DREYERS GRAND ICE CREAM HOLDINGS INC
Form SC TO-T/A
November 07, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE TO/A
Tender Offer Statement under Section 14(d)(1) or 13(e)(1)
of the Securities Exchange Act of 1934
(Amendment No. 1)
Dreyer s Grand Ice Cream Holdings, Inc.
(Name of Subject Company (issuer))
Nestlé S.A.
Nestlé Holdings, Inc.
Nestlé Ice Holdings, Inc.
(Names of Filing Persons (identifying status as offeror, issuer or other person))
Class A Callable Puttable Common Stock, par value $0.01 per Share
(Title of Class of Securities)
261877104
(CUSIP Number of Class of Securities)
Kristin Adrian, Esq.
Senior Vice President, General Counsel and Secretary
Nestlé Holdings, Inc.
c/o Nestlé USA, Inc.
800 North Brand Boulevard
Glendale, California 91203
(818) 549-6000
(Name, address, and telephone numbers of person authorized to receive notices and communications on behalf of filing persons)
With a copy to:
Joe C. Sorenson, Esq.
Edward H. Batts, Esq.
DLA Piper Rudnick Gray Cary US LLP
2000 University Avenue
East Palo Alto, California 94303
(650) 833-2000
Calculation of Filing Fee:

Transaction valuation(1)	Amount of filing fee(2)
$ 2,635,291,251	$ 310,173.78

(1) The transaction valuation is estimated solely for purposes of calculating the filing fee pursuant to Rule 0-11(d). The calculation assumes the purchase of all outstanding shares of Dreyer s Grand Ice Cream Holdings, Inc. Class A Callable Puttable Common Stock, par value $0.01 (the **Shares**), not beneficially owned by Nestlé S.A. or its subsidiaries (**Nestlé**) at a purchase price of $83.00 Share, in cash. As of September 1, 2005, there were 31,750,497 outstanding Shares on a fully diluted basis (treating as outstanding, options subject to issuance at $83.00 or less) not beneficially owned by Nestlé.

(2) The amount of the filing fee is calculated in accordance with Regulation 240.0-11 of the Securities Exchange Act of 1934, as amended, and Fee Rate Advisory No. 6 issued by the Securities and Exchange Commission on

December 9, 2004. Such fee is equal to 0.01177 percent of the value of the transaction.

o Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:
Form or Registration No.:
Filing Party:
Date Filed:

þ Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.
Check the appropriate boxes below to designate any transactions to which the statement relates:

þ third-party tender offer subject to Rule 14d-1.
o issuer tender offer subject to Rule 13e-4.
þ going-private transaction subject to Rule 13e-3.
o amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: o

This filing relates to certain provisions set forth in the Restated Certificate of Incorporation (the **Restated Certificate**) of Dreyer s Grand Ice Cream Holdings, Inc. (**Dreyer s**) under which the holders of Class A Callable Puttable Common Stock (the **Class A Shares**) of Dreyer s have the right to require Dreyer s to purchase the Class A Shares during certain periods specified in the Restated Certificate. The tender offer which is contemplated by this filing has not commenced. The first period during which the right of the holders of Class A Shares to require Dreyer s to purchase such shares will commence on December 1, 2005. Upon the commencement of the tender offer, final offering materials will be filed under an amendment to this Schedule TO and will be sent to the holders of Class A Shares to inform them of the provisions set forth in the Restated Certificate.

Item 1. Summary Term Sheet

Reference is made to the information set forth under *Summary Term Sheet* and *Questions and Answers About the Put Right* in the Notice of Put Right, which is filed herewith as Exhibit (a)(1)(i) and incorporated herein by reference.

Item 2. Subject Company Information

(a) Reference is made to the information set forth under *Certain Information Concerning Dreyer s* in the Notice of Put Right, which is incorporated herein by reference.

(b) Reference is made to the information set forth under *Background of Dreyer s* in the Notice of Put Right, which is incorporated herein by reference.

(c) Reference is made to the information set forth under *Certain Information Concerning Dreyer s Price Range of Class A Shares; Dividends* in the Notice of Put Right, which is incorporated herein by reference.

Item 3. Identity and Background of Filing Person

(a) Reference is made to the information set forth under *Certain Information Concerning the Nestlé Entities* in the Notice of Put Right, which is incorporated herein by reference.

(b) Reference is made to the information set forth under *Certain Information Concerning the Nestlé Entities* and *Schedule A (Information Concerning the Executive Officers and Directors of Nestlé)* in the Notice of Put Right, which is incorporated herein by reference.

(c) Reference is made to the information set forth under *Certain Information Concerning the Nestlé Entities* and *Schedule A (Information Concerning the Executive Officers and Directors of Nestlé)* in the Notice of Put Right, which is incorporated herein by reference.

Item 4. Terms of the Transaction

(a) Reference is made to the information set forth under *Summary Term Sheet, Background of Dreyer s, The Put Right, Miscellaneous Provisions Related to the Put Right, the Call Right and a Triggering Event, Treatment of Special Categories of Dreyer s Securities* and *Special Factors* in the Notice of Put Right, which is incorporated herein by reference.

Item 5. Past Contacts, Transactions, Negotiations and Agreements

(a) Reference is made to the information set forth under *Special Factors Going Private Rules, Background of Nestlé s Investment in Dreyer s* and *Purposes of the Put Right and Nestlé s Plans for Dreyer s* and *Schedule A (Information Concerning the Executive Officers and Directors of Nestlé)* in the Notice of Put Right, which is incorporated herein by reference.

(b) Reference is made to the information set forth under *Special Factors Going Private Rules, Background of Nestlé s Investment in Dreyer s* and *Purposes of the Put Right and Nestlé s Plans for Dreyer s* and *Schedule A (Information Concerning the Executive Officers and Directors of Nestlé)* in the Notice of Put Right, which is incorporated herein by reference.

Item 6. Purposes of the Transaction and Plans or Proposals

(a) and (c) (1) (7) Reference is made to the information set forth under *Background of Dreyer s, Special Factors Going Private Rules, Background of Nestlé s Investment in Dreyer s, Purposes of the Put Right and Nestlé s Plans for Dreyer s* and *Certain Effects of the Exercise of the Put Right* and *Certain Legal Matters Short Form Merger* A*ppraisal Rights* in the Notice of Put Right, which is incorporated herein by reference.

Item 7. Source and Amount of Funds or Other Consideration

(a) and (b) Reference is made to the information set forth under *Source and Amount of Funds* in the Notice of Put Right, which is incorporated herein by reference.

Item 8. Interest in Securities of the Subject Company

(a) and (b) Reference is made to the information set forth under *Special Factors Background of Nestlé s Investment in Dreyer s* in the Notice of Put Right, which is incorporated herein by reference.

Item 9. Persons/ Assets, Retained, Employed, Compensated or Used

(a) Reference is made to the information set forth under *Fees and Expenses; Persons Used* in the Notice of Put Right, which is incorporated by reference.

(b) Reference is made to the information set forth under *Fees and Expenses; Persons Used* in the Notice of Put Right, which is incorporated by reference.

Item 10. Financial Statements

(a) The financial statements of Nestlé are not material to the purchase of Class A Shares under the Put Right.

(b) The pro forma financial statements of Nestlé are not material to the purchase of Class A Shares under the Put Right.

Item 11. Additional Information

(a)(1) None.

(a)(2) Reference is made to the information under *The Put Right, Procedures for Exercising the Put Right, Treatment of Special Categories of Dreyer s Securities, Fees and Expenses; Persons Used* and *Certain Legal Matters* in the Notice of Put Right, which is incorporated herein by reference.

(a)(3) Reference is made to the information set forth under *Certain Legal Matters Antitrust Compliance* and *State Takeover Laws* in the Notice of Put Right, which is incorporated herein by reference.

(a)(4) None.

(a)(5) None.

(b) Reference is made to the Letter of Transmittal, which is incorporated herein by reference.

Item 12. Exhibits

(a)(1)(i) Notice of Put Right dated , 2005.

(a)(1)(ii) Letter of Transmittal.

(a)(1)(iii) Notice of Guaranteed Delivery.

(a)(1)(iv) Substitute W-9 Guidelines.

(a)(1)(v) Form of Summary Advertisement.

(b) None.

(c)(i) Opinion of Merrill Lynch & Co. dated November 3, 2005.

(c)(ii) Presentation to the Board of Directors of Dryer s Grand Ice Cream Holdings, Inc. Regarding Fairness of the Put Price of Class A Shares by Merrill Lynch & Co. on November 3, 2005.

(d)(i) Governance Agreement dated as of June 26, 2003 by and among Nestlé Holdings, Inc., Nestlé, S.A. and Dreyer s Grand Ice Cream Holdings, Inc., and Amendment No. 1 thereto.

(d)(ii) Restated Certificate of Incorporation of Dreyer s Grand Ice Cream Holdings, Inc.

(d)(iii) Amended and Restated Sublicense Agreement for Other Pillsbury Proprietary Information, dated as of September 1, 2002, by and between Nestlé USA-Prepared Foods Division, Inc. and Nestlé Ice Cream Company, LLC.

(d)(iv) Amended and Restated Sublicense Agreement for Pillsbury Trademarks and Technology, dated as of September 1, 2002, by and among Société des Produits Nestlé S.A., Nestec Ltd. and Nestlé Ice Cream Company, LLC.

(d)(v) Amended and Restated Other Nestlé USA Proprietary Information License Agreement, dated September 1, 2002, by and between Nestlé USA Prepared Foods Division, Inc. and Nestlé Ice Cream Company, LLC.

(d)(vi) Amended and Restated Trademark/ Technology License Agreement, dated September 1, 2002, by and among Nestlé S.A., Nestec Ltd., Société des Produits Nestlé S.A., and Nestlé Ice Cream Company, LLC.

(d)(vii) Nestlé S.A. Dreyer s Grand Ice Cream Holdings, Inc. Bridge Loan Facility for up to USD 400 million dated June 11, 2003, as amended on October 22, 2003, March 23, 2004, June 26, 2004, December 6, 2004 and May 23, 2005 (which increased the amount of the facility to USD 700 million).

(d)(viii) Demand Loan Facility dated May 24, 2004, by and between Nestlé Capital Corporation and Dreyer s Grand Ice Cream Holdings, Inc. for up to USD 50 million, with Assignment by Nestlé S.A. to Nestlé Capital Corporation of a portion of its rights and obligations under the Bridge Loan Facility dated June 11, 2003, as amended.

(e) None.

(f) None.

(g) None.

(h) None.
99.1 Joint Filing Agreement
99.2 Power of Attorney

Item 13. Information Required by Schedule 13E-3

Item 2. Subject Company Information

(d) Reference is made to the information set forth under *Certain Information Concerning Dreyer s Price Range of Class A Shares; Dividends* in the Notice of Put Right, which is incorporated herein by reference.

(e) Not applicable.

(f) Not applicable.

Item 4. Terms of the Transaction

(c) None.

(d) Reference is made to the information set forth under *Special Factors Going Private Rules* and *Certain Legal Matters Short Form Merger Appraisal Rights* in the Notice of Put Right, which is incorporated herein by reference.

(e) None.

(f) Not applicable.

Item 5. Past Contacts, Transactions, Negotiations and Agreements

(c) Reference is made to the information set forth under *Background of Dreyer s and Special Factors Background of Nestlé s Investment in Dreyer s* in the Notice of Put Right, which is incorporated herein by reference.

(e) Reference is made to the information set forth under *Background of Dreyer s, The Put Right* and *Special Factors Background of Nestlé s Investment in Dreyer s* in the Notice of Put Right, which is incorporated herein by reference.

Item 6. Purposes of the Transaction and Plans or Proposals

(b) Reference is made to the information set forth under *Special Factors Purposes of the Put Right and Nestlé s Plans for Dreyer s* and *Certain Effects of the Exercise of the Put Right* in the Notice of Put Right, which is incorporated herein by reference.

(c)(8) Reference is made to the information set forth under *Special Factors Certain Effects of the Exercise of the Put Right* in the Notice of Put Right, which is incorporated herein by reference.

Item 7. Purposes, Alternatives, Reasons and Effects

(a), (b) and (c) Reference is made to the information set forth under *Background of Dreyer s, The Put Right, Special Factors Background of Nestlé s Investment in Dreyer s, Purposes of the Put Right and Nestlé s Plans for Dreyer s, Certain Effects of the Exercise of the Put Right* and *Nestlé s and Dreyer s Positions Regarding the Fairness of the Put Right* in the Notice of Put Right, which is incorporated herein by reference.

(d) Reference is made to the information set forth under *Special Factors Going Private Rules* and *Certain Effects of the Exercise of the Put Right* and *Certain Legal Matters Short Form Merger Appraisal Rights* in the Notice of Put Right, which is incorporated herein by reference.

Item 8. Fairness of the Transaction

(a), (b), (c), (d), (e) and (f) Reference is made to the information set forth under *Background of Dreyer s,* and *Special Factors Background of Nestlé s Investment in Dreyer s, Nestlé s and Dreyer s Positions Regarding the Fairness of the Put Right* and *Fairness Opinion Regarding the Purchase Price* in the Notice of Put Right, which is incorporated herein by reference.

Item 9. Reports, Opinions, Appraisals and Negotiations

(a), (b) and (c) Reference is made to the information set forth under *Special Factors Nestlé s and Dreyer s Positions Regarding the Fairness of the Put Right* and *Fairness Opinion Regarding the Purchase Price* in the Notice of Put Right, which is incorporated herein by reference.

Item 10. Source and Amount of Funds or Other Consideration

(c) Reference is made to the information set forth under *Fees and Expenses; Persons Used* in the Notice of Put Right, which is incorporated herein by reference.

Item 12. The Solicitation or Recommendation

(d) Reference is made to the information set forth under *Certain Information Concerning Dreyer s* in the Notice of Put Right, which is incorporated herein by reference.

(e) The filing persons are not aware of any officer, director or affiliate of Dreyer s or any person listed on *Schedule A (Information Concerning the Executive Officers and Directors of Nestlé)* to the Notice of Put Right who has made a recommendation either in support of or against the exercise of the Put Right.

Item 14. Persons/Assets Retained, Employed, Compensated or Used

(b) None.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Nestlé Ice Holdings, Inc.

Dated: November 4, 2005

By: /s/ Kristin Adrian

Name: Kristin Adrian
Title: Assistant Secretary

Nestlé Holdings, Inc.

Dated: November 4, 2005

By: /s/ Kristin Adrian

Name: Kristin Adrian
Title: Senior Vice President, General Counsel & Secretary

Nestlé S.A.

Dated: November 4, 2005

By: /s/ Kristin Adrian

Kristin Adrian, attorney-in-fact for
Name: H.P. Frick
Title: Senior Vice President and General Counsel of Nestlé S.A.

Index to Exhibits

(a)(1)(i) Notice of Put Right dated , 2005.
(a)(1)(ii) Letter of Transmittal.
(a)(1)(iii) Notice of Guaranteed Delivery.
(a)(1)(iv) Substitute W-9 Guidelines.
(a)(1)(v) Form of Summary Advertisement.
(c)(i) Opinion of Merrill Lynch & Co. dated November 3, 2005. [(1)]
(c)(ii) Presentation to the Board of Directors of Dreyer s Grand Ice Cream Holdings, Inc. Regarding Fairness of the Put Price of Class A Shares by Merrill Lynch & Co. on November 3, 2005.
(d)(i) Governance Agreement dated as of June 26, 2003 by and among Nestlé Holdings, Inc., Nestlé, S.A. and Dreyer s Grand Ice Cream Holdings, Inc., and Amendment No. 1 thereto. [(2)]
(d) (ii) Restated Certificate of Incorporation of Dreyer s Grand Ice Cream Holdings, Inc.[(3)]
(d)(iii) Amended and Restated Sublicense Agreement for Other Pillsbury Proprietary Information, dated as of September 1, 2002, by and between Nestlé USA Prepared Foods Division, Inc. and Nestlé Ice Cream Company, LLC. [(4)]
(d)(iv) Amended and Restated Sublicense Agreement for Pillsbury Trademarks and Technology, dated as of September 1, 2002, by and among Société des Produits Nestlé S.A., Nestec Ltd. and Nestlé Ice Cream Company, LLC. [(5)]
(d)(v) Amended and Restated Other Nestlé USA Proprietary Information License Agreement, dated September 1, 2002, by and between Nestlé USA Prepared Foods Division, Inc. and Nestlé Ice Cream Company, LLC.[(6)]
(d)(vi) Amended and Restated Trademark/ Technology License Agreement, dated September 1, 2002, by and among Nestlé S.A., Nestec Ltd., Société des Produits Nestlé S.A., and Nestlé Ice Cream Company, LLC. [(7)]
(d)(vii) Nestlé S.A. Dreyer s Grand Ice Cream Holdings, Inc. Bridge Loan Facility for up to USD 400 million dated June 11, 2003, as amended on October 22, 2003, March 23, 2004, June 26, 2004, December 6, 2004 and May 23, 2005 (which increased the amount of the facility to USD 700 million). [(8)]
(d)(viii) Demand Loan Facility dated May 24, 2004, by and between Nestlé Capital Corporation and Dreyer s Grand Ice Cream Holdings, Inc. for up to USD 50 million, with Assignment by Nestlé S.A. to Nestlé Capital Corporation of a portion of its rights and obligations under the Bridge Loan Facility dated June 11, 2003, as amended. [(9)]
99.1 Joint Filing Agreement [(10)]
99.2 Power of Attorney [(10)]

(1) Incorporated by reference to Appendix C of the Notice of Put Right which constitutes Exhibit (a)(1)(i) to this filing.
(2) Incorporated by reference to Exhibit 4.1 to Dreyer s Grand Ice Cream Holdings, Inc. s Current Report on Form 8-K filed on June 27, 2003 and Exhibit 4.2 to Dreyer s Grand Ice Cream Holdings, Inc. s Annual Report on Form 10-K for the year ended December 27, 2003 filed on March 11, 2004.
(3) Incorporated by reference to Exhibit 3.1 to Dreyer s Grand Ice Cream Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 28, 2003 filed on August 18, 2003.
(4) Incorporated by reference to Exhibit 10.6 to Amendment No. 4 to Form S-4 Registration Statement (File No. 333-101052) filed on February 14, 2003.

(5) Incorporated by reference to Exhibit 10.7 to Amendment No. 4 to Form S-4 Registration Statement (File No. 333-101052) filed on February 14, 2003.
(6) Incorporated by reference to Exhibit 10.8 to Amendment No. 4 to Form S-4 Registration Statement (File No. 333-101052) filed on February 14, 2003.
(7) Incorporated by reference to Exhibit 10.9 to Amendment No. 4 to Form S-4 Registration Statement (File No. 333-101052) filed on February 14, 2003.
(8) Incorporated by reference to Exhibit 10.29 to Dreyer s Grand Ice Cream Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 28, 2003 filed on August 18, 2003; Exhibit 10.45 to Dreyer s Grand Ice Cream Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 27, 2003 filed on November 17, 2003; Exhibit 10.46 to Dreyer s Grand Ice Cream Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 27, 2004 filed on May 6, 2004; Exhibit 10.52 to Dreyer s Grand Ice Cream Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 26, 2004 filed on August 5, 2004 and Exhibits 10.53 and 10.54 to Dreyer s Grand Ice Cream Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 25, 2005 filed on August 4, 2005.
(9) Incorporated by reference to Exhibit 10.49 to Dreyer s Grand Ice Cream Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 26, 2004 filed on August 5, 2004.
(10) Incorporated by reference to identically numbered exhibits to the Schedule TO filed by Nestlé S.A., Nestlé Holdings, Inc., and Nestlé Ice Holdings, Inc. on September 7, 2005.

9

c;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

—

13,455

Writedowns in value
(900
)

(874
)

(2,310
)

(2,798
)
Sales
(9,757
)

(5,027
)

(17,323

)

(16,693
)
Other real estate end of period
$
11,087

$
20,434

$
11,087

$
28,125

At September 30, 2014, other real estate was comprised of 23 properties, with the largest being a $2.1 million residential property in the Kansas City region.

46

Writedowns in fair value were recorded in Loan legal and other real estate expense or are charged-off existing loan balances based on current market activity shown in the appraisals. In addition, for the three and nine months ended September 30, 2014, the Company realized a net gain of $0.1 million and $1.5 million, respectively, on the sale of other real estate, as compared to $0.5 million and $1.6 million in the prior year periods. Gains on the sale of other real estate are recorded as part of Noninterest income.

Liabilities

Liabilities totaled $2.9 billion at September 30, 2014, consistent with balances at December 31, 2013. Liabilities remained stable due to a $25 million decrease in total deposits, as well as $27 million decrease in other borrowings primarily due to a decrease in securities sold under repurchase agreements, offset by an increase of $70 million in short-term Federal Home Loan Bank advances.

Deposits

(in thousands)	September 30, 2014	December 31, 2013	Increase (decrease)	
Demand deposits	$695,804	$653,686	$42,118	6.4 %
Interest-bearing transaction accounts	438,205	219,802	218,403	99.4 %
Money market accounts	736,840	948,884	(212,044)	(22.3)%
Savings	80,521	79,666	855	1.1 %
Certificates of deposit:				
$100 and over	426,593	475,544	(48,951)	(10.3)%
Other	131,801	157,371	(25,570)	(16.2)%
Total deposits	$2,509,764	$2,534,953	$(25,189)	(1.0)%
Non-time deposits / total deposits	78 %	75 %		

Total deposits at September 30, 2014 were $2.5 billion, a decrease of $25 million, or 1%, from December 31, 2013. The decrease in deposits within our money market accounts and corresponding increase in interest-bearing transaction accounts was primarily due to a product change during the year for which a reclassification between the two categories was necessary. The continued decline in our certificate of deposit balances is due to continued efforts by the Company to lower its cost of funds. The composition of our noninterest bearing deposits increased to 28% of total deposits at September 30, 2014, compared to 26% at December 31, 2013, although a portion of the increase in demand deposits represented a temporary increase from a significant customer transaction that occurred close to the end of the third quarter. During the quarter ending September 30, 2014, our cost of deposits was slightly lower compared to the linked second quarter at 0.64% as compared to 0.65%, and improved from the 0.79% for the prior year period.

Shareholders' Equity

Shareholders' Equity totaled $309 million at September 30, 2014, an increase of $29 million from December 31, 2013. Significant activity during the nine months ended September 30, 2014 included:

- Net income of $21.2 million,
- Other comprehensive income of $4.1 million from the change in unrealized gain/loss on available-for-sale investment securities,
- The conversion of $5.0 million of trust preferred securities to common stock,
- Dividends paid on common stock of $3.1 million.

47

Liquidity and Capital Resources

Liquidity management

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 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 Bank 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.

The Bank's Asset-Liability Management Committee oversees our liquidity position, the parameters of which are approved by the Bank's 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.

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's primary funding sources to meet its liquidity requirements are dividends and payments from the Bank and proceeds from the issuance of equity (i.e. stock option exercises, stock offerings). Another source of funding for the parent company includes the issuance of subordinated debentures. Management believes our current level of cash at the holding company of approximately $6.2 million and bank subsidiary dividend will be sufficient to meet all projected cash needs for the remainder of 2014.

On August 20, 2014, the Company's shelf registration statement on Form S-3 registering up to $50.0 million of common stock, preferred stock, debt securities, and various other securities, including combinations of such securities was declared effective by the Securities and Exchange Commission. The Company's ability to offer securities pursuant to the registration statement depends on market conditions and the Company's continuing eligibility to use the Form S-3 under rules of the Securities and Exchange Commission.

As of September 30, 2014, the Company had $56.8 million of outstanding subordinated debentures as part of eight trust preferred securities pools. On March 14, 2014, the Company converted the remaining $5.0 million, 9% coupon, trust preferred securities to shares of common stock. As a result of this transaction the Company reduced its long-term debt by $5.0 million and issued 287,852 shares of common stock. The trust preferred securities are classified as debt but are currently included in regulatory capital and the related interest expense is tax-deductible. Regulations recently finalized by the Federal Reserve Board to implement the Basel III regulatory capital reforms allow our currently outstanding trust preferred securities to retain their Tier 1 capital status.

On January 9, 2013, the Company repurchased warrants issued by the U.S. Treasury as part of the Capital Purchase Program. The repurchase price was approximately $1.0 million.

48

Bank liquidity

The Bank has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed, at September 30, 2014, the Bank could borrow an additional $216 million from the FHLB of Des Moines under blanket loan pledges and has an additional $634 million available from the Federal Reserve Bank under a pledged loan agreement. The Bank has unsecured federal funds lines with four correspondent banks totaling $45.0 million.

Of the $457 million of the securities available for sale at September 30, 2014, $201 million was pledged as collateral for deposits of public institutions, treasury, loan notes, and other requirements. The remaining $256 million could be pledged or sold to enhance liquidity, if necessary.

The Bank belongs to 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 on their deposits. The Company considers the reciprocal deposits placed through the CDARS program as core funding and does not report the balances as brokered sources in its internal or external financial reports. As of September 30, 2014, the Bank had $39.1 million of reciprocal CDARS money market sweep balances and $1.9 million of reciprocal certificates of deposits outstanding. In addition to the reciprocal deposits available through CDARS, the Company has access to the “one-way buy” program, which allows the Company 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 September 30, 2014, we had no outstanding “one-way buy” deposits. In addition, the Bank has the ability to sell certificates of deposit through various national or regional brokerage firms, if needed.

In the normal course of business, the Bank enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through the Bank's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of the Company's liquidity. The Bank has $925 million in unused commitments as of September 30, 2014. The nature of these commitments is such that the likelihood of funding them in the aggregate at any one time is low.

Capital Resources

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its bank affiliate must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. To be categorized as “well capitalized”, banks must maintain minimum total risk-based (10%), Tier 1 risk-based (6%) and Tier 1 leverage ratios (5%). As of September 30, 2014, and December 31, 2013, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Company continues to exceed regulatory standards and met the definition of “well-capitalized” (the highest category) at September 30, 2014, and December 31, 2013. Beginning in the first quarter of 2015 the Company will adopt the Regulatory Capital Framework (Basel III). The Company has begun to implement the necessary processes and procedures to comply with Basel III. Based on the Company's current assessment of the framework and corresponding ratios, we expect to be in compliance with the various rules and remain "well-capitalized" upon implementation.

The following table summarizes the Company’s various capital ratios at the dates indicated:

(Dollars in thousands)	September 30, 2014		December 31, 2013	
Tier 1 capital to risk weighted assets	12.35	%	12.52	%
Total capital to risk weighted assets	13.61	%	13.78	%
Tier 1 common equity to risk weighted assets	10.29	%	10.08	%
Leverage ratio (Tier 1 capital to average assets)	10.47	%	9.94	%
Tangible common equity to tangible assets	8.63	%	7.78	%
Tier 1 capital	$329,354		$308,490	
Total risk-based capital	$362,818		$339,433	

Use of Non-GAAP Financial Measures:
The Company's accounting and reporting policies conform to generally accepted accounting principles ("GAAP") in the U.S. and the prevailing practices in the banking industry. However, the Company provides other financial measures, such as Core net interest margin, tangible common equity ratio and Tier 1 common equity ratio, in this filing that are considered “non-GAAP financial measures.” Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that exclude (or include) amounts included in (or excluded from) the most directly comparable measure calculated and presented in accordance with U.S. GAAP.
The Company believes these non-GAAP financial measures and ratios, when taken together with the corresponding U.S. GAAP measures and ratios, provide meaningful supplemental information regarding the Company's performance and capital strength. The Company's management uses, and believes investors benefit from referring to, these non-GAAP measures and ratios in assessing the Company's financial and operating results and related trends and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with U.S. GAAP. The Company has provided a reconciliation of, where applicable, the most comparable GAAP financial measures and ratios to the non-GAAP financial measures and ratios, or a reconciliation of the non-GAAP calculation of the financial measure.
The Company believes the tangible common equity and Tier 1 common equity ratios are important financial measures of capital strength even though they are considered to be non-GAAP measures and provide useful information about the Company's capital adequacy. The tables below contain reconciliations of these ratios to the most comparable measure under U.S. GAAP.

Tangible common equity ratio

(In thousands)	September 30, 2014		December 31, 2013	
Total shareholders' equity	$308,754		$279,705	
Goodwill	(30,334	)	(30,334	)
Intangible assets	(4,453	)	(5,418	)
Tangible common equity	$273,967		$243,953	
Total assets	$3,209,590		$3,170,197	
Goodwill	(30,334	)	(30,334	)
Intangible assets	(4,453	)	(5,418	)
Tangible assets	$3,174,803		$3,134,445	
Tangible common equity to tangible assets	8.63	%	7.78	%

50

Tier 1 common equity ratio

(In thousands)	September 30, 2014	December 31, 2013
Total shareholders' equity	$308,754	$279,705
Goodwill	(30,334)	(30,334)
Intangible assets	(4,453)	(5,418)
Unrealized losses (gains)	233	4,380
Qualifying trust preferred securities	55,100	60,100
Other	56	57
Tier 1 capital	$329,356	$308,490
Qualifying trust preferred securities	(55,100)	(60,100)
Tier 1 common equity	$274,256	$248,390
Total risk weighted assets determined in accordance with prescribed regulatory requirements	2,666,221	2,463,605
Tier 1 common equity to risk weighted assets	10.29%	10.08%

The Company believes Core net interest margin is an important measure of our financial performance, even though it is a non-GAAP financial measure, because it provides supplemental information by which to evaluate the impact of excess Covered loan accretion on the Company's net interest margin and the Company's operating performance on an ongoing basis, excluding such impact. The table below reconciles Core net interest margin to the most comparable number under U.S. GAAP.

Net Interest Margin to Core Net Interest Margin

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net interest income (fully tax equivalent)	$27,843	$33,101	$87,781	$104,363
Incremental accretion income	(2,579)	(8,178)	(13,782)	(28,032)
Core net interest income	$25,264	$24,923	$73,999	$76,331
Average earning assets	$2,943,070	$2,789,314	$2,896,202	$2,874,004
Reported net interest margin	3.75%	4.71%	4.05%	4.86%
Core net interest margin	3.41%	3.54%	3.42%	3.55%

Critical Accounting Policies

The impact and any associated risks related to the Company’s critical accounting policies on business operations are described 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 description on the application of these and other accounting policies, see the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosures set forth in this item are qualified by the section captioned “Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995” included in Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

Interest Rate Risk
Our interest rate sensitivity management seeks to avoid fluctuating interest margins to provide for 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 an earnings simulation model.

The Company determines the sensitivity of its short-term future earnings to a hypothetical plus or minus 100 to 300 basis point parallel rate shock through the use of simulation modeling. The 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 following table summarizes the expected impact of interest rate shocks on net interest income (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown):

Rate Shock	Annual % change in net interest income
+ 300 bp	11.1%
+ 200 bp	7.1%
+ 100 bp	3.1%
- 100 bp	(1.1)%

Interest rate simulations for September 30, 2014, demonstrate that a rising rate environment will have a positive impact on net interest income.

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. At September 30, 2014, the Company had $23.8 million in notional amount of outstanding interest rate caps, to help manage interest rate risk. Derivative financial instruments are also discussed in Part I, Item 1, Note 7 - Derivative Financial Instruments.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company’s Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), management has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15, as of September 30, 2014. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, the CEO and CFO concluded the Company’s disclosure controls and procedures were effective as of September 30, 2014 to provide reasonable assurance of the achievement of the objectives described above.

Changes to Internal Controls

There were no changes during the period covered by this Quarterly Report on Form 10-Q in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, those controls.

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes 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, consolidated financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

ITEM 1A: RISK FACTORS

For information regarding risk factors affecting the Company, please see the cautionary language regarding forward-looking statements in the introduction to Item 2 of Part I of this Report on Form 10-Q, and Part I - Item 1A of our Report on Form 10-K for the fiscal year ended December 31, 2013. There have been no material changes to the risk factors described in such Annual Report on Form 10-K.

ITEM 6: EXHIBITS

Exhibit Number	Description
	Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of Registrant and its consolidated subsidiaries.
*10.1	Third Amendment of Executive Employment Agreement dated as of August 8, 2014 by and between Registrant and Frank H. Sanfilippo.
*10.2	Employment separation and release agreement dated effective September 29, 2014 by and between Registrant and Richard C. Leuck.
*12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.
*31.1	Chief Executive Officer’s Certification required by Rule 13(a)-14(a).
*31.2	Chief Financial Officer’s Certification required by Rule 13(a)-14(a).
**32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002.
**32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002.
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2014, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheet at September 30, 2014 and December 31, 2013; (ii) Consolidated Statement of Income for the three and nine months ended September 30, 2014 and 2013; (iii) Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (iv) Consolidated Statement of Changes in Equity for the nine months ended September 30, 2014 and 2013; (v) Consolidated Statement of Cash Flows for the nine months ended September 30, 2014 and 2013; and (vi) Notes to Financial Statements.

* Filed herewith
** Furnished herewith. Notwithstanding any incorporation of this Quarterly Statement on Form 10-Q in any other filing by the Registrant, Exhibits furnished herewith and designated with two (**) shall not be deemed incorporated by reference to any other filing unless specifically otherwise set forth herein or therein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Clayton, State of Missouri on the day of October 31, 2014.

ENTERPRISE FINANCIAL SERVICES CORP

By: /s/ Peter F. Benoist
Peter F. Benoist
Chief Executive Officer

By: /s/ Keene S. Turner
Keene S. Turner
Chief Financial Officer

55