

HEARTLAND FINANCIAL USA INC
Form 10-Q
August 08, 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 June 30, 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 August 7, 2013, the Registrant had outstanding 16,934,726 shares of common stock, \$1.00 par value per share.

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

10.1 Merger Agreement between Heartland Financial USA, Inc. and Morrill Bancshares Inc. dated June 12, 2013

10.2 Promissory Note and Business Loan Agreement between Heartland Financial USA, Inc. and Bankers Trust Company dated June 14, 2013

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)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	\$ 105,127	\$ 160,223
Federal funds sold and other short-term investments	6,970	7,831
Cash and cash equivalents	112,097	168,054
Time deposits in other financial institutions	3,605	—
Securities:		
Trading, at fair value	956	380
Available for sale, at fair value (cost of \$1,533,939 at June 30, 2013, and \$1,472,565 at December 31, 2012)	1,522,418	1,506,075
Held to maturity, at cost (fair value of \$55,195 at June 30, 2013, and \$55,982 at December 31, 2012)	55,199	55,502
Loans held for sale	88,541	96,165
Loans and leases receivable:		
Held to maturity	2,832,377	2,821,549
Loans covered by loss share agreements	6,275	7,253
Allowance for loan and lease losses	(37,623)	(38,715)
Loans and leases receivable, net	2,801,029	2,790,087
Premises, furniture and equipment, net	129,938	128,294
Other real estate, net	34,763	35,822
Goodwill	30,627	30,627
Other intangible assets, net	22,056	18,486
Cash surrender value on life insurance	75,992	75,480
FDIC indemnification asset	282	749
Other assets	82,253	84,832
TOTAL ASSETS	\$4,959,756	\$4,990,553
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits:		
Demand	\$ 1,029,784	\$ 974,232
Savings	1,978,962	2,004,438
Time	832,388	866,990
Total deposits	3,841,134	3,845,660
Short-term borrowings	339,181	224,626
Other borrowings	336,332	389,025
Accrued expenses and other liabilities	47,974	126,703
TOTAL LIABILITIES	4,564,621	4,586,014
STOCKHOLDERS' EQUITY:		
Preferred stock (par value \$1 per share; authorized 20,604 shares; none issued or outstanding)	—	—
Series A Junior Participating preferred stock (par value \$1 per share; authorized 16,000 shares; none issued or outstanding)	—	—

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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 16,947,138 shares at June 30, 2013 and 16,827,835 shares at December 31, 2012)	16,947	16,828
Capital surplus	52,710	50,359
Retained earnings	254,332	236,279
Accumulated other comprehensive income (loss)	(10,200)	) 16,641
Treasury stock at cost (12,977 shares at June 30, 2013, and 0 shares at December 31, 2012)	(352)) —
TOTAL STOCKHOLDERS' EQUITY	395,135	401,805
Noncontrolling interest	—	2,734
TOTAL EQUITY	395,135	404,539
TOTAL LIABILITIES AND EQUITY	\$4,959,756	\$4,990,553

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		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
INTEREST INCOME:				
Interest and fees on loans and leases	\$39,726	\$39,382	\$79,553	\$77,781
Interest on securities:				
Taxable	4,712	5,026	9,371	12,598
Nontaxable	3,360	2,619	6,558	4,890
Interest on federal funds sold	—	1	—	1
Interest on interest bearing deposits in other financial institutions	2	2	6	2
TOTAL INTEREST INCOME	47,800	47,030	95,488	95,272
INTEREST EXPENSE:				
Interest on deposits	5,066	5,604	10,142	11,379
Interest on short-term borrowings	108	224	256	437
Interest on other borrowings (includes \$524 and \$1,029 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the three and six months ended June 30, 2013, respectively)	3,702	4,025	7,499	8,086
TOTAL INTEREST EXPENSE	8,876	9,853	17,897	19,902
NET INTEREST INCOME	38,924	37,177	77,591	75,370
Provision for loan and lease losses	1,862	3,000	2,499	5,354
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	37,062	34,177	75,092	70,016
NONINTEREST INCOME:				
Service charges and fees	4,280	3,712	8,288	7,296
Loan servicing income	4,106	3,056	7,477	4,816
Trust fees	2,942	2,660	5,846	5,273
Brokerage and insurance commissions	1,087	939	2,038	1,849
Securities gains, net (includes \$2,067 and \$5,494 of net security gains reclassified from accumulated other comprehensive income for the three and six months ended June 30, 2013, respectively)	2,067	4,951	5,494	8,894
Gain on trading account securities	262	49	576	46
Impairment loss on securities	—	—	—	(981)
Gains on sale of loans	9,083	12,689	18,995	21,191
Valuation adjustment on mortgage servicing rights	—	(194)	496	(181)
Income on bank owned life insurance	315	267	720	749
Other noninterest income	716	149	1,396	2,714
TOTAL NONINTEREST INCOME	24,858	28,278	51,326	51,666
NONINTEREST EXPENSES:				
Salaries and employee benefits	29,516	25,384	59,256	49,380
Occupancy	3,224	2,534	6,409	5,016
Furniture and equipment	2,065	1,517	4,116	2,963
Professional fees	4,233	3,961	7,776	6,721
FDIC insurance assessments	861	807	1,763	1,671
Advertising	1,248	1,304	2,476	2,375

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Intangible assets amortization	198	122	398	253
Net loss on repossessed assets	2,477	1,307	3,817	4,211
Other noninterest expenses	4,944	4,523	9,502	9,009
TOTAL NONINTEREST EXPENSES	48,766	41,459	95,513	81,599
INCOME BEFORE INCOME TAXES	13,154	20,996	30,905	40,083
Income taxes (includes \$576 and \$1,665 of income tax expense reclassified from accumulated other comprehensive income for the three and six months ended June 30, 2013, respectively)	3,598	7,032	8,797	13,304
NET INCOME	9,556	13,964	22,108	26,779
Net (income) loss available to noncontrolling interest, net of tax	—	(7	) (64	) 19
NET INCOME ATTRIBUTABLE TO HEARTLAND	9,556	13,957	22,044	26,798
Preferred dividends and discount	(205	) (1,021	) (613	) (2,042
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$9,351	\$12,936	\$21,431	\$24,756
EARNINGS PER COMMON SHARE - BASIC	\$0.55	\$0.79	\$1.27	\$1.50
EARNINGS PER COMMON SHARE - DILUTED	\$0.54	\$0.77	\$1.25	\$1.48
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$0.10	\$0.10	\$0.20	\$0.20

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
NET INCOME	\$9,556	\$13,964	\$22,108	\$26,779
OTHER COMPREHENSIVE INCOME				
Securities:				
Net change in unrealized gain (loss) on securities available for sale	(37,855	) 2,113	(39,537	) 8,965
Reclassification adjustment for net gain realized in net income	(2,067	) (4,951	) (5,494	) (7,913
Net change in non-credit related other than temporary impairment	24	23	48	(660
Income taxes	14,906	1,039	16,808	(161
Other comprehensive income (loss) on securities available for sale	(24,992	) (1,776	) (28,175	) 231
Derivatives used in cash flow hedging relationships:				
Unrealized gain (loss) on derivatives	1,017	(1,380	) 1,099	(1,453
Reclassification adjustment for net loss on derivatives realized in net income	524	491	1,029	985
Income taxes	(580	) 329	(794	) 172
Other comprehensive income (loss) on cash flow hedges	961	(560	) 1,334	(296
Other comprehensive income (loss)	(24,031	) (2,336	) (26,841	) (65
Comprehensive income (loss)	(14,475	) 11,628	(4,733	) 26,714
Less: comprehensive (income) loss attributable to noncontrolling interest	—	(7	) (64	) 19
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HEARTLAND	\$(14,475	) \$11,621	\$(4,797	) \$26,733

See accompanying notes to consolidated financial statements.

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

	Six Months Ended	
	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$22,108	\$26,779
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,525	3,533
Provision for loan and lease losses	2,499	5,354
Net amortization of premium on securities	15,279	9,576
Securities gains, net	(5,494)	(8,894)
Increase in trading account securities	(576)	(46)
Impairment loss on securities	—	981
Stock based compensation	1,546	1,184
Loss on sale of OREO and other repossessed property	2,102	2,683
Loans originated for sale	(891,049)	(625,194)
Proceeds on sales of loans held for sale	917,668	626,629
Net gains on sales of loans held for sale	(18,995)	(21,191)
Increase in accrued interest receivable	(839)	(661)
Decrease in prepaid expenses	8,260	2,572
Increase (decrease) in accrued interest payable	25	(1,305)
Valuation adjustment on mortgage servicing rights	(496)	181
Other, net	(10,217)	(3,883)
NET CASH PROVIDED BY OPERATING ACTIVITIES	46,346	18,298
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of time deposits in other financial institutions	(3,605)	—
Proceeds from the sale of securities available for sale	217,139	341,151
Proceeds from the maturity of and principal paydowns on securities available for sale	135,904	161,109
Proceeds from the maturity of and principal paydowns on securities held to maturity	514	764
Purchase of securities available for sale	(481,797)	(517,773)
Net increase in loans and leases	(24,707)	(159,895)
Purchase of bank owned life insurance policies	—	(4,571)
Capital expenditures	(7,020)	(7,776)
Proceeds on sale of OREO and other repossessed assets	10,150	18,585
NET CASH USED BY INVESTING ACTIVITIES	(153,422)	(168,406)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits and savings accounts	30,076	118,226
Net increase (decrease) in time deposit accounts	(34,602)	6,568
Net increase (decrease) in short-term borrowings	114,555	(20,596)
Proceeds from other borrowings	160	10,695
Repayments of other borrowings	(52,853)	(5,972)
Purchase of noncontrolling interest	(2,798)	—
Purchase of treasury stock	(860)	(1,222)
Proceeds from issuance of common stock	1,398	667
Excess tax benefits on exercised stock options	34	76

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Dividends paid	(3,991) (5,337)
NET CASH PROVIDED BY FINANCING ACTIVITIES	51,119	103,105	
Net decrease in cash and cash equivalents	(55,957	) (47,003)
Cash and cash equivalents at beginning of year	168,054	129,834	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$112,097	\$82,831	
Supplemental disclosures:			
Cash paid for income/franchise taxes	\$3,905	\$4,090	
Cash paid for interest	\$17,871	\$20,284	
Loans transferred to OREO	\$10,710	\$14,562	
Purchases of securities available for sale, accrued, not paid	\$4,490	\$46,338	

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	Common	Capital	Retained	Accumulated	Treasury	Non-controlling	Total
	Stock	Stock	Surplus	Earnings	Other	Stock	Interest	Equity
					Comprehensive			
					Income (Loss)			
Balance at January 1, 2012	\$81,698	\$16,612	\$43,333	\$198,182	\$ 12			