whom the Board has determined are independent pursuant to the NASDAQ rules. The responsibilities of the Committee are set forth in its charter, which is available on the Company s website at www.enterprisebank.com, and includes the responsibility for establishing, implementing and continually monitoring compliance with the Company s compensation philosophy.

Director Compensation

The following table sets forth compensation paid to each of the Company s directors during 2006.

Director Compensation Table

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Total Annual Compensation ($)
Paul R. Cahn	3,297	12,453	15,750
William H. Downey	12,433	7,567	20,000
Robert E. Guest, Jr.	9,690	5,810	15,500
Lewis A. Levey	11,924	7,493	19,417
Richard S. Masinton	4,224	12,192	16,416
Birch M. Mullins	4,302	12,448	16,750
James J. Murphy, Jr.	13,354	26,646	40,000
Robert E. Saur	3,297	12,453	15,750
Sandra Van Trease	4,287	15,050	19,337
Henry D. Warshaw	4,302	12,448	16,750

(1) Directors receive only cash or stock awards as compensation for Annual Retainers, Board Meetings and Committee Meetings. Non-employee Directors receive a $6,000 annual retainer and $750 per board meeting attended. For Committee service, the Chairpersons receive an additional retainer as follows: Audit Committee ($8,000), Compensation Committee ($6,000) and Nominating and Governance Committee ($4,000). Non-Chairperson committee members receive $500 per committee meeting attended. Lead Director Murphy just receives an annual fee of $40,000.

Beginning in April 2006, Directors had to choose whether to receive their compensation in 100% EFSC common Stock or 50% cash/50% EFSC common stock. The shares are issued under a Stock Plan for Non-Management Directors, approved by the shareholders in 2006. Shares issued under this plan may be subject to resale restrictions.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview of the Compensation Program

The Compensation Committee of the Board of Directors determines and administers compensation operating under the authority of its Charter. The Committee has responsibility for establishing, implementing and continually monitoring compliance with the Company s compensation philosophy. You can find the Committee s Charter online at www.enterprisebank.com.

The Board determines the membership of the Committee and it consists entirely of independent Directors. Members meet NASDAQ independence standards and are outside directors within the meaning of section 162(m) of the Internal Revenue Code of 1986. During fiscal year 2006, no Member was an executive officer of another entity on whose compensation committee or board of directors an executive officer of the Company served.

The Committee has overall responsibility relating to compensation for the directors and officers and other employees and delegates certain of those functions to management. In the case of named executive officers (NEOs) (five highest paid by total cash compensation), the Committee establishes and reviews all aspects of base salaries, annual incentive cash bonuses, and long-term incentives, including the establishment or approval of measurement metrics. With respect to executives below this level, the Committee reviews management s recommendations for the aspects named above. In the case of the remaining employee population, the Committee reviews, approves, and monitors compensation budgets and proposed methods of generally administering merit changes to base salaries. The Committee has delegated to management the determination and administration of employee benefits while retaining oversight.

Committee Agendas, Scheduling, and Keeping of the Minutes Our Senior Vice President of Human Resources with approval from the Committee Chairman, proposes the agenda and scheduling calendar for the year. Outside counsel of the Committee takes the minutes, which the Committee reviews and approves.

Compensation Consultant Since May 2002, the Committee has engaged Klemm & Associates, an independent compensation consultant, to advise the Committee on all matters related to the CEO s compensation and other compensation matters. The consultant does not own any securities of the Company, nor does the consultant have any other business relationship with the Company or other individual employees beyond providing consulting services. The consultant attended all of the Committee meetings in 2006.

The Chairman of the Committee decides the nature and scope of the compensation consultant s assignments, as well as approving the budget and invoices relating to the consultant. The consultant s work for the Committee includes:

- Providing analysis of the NEOs elements of compensation compared with peer group companies.
- Providing business and technical advice on compensation matters.
- Discussing and making certain recommendations on specific pay programs and pay levels.

Provided that the Committee Chairman approves the scope of work in advance and monitors its progress, Company management may also engage the consultant for other compensation work. The scope of such work during 2006 consisted principally of advisory work.

Compensation Philosophy

Our compensation philosophy is based on performance. We will guide and administer compensation consistent with the following principles:

- Compensation programs will reflect our belief that the right people are among the Company s most important assets and that a properly directed, motivated, and effective work force can have a dramatic effect on the Company s performance and can be a sustaining, competitive advantage.
- We will compensate our associates in ways designed to attract and retain valuable people, and to provide base salary, incentives, and rewards that direct behavior to become a high performing company.
- We will align compensation and incentives with increases in shareholder value and long-term value growth.
- We will take a long-term view in making compensation decisions.
- Compensation will be based on clearly defined goals.
- Our compensation programs will evidence effective implementation of our strategic plan.
- We will pay for results by emphasizing variable pay elements related to measurable business results.
- We will provide fair and competitive compensation based on market data and the value added to the Company.
- We will implement programs that are easy to understand and administer.

Benchmarking of Compensation The Committee uses competitive data to benchmark for the following elements of compensation for NEOs:

- Base salary
- Annual cash incentive bonus
- Equity compensation elements such as stock options and restricted stock
- Other elements that to date have been reported publicly under SEC rules

Starting in 2004, the Committee switched from using traditional, published compensation survey data from nationally recognized survey firms to a new data base that derives data directly from publicly reported information called Salary.com CompAnalyst Executive. The database contains essentially all publicly-held U.S. companies including all publicly-held reporting banks. The Committee believes publicly-held reporting banks are the most appropriate group to benchmark ourselves against because we compete with that group for executive employees and for business.

The Committee uses the data for banks with assets of $900 million to $5.0 billion. Approximately 150 banks make up the peer group. The Committee believes that using this single criteria of assets (and not others such as by geographic region or certain named banks) adds a strong element of fairness and impartiality to comparisons. The Committee uses the data not only for compensation comparisons, but also for financial performance measurement, and in particular, determining target and award levels for the Restricted Stock Unit (RSU) program described later.

In addition to benchmarking, and in the interest of taking internal equity into account, the Committee examines the relationship of one NEO s total compensation and sub-elements to another.

Compensation Components

Our general policy is that executive compensation should primarily consist of three components: base salary, short-term annual cash incentive bonuses, and long-term equity incentive compensation. We provide modest levels of perquisites, described later, to NEOs. NEOs may elect to participate in a deferred compensation plan that is available to other executives as well. We do not provide any executive benefits in the form of any supplemental executive retirement plans, top hat plans, or special health care plans. NEOs also participate in other employee benefit programs that are provided or available to the general employee population such as health care, disability, and life insurance. The extent of these programs is described later.

Base Salaries We use base salary to recognize and take into account requisite competencies, experience, and knowledge that we believe our NEOs must possess before considering any variable compensation based on additional skills. In setting base salaries, the Committee considers the NEO s experience, the difficulty that might be encountered in replacing the NEO, and how limited the pool of qualified people might be, particularly considering the Company s aggressive goals. We also believe that base salaries should provide a reasonable standard of living commensurate with the executive s needs and business and community standing.

We set base salary range midpoints at what would be slightly above the midpoint of the general peer group data. We set midpoint salary above the median because performance goals are set at levels well beyond median performance for the peer group and we strive to recruit and retain talent we believe is in the upper quartile of the peer group.

With recommendations from the CEO and the Senior Vice President of Human Resources, the Committee reviews NEO base salaries annually based on individual and Company performance, the individual s level of responsibility, peer group competitive data, internal equity considerations, compensation history, and terms and conditions of each NEO s employment agreement. In 2006, base salary increases for NEOs and for other executives ranged from 0% to 7% over 2005 levels. Increases normally take effect on March 1 of each year. However, base salary increases, if any, for Messrs. Eichner and Benoist are effective on anniversary dates of their employment agreements, July 1 and November 1, respectively.

Mr. Eichner s Base Salary and Changes The employment agreement of our CEO, Mr. Eichner, sets his base salary at a minimum of $480,000. The Committee cannot reduce his base salary without his consent.

For potential base salary changes for Mr. Eichner, the Committee considers his performance as rated by the Executive Committee in its annual review. The review includes, but is not necessarily limited to, leadership competencies and other core values, executive retention results, and other contributions toward achievement of the Company s strategic plan and objectives. The Committee also takes into account other considerations such as Mr. Eichner s base salary history and its relationship to that of other NEOs, as well as the competitive position of his base salary compared to the peer group. Except in connection with the negotiation of his employment agreement, Mr. Eichner has not had any direct input to the Compensation Committee relative to increases in his base salary.

Mr. Benoist s Base Salary and Changes The employment agreement of our Chairman, Mr. Benoist, sets his base salary at a minimum of $350,000. The Committee cannot reduce his base salary without his consent.

Short-Term Annual Cash Incentive We intend short-term annual incentive programs to help drive an executive s performance in a given year by focusing on 3 to 5 key goals (such as asset quality and earnings per share growth). These goals are designed to maximize the results of their efforts for the Company and are directly linked to implementing the Company s strategic plan and objectives. Since we regard the strategic plan s sub-goals to be confidential for competitive reasons, specific individual goals are not disclosed.

Each goal has a threshold, target and exceptional performance level and payment amount. We consider goals at target as stretch goals because they are not easily achievable and would, if achieved, place us in the upper percentiles of our peer group.

The employment agreements for Messrs. Eichner and Benoist set their total short-term annual incentive payment levels. Other NEO s develop an annual performance grid that lists his or her goals. For each of these NEOs, Messrs. Eichner and Benoist review the goals and set the potential incentive amounts for each goal and performance level. The relative importance of each goal to all goals is determined. The relative weighting determines potential incentive payments for each goal.

For each goal for other executives, Messrs. Eichner and Benoist set a threshold level of achievement, usually at 70% of target. For performance below threshold level for any goal, there is no payment. For payment for performance between threshold and target, we use straight-line interpolation to establish the payment amount. Other than for Messrs. Eichner and Benoist, we extend straight-line interpolation from threshold through target to determine payment for performance above target. Pursuant to their employment agreements, payments for performance above target for Mr. Eichner or Mr. Benoist are increased beyond what would result from straight-line interpolation.

In January of each year, our CEO and the Senior Vice President of Human Resources, present proposed NEO grids to the Committee for review and approval. After the performance year is completed, the Committee, through use of its outside consultant, verifies the internal computation for short-term annual cash incentives for NEOs.

Long-Term Incentive Our objectives for long-term incentive compensation include:

- Aligning incentives with increases in shareholder value (goal congruence)
- Using long-term incentives to attract and retain exceptional talent
- Encouraging the long-term view in management decision making
- Using long-term incentives as a tool to define, encourage, and promote high performance by key personnel

Conversion from Stock Options to Restricted Stock Units (RSUs) In 2004, the Committee reviewed the Company s stock option program and decided to adopt an RSU plan while reserving the ability to grant stock options in certain limited circumstances. The decision was driven by several considerations:

- Companies were beginning to move away from stock option grants because of new requirements to expense them.
- The Committee wanted to address potential long-term dilution of shareholders.
- The change would provide an opportunity to develop a plan linking long-term incentive pay to performance compared with a peer group.

Working with management and the Committee s consultant, the Committee developed employee groupings and potential award levels for each group taking into account internal pay equity. In order to both mitigate annual expenses for equity compensation and build an employee retention factor, our management proposed a three-year performance period followed by a five-year vesting period. We modeled the proposed program with financial projections over a number of years and in accordance with the projections for the strategic plan to provide assurance that the plan would achieve intended results.

The Committee took steps to see that employees were motivated from inception of the plan. That took the form of phasing in the ultimate three-year performance period with a one-year, then a two-year, period, thus ensuring that grants and potential awards would occur every year.

Consistent with our goal of being a high performing Company as measured against the previously described peer group, the performance standard initially adopted was to target long-term performance at the 75th percentile of the peer group using growth in earnings per share.

The Committee decided that the threshold for long-term incentive performance would be the 60th percentile of the peer group, and that awards would be capped at the 90th percentile and above. The award at the threshold level is 80% of that at target. The award at the 90th percentile or above set it at 120% of target.

Grants And Awards Under RSU Plan Each year management makes a recommendation to the Committee for RSU grants in the form of an updated list of associates and proposed grant levels in groupings. Once the Committee reviews and approves the listing and pool level, we grant participating associates dollar denominated RSUs, which entitle them to a potential award of restricted stock if the performance standard is met.

We base the award on the quoted market price per share of common stock at the time of the award. We convert the award dollar amounts into shares of restricted stock by dividing the dollar amounts by the Company s average stock price for the immediately preceding 10 days before the award. Awards of restricted stock vest at the rate of 20% per year.

The Compensation Committee made an initial grant that covered 2004 for which the award occurred in 2005. The Committee made two grants in 2005. The first grant was tied to performance for 2004 and 2005 with a potential award in 2006. The second grant in 2005 relates to performance for 2004, 2005, and 2006 with a potential award in 2007. The Committee made two grants in 2006. The first grant relates to performance for 2005, 2006, and 2007 with a potential award in 2008. The second grant relates to performance for 2006, 2007, and 2008 with a potential award in 2009.

Grants for NEOs are reflected in the Summary Compensation Table on page 15 and the Grants of Plan-Based Awards table on page 16.

RSU Plan Rationale We designed the plan of annual equity grants and potential awards so that it would provide our managers continued, long-term motivation. We believe RSU s are performance-based because:

- The value of the shares is intrinsically tied to Company performance based on comparison to continuously updated peer group performance.
- The design clearly aligns interests of Company managers with the economic interests of shareholders.
- They provide no value until the performance period is over and performance has been achieved and the shares are potentially awarded.
- It facilitates retention of talented executives as they vest equally over five years.
- It promotes stock ownership by management.

While under no obligation to do so, the Committee expects to continue the RSU plan. The Committee reviews the plan annually for its continued suitability and effectiveness as well as the appropriateness of the performance standard.

When we made the conversion to RSUs, we intended to reduce the use of stock options, while reserving the right to grant options in certain limited circumstances.

NEO Perquisites We provide perquisites and other personal benefits to NEOs that we believe are reasonable and consistent with our overall compensation program. See the Summary Compensation Table on page 15 for more information on these items.

Retirement Plans We expect executives to plan for and fund their own retirement through a 401(k) and a Deferred Compensation Plan that permits certain executives to defer a limited portion of salary and bonus into any of several investment alternatives. There are no company contributions to the Deferred Compensation Plan. We do not maintain defined benefit retirement or executive retirement plans or provide for post-retirement benefits.

Stock Ownership Guidelines

We do not currently have any stock ownership guidelines for NEOs or other executives and associates.

Wealth Accumulation Considerations

We are aware of the considerations surrounding executive wealth accumulation as it relates to executive compensation, and equity-based compensation in particular. However, to date we have not considered that in determining executive compensation.

Change of Control Benefits

We have entered into agreements with certain key executives, including the NEOs, granting them certain payments upon a change of control of the Company. These arrangements are intended to promote stability and continuity of senior management. Information on applicable payments under such agreements for NEOs in contained under the heading Severance and Change in Control Benefits on page 19.

Section 162(m) of the Internal Revenue Code Compensation Deductibility Limits

Other than for qualified performance-based compensation, Section 162(m) generally denies a deduction for federal revenue tax wages by any publicly held corporation for compensation paid in a taxable year to the Company s chief executive officer and four other highest compensated officers to the extent that the officer s compensation exceeds $1 million. In 2006, our shareholders approved an incentive plan that provides for performance-based compensation in compliance with Section 162(m). The plan is intended to permit the deductibility of compensation in excess of $1 million per year, if any, when paid in accordance with the plan. There may be circumstances in which the Committee may approve compensation that is not deductible to ensure competitive levels of compensation for its executive officers. To date, Section 162(m) has not limited the deductibility of any compensation paid by the Company.

Effects of New Disclosure Rules on Our Compensation Decisions

We have not and do not anticipate doing anything differently because of the new compensation disclosure rules.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted by the Compensation Committee,

William H. Downey, Chairman
Lewis A. Levey
Birch M. Mullins
James J. Murphy, Jr.
Henry D. Warshaw

NAMED EXECUTIVE OFFICERS

The Company s NEO s for 2006 were as follows:

Name	Principal Occupation and Five Year Business Experience	Age
Kevin C. Eichner	President and Chief Executive Officer of the Company since July 2002; Vice Chairman of the Company since 1995; Chairman, Enterprise Trust division since 2004; Chief Executive Officer, GenAmerica Financial Corporation (financial services) 2000-2002.	56
Peter F. Benoist		