

HEARTLAND FINANCIAL USA INC  
Form 10-Q  
May 09, 2013

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 quarterly period ended March 31, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-15393

HEARTLAND FINANCIAL USA, INC.  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

42-1405748  
(I.R.S. employer identification number)

1398 Central Avenue, Dubuque, Iowa 52001  
(Address of principal executive offices)(Zip Code)

(563) 589-2000  
(Registrant's telephone number, including area code)

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 (or for such shorter period that the Registrant was required to file such reports), 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 Web site, 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 the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act.

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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 by Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

Indicate the number of shares outstanding of each of the classes of Registrant's common stock as of the latest practicable date: As of May 8, 2013, the Registrant had outstanding 16,917,440 shares of common stock, \$1.00 par value per share.

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HEARTLAND FINANCIAL USA, INC.

Form 10-Q Quarterly Report

Part I

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Part II

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 2. Unregistered Sales of Issuer Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Mine Safety Disclosures

Item 5. Other Information

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Financial statements formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Changes in Equity, and (vi) the Notes to Consolidated Financial Statements.

## PART I

ITEM 1. FINANCIAL STATEMENTS  
HEARTLAND FINANCIAL USA, INC.  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share data)

	March 31, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$68,450	\$160,223
Federal funds sold and other short-term investments	6,137	7,831
Cash and cash equivalents	74,587	168,054
Time deposits in other financial institutions	3,605	—
Securities:		
Trading, at fair value	694	380
Available for sale, at fair value (cost of \$1,496,167 at March 31, 2013, and \$1,472,565 at December 31, 2012)	1,524,569	1,506,075
Held to maturity, at cost (fair value of \$55,846 at March 31, 2013, and \$55,982 at December 31, 2012)	55,456	55,502
Loans held for sale	91,708	96,165
Loans and leases receivable:		
Held to maturity	2,789,893	2,821,549
Loans covered by loss share agreements	6,741	7,253
Allowance for loan and lease losses	(37,528)	(38,715)
Loans and leases receivable, net	2,759,106	2,790,087
Premises, furniture and equipment, net	128,411	128,294
Other real estate, net	36,704	35,822
Goodwill	30,627	30,627
Other intangible assets, net	20,266	18,486
Cash surrender value on life insurance	75,907	75,480
FDIC indemnification asset	528	749
Other assets	98,390	84,832
<b>TOTAL ASSETS</b>	<b>\$4,900,558</b>	<b>\$4,990,553</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits:		
Demand	\$971,142	\$974,232
Savings	2,022,625	2,004,438
Time	848,689	866,990
Total deposits	3,842,456	3,845,660
Short-term borrowings	202,694	224,626
Other borrowings	336,577	389,025
Accrued expenses and other liabilities	104,857	126,703
<b>TOTAL LIABILITIES</b>	<b>4,486,584</b>	<b>4,586,014</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock (par value \$1 per share; authorized 20,604 shares; none issued or outstanding)	—	—
	—	—

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Series A Junior Participating preferred stock (par value \$1 per share; authorized 16,000 shares; none issued or outstanding)		
Series C Fixed Rate Non-Cumulative Perpetual preferred stock (par value \$1 per share; liquidation value \$81.7 million; authorized, issued and outstanding 81,698 shares)	81,698	81,698
Common stock (par value \$1 per share; authorized 25,000,000 shares; issued 16,866,959 shares at March 31, 2013 and 16,827,835 shares at December 31, 2012)	16,867	16,828
Capital surplus	52,131	50,359
Retained earnings	246,675	236,279
Accumulated other comprehensive income	13,831	16,641
Treasury stock at cost (1,040 shares at March 31, 2013, and 0 shares at December 31, 2012)	(26	) —
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>411,176</b>	<b>401,805</b>
Noncontrolling interest	2,798	2,734
<b>TOTAL EQUITY</b>	<b>413,974</b>	<b>404,539</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$4,900,558</b>	<b>\$4,990,553</b>

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(Dollars in thousands, except per share data)

	Three Months Ended		
	March 31, 2013	March 31, 2012	
<b>INTEREST INCOME:</b>			
Interest and fees on loans and leases	\$39,827	\$38,399	
Interest on securities:			
Taxable	4,659	7,572	
Nontaxable	3,198	2,271	
Interest on interest bearing deposits in other financial institutions	4	—	
<b>TOTAL INTEREST INCOME</b>	<b>47,688</b>	<b>48,242</b>	
<b>INTEREST EXPENSE:</b>			
Interest on deposits	5,076	5,775	
Interest on short-term borrowings	148	213	
Interest on other borrowings (includes \$505 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the three months ended March 31, 2013)	3,797	4,061	
<b>TOTAL INTEREST EXPENSE</b>	<b>9,021</b>	<b>10,049</b>	
<b>NET INTEREST INCOME</b>	<b>38,667</b>	<b>38,193</b>	
Provision for loan and lease losses	637	2,354	
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>38,030</b>	<b>35,839</b>	
<b>NONINTEREST INCOME:</b>			
Service charges and fees	4,008	3,584	
Loan servicing income	3,371	1,760	
Trust fees	2,904	2,613	
Brokerage and insurance commissions	951	910	
Securities gains, net (includes \$3,427 of net security gains reclassified from accumulated other comprehensive income for the three months ended March 31, 2013)	3,427	3,943	
Gain (loss) on trading account securities	314	(3	)
Impairment loss on securities	—	(981	)
Gains on sale of loans	9,912	8,502	
Valuation adjustment on mortgage servicing rights	496	13	
Income on bank owned life insurance	405	482	
Other noninterest income	680	2,565	
<b>TOTAL NONINTEREST INCOME</b>	<b>26,468</b>	<b>23,388</b>	
<b>NONINTEREST EXPENSES:</b>			
Salaries and employee benefits	29,740	23,996	
Occupancy	3,185	2,482	
Furniture and equipment	2,051	1,446	
Professional fees	3,543	2,760	
FDIC insurance assessments	902	864	
Advertising	1,228	1,071	
Intangible assets amortization	200	131	
Net loss on repossessed assets	1,340	2,904	

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Other noninterest expenses	4,558	4,486	
TOTAL NONINTEREST EXPENSES	46,747	40,140	
INCOME BEFORE INCOME TAXES	17,751	19,087	
Income taxes (includes \$1,099 of income tax expense reclassified from accumulated other comprehensive income for the three months ended March 31, 2013)	5,199	6,272	
NET INCOME	12,552	12,815	
Net (income) loss available to noncontrolling interest, net of tax	(64	) 26	
NET INCOME ATTRIBUTABLE TO HEARTLAND	12,488	12,841	
Preferred dividends and discount	(408	) (1,021	)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$12,080	\$11,820	
EARNINGS PER COMMON SHARE - BASIC	\$0.72	\$0.72	
EARNINGS PER COMMON SHARE - DILUTED	\$0.70	\$0.71	
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$0.10	\$0.10	

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)  
 (Dollars in thousands)

	Three Months Ended	
	March 31, 2013	March 31, 2012
NET INCOME	\$12,552	\$12,815
OTHER COMPREHENSIVE INCOME		
Securities:		
Net change in unrealized gain on securities available for sale	(1,657	) 6,852
Reclassification adjustment for net gain realized in net income	(3,451	) (2,962
Net change in non-credit related other than temporary impairment	24	(683
Income taxes	1,901	(1,200
Other comprehensive income (loss) on securities available for sale	(3,183	) 2,007
Derivatives used in cash flow hedging relationships:		
Unrealized gain (loss) on derivatives	82	(73
Reclassification adjustment for net loss on derivatives realized in net income	505	494
Income taxes	(214	) (157
Other comprehensive income on cash flow hedges	373	264
Other comprehensive income (loss)	(2,810	) 2,271
Comprehensive income	9,742	15,086
Less: comprehensive (income) loss attributable to noncontrolling interest	(64	) 26
COMPREHENSIVE INCOME ATTRIBUTABLE TO HEARTLAND	\$9,678	\$15,112

See accompanying notes to consolidated financial statements.



HEARTLAND FINANCIAL USA, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(Dollars in thousands, except per share data)

	Three Months Ended	
	March 31, 2013	March 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$12,552	\$12,815
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	2,310	1,753
Provision for loan and lease losses	637	2,354
Net amortization of premium on securities	7,604	3,413
Securities gains, net	(3,427)	(3,943)
(Increase) decrease in trading account securities	(314)	3
Impairment loss on securities	—	981
Stock based compensation	989	759
Loss on sale of OREO and other repossessed property	502	2,063
Loans originated for sale	(448,971)	(273,974)
Proceeds on sales of loans held for sale	463,340	232,544
Net gains on sales of loans held for sale	(9,912)	(8,502)
Decrease in accrued interest receivable	508	779
(Increase) decrease in prepaid expenses	(398)	707
Decrease in accrued interest payable	(213)	(634)
Valuation adjustment on mortgage servicing rights	(496)	(13)
Other, net	(12,346)	953
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>12,365</b>	<b>(27,942)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of time deposits in other financial institutions	(3,605)	—
Proceeds from the sale of securities available for sale	92,795	124,364
Proceeds from the maturity of and principal paydowns on securities available for sale	65,461	76,453
Proceeds from the maturity of and principal paydowns on securities held to maturity	140	371
Purchase of securities available for sale	(207,458)	(124,246)
Net (increase) decrease in loans and leases	25,014	(57,734)
Purchase of bank owned life insurance policies	—	(4,571)
Capital expenditures	(2,812)	(3,403)
Proceeds on sale of OREO and other repossessed assets	3,513	10,051
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(26,952)</b>	<b>21,285</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in demand deposits and savings accounts	15,097	87,343
Net decrease in time deposit accounts	(18,301)	(21,697)
Net decrease in short-term borrowings	(21,932)	(40,548)
Proceeds from other borrowings	—	10,126
Repayments of other borrowings	(52,448)	(5,584)
Purchase of treasury stock	(258)	(308)
Proceeds from issuance of common stock	1,038	260
Excess tax benefits on exercised stock options	16	23
Dividends paid	(2,092)	(2,670)

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NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(78,880	) 26,945
Net increase (decrease) in cash and cash equivalents	(93,467	) 20,288
Cash and cash equivalents at beginning of year	168,054	129,834
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$74,587	\$150,122
Supplemental disclosures:		
Cash paid for income/franchise taxes	\$3,375	\$290
Cash paid for interest	\$9,234	\$10,683
Loans transferred to OREO	\$4,843	\$8,722
Purchases of securities available for sale, accrued, not paid	\$59,877	\$24,871
Sales of securities available for sale, accrued, not settled	\$19,307	\$—

See accompanying notes to consolidated financial statements.

## HEARTLAND FINANCIAL USA, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

(Dollars in thousands, except per share data)

	Heartland Financial USA, Inc. Stockholders' Equity							
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Non-controlling Interest	Total Equity
Balance at January 1, 2012	\$81,698	\$16,612	\$43,333	\$198,182	\$12,147	\$(1,754)	\$2,675	\$352,893
Comprehensive income				12,841	2,271		(26)	15,086
Cash dividends declared:								
Preferred, \$12.50 per share				(1,021)				(1,021)
Common, \$0.10 per share				(1,649)				(1,649)
Purchase of 19,805 shares of common stock						(308)		(308)
Issuance of 21,554 shares of common stock			(207)			490		283
Commitments to issue common stock			759					759
Balance at March 31, 2012	\$81,698	\$16,612	\$43,885	\$208,353	\$14,418	\$(1,572)	\$2,649	\$366,043
Balance at January 1, 2013	\$81,698	\$16,828	\$50,359	\$236,279	\$16,641	\$—	\$2,734	\$404,539
Comprehensive income				12,488	(2,810)		64	9,742
Cash dividends declared:								
Preferred, \$5.00 per share				(408)				(408)
Common, \$0.10 per share				(1,684)				(1,684)
Purchase of 10,050 shares of common stock						(258)		(258)
Issuance of 48,134 shares of common stock		39	783			232		1,054
Commitments to issue common stock			989					989
	\$81,698	\$16,867	\$52,131	\$246,675	\$13,831	\$(26)	\$2,798	\$413,974

Balance at March  
31, 2013

See accompanying notes to consolidated financial  
statements.

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HEARTLAND FINANCIAL USA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2012, included in the Form 10-K of Heartland Financial USA, Inc. ("Heartland") filed with the Securities and Exchange Commission on March 15, 2013. Accordingly, footnote disclosures which would substantially duplicate the disclosure contained in the audited consolidated financial statements have been omitted.

The financial information of Heartland included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the interim period ended March 31, 2013, are not necessarily indicative of the results expected for the year ending December 31, 2013.

Heartland evaluated subsequent events through the filing date of its quarterly report on Form 10-Q with the SEC.

Earnings Per Share

Basic earnings per share is determined using net income available to common stockholders and weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average common shares and assumed incremental common shares issued. Amounts used in the determination of basic and diluted earnings per share for the three-month periods ended March 31, 2013 and 2012, are shown in the table below:

(Dollars and number of shares in thousands, except per share data)	Three Months Ended	
	March 31, 2013	March 31, 2012
N		