

HEARTLAND FINANCIAL USA INC
Form 10-Q
August 06, 2015

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, 2015

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 4, 2015, the Registrant had outstanding 20,627,937 shares of common stock, \$1.00 par value per share.

HEARTLAND FINANCIAL USA, INC.
Form 10-Q Quarterly Report
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3.1 Amendment to Certificate of Incorporation of Heartland Financial USA, Inc.
10.2 Promissory Note between Heartland Financial USA, Inc. and Bankers Trust Company dated June 14, 2015
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.
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PART I

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

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	\$111,909	\$64,150
Federal funds sold and other short-term investments	7,813	9,721
Cash and cash equivalents	119,722	73,871
Time deposits in other financial institutions	2,355	2,605
Securities:		
Available for sale, at fair value (cost of \$1,308,488 at June 30, 2015, and \$1,396,794 at December 31, 2014)	1,315,699	1,401,868
Held to maturity, at cost (fair value of \$292,564 at June 30, 2015, and \$296,768 at December 31, 2014)	283,258	284,587
Other investments, at cost	20,455	20,498
Loans held for sale	105,898	70,514
Loans and leases receivable:		
Held to maturity	4,449,823	3,876,745
Loans covered by loss share agreements	—	1,258
Allowance for loan and lease losses	(45,614)	(41,449)
Loans and leases receivable, net	4,404,209	3,836,554
Premises, furniture and equipment, net	143,423	130,713
Other real estate, net	16,983	19,016
Goodwill	54,162	35,583
Other intangible assets, net	45,226	33,932
Cash surrender value on life insurance	96,693	82,638
Other assets	108,924	59,433
TOTAL ASSETS	\$6,717,007	\$6,051,812
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits:		
Demand	\$1,536,355	\$1,295,193
Savings	2,816,666	2,687,493
Time	964,248	785,336
Total deposits	5,317,269	4,768,022
Short-term borrowings	477,918	330,264
Other borrowings	296,594	395,705
Accrued expenses and other liabilities	46,020	61,504
TOTAL LIABILITIES	6,137,801	5,555,495
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)	—	—
	81,698	81,698

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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)

Common stock (par value \$1 per share; authorized 30,000,000 shares at June 30, 2015, and 25,000,000 shares at December 31, 2014; issued 20,616,068 shares at June 30, 2015, and 18,511,125 shares at December 31, 2014)	20,616	18,511
Capital surplus	148,789	95,816
Retained earnings	325,106	298,764
Accumulated other comprehensive income	3,059	1,528
Treasury stock at cost (1,743 shares at June 30, 2015 and 0 at December 31, 2014)	(62) —
TOTAL STOCKHOLDERS' EQUITY	579,206	496,317
TOTAL LIABILITIES AND EQUITY	\$6,717,007	\$6,051,812

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Interest and fees on loans and leases	\$55,824	\$48,101	\$108,873	\$94,485
Interest on securities:				
Taxable	6,739	7,447	13,871	15,208
Nontaxable	2,874	3,708	5,790	6,830
Interest on federal funds sold	1	—	2	—
Interest on interest bearing deposits in other financial institutions	3	7	7	14
TOTAL INTEREST INCOME	65,441	59,263	128,543	116,537
INTEREST EXPENSE:				
Interest on deposits	3,819	4,577	7,991	9,355
Interest on short-term borrowings	212	202	410	428
Interest on other borrowings (includes \$559 and \$573 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the three months ended June 30, 2015 and 2014, respectively, and \$1,123 and \$1,094 of interest expense related to derivatives reclassified from accumulated other comprehensive income for the six months ended June 30, 2015 and 2014, respectively)	3,766	3,685	8,568	7,343
TOTAL INTEREST EXPENSE	7,797	8,464	16,969	17,126
NET INTEREST INCOME	57,644	50,799	111,574	99,411
Provision for loan and lease losses	5,674	2,751	7,345	9,082
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	51,970	48,048	104,229	90,329
NONINTEREST INCOME:				
Service charges and fees	5,900	5,254	11,304	10,150
Loan servicing income	1,163	1,393	2,204	2,904
Trust fees	3,913	3,343	7,544	6,553
Brokerage and insurance commissions	916	1,158	2,003	2,281
Securities gains, net (includes \$3,110 and \$854 of net security gains reclassified from accumulated other comprehensive income for the three months ended June 30, 2015 and 2014, respectively, and \$7,463 and \$1,635 of net security gains reclassified from accumulated other comprehensive income for six months ended June 30, 2015 and 2014, respectively)	3,110	854	7,463	1,635
Gain (loss) on trading account securities	—	—	—	(38)
Net gains on sale of loans held for sale	14,599	8,796	28,341	15,175
Income on bank owned life insurance	459	339	983	702
Other noninterest income	601	398	1,482	1,023
TOTAL NONINTEREST INCOME	30,661	21,535	61,324	40,385
NONINTEREST EXPENSES:				
Salaries and employee benefits	36,851	32,563	73,489	64,882
Occupancy	4,028	3,984	8,287	8,034
Furniture and equipment	2,176	2,085	4,282	3,975
Professional fees	5,249	4,214	11,293	8,740

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FDIC insurance assessments	899	980	1,855	1,960
Advertising	1,333	1,511	2,514	2,699
Intangible assets amortization	715	591	1,346	1,215
Other real estate and loan collection expenses	753	518	1,218	1,570
Loss on sales/valuations of assets, net	1,509	1,379	1,862	1,542
Other noninterest expenses	9,969	6,834	16,950	12,580
TOTAL NONINTEREST EXPENSES	63,482	54,659	123,096	107,197
INCOME BEFORE INCOME TAXES	19,149	14,924	42,457	23,517
Income taxes (includes \$952 and \$105 of income tax expense reclassified from accumulated other comprehensive income for the three months ended June 30, 2015 and 2014, respectively, and \$2,365 and \$202 of income tax expense reclassified from accumulated other comprehensive income for the six months ended June 30, 2015 and 2014, respectively)	3,989	4,150	11,588	5,853
NET INCOME	15,160	10,774	30,869	17,664
Preferred dividends and discount	(204)	(204)	(408)	(408)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$14,956	\$10,570	\$30,461	\$17,256
EARNINGS PER COMMON SHARE - BASIC	\$0.73	\$0.57	\$1.49	\$0.94
EARNINGS PER COMMON SHARE - DILUTED	\$0.72	\$0.56	\$1.47	\$0.92
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,		June 30,	
	2015	2014	2015	2014
NET INCOME	\$15,160	\$10,774	\$30,869	\$17,664
OTHER COMPREHENSIVE INCOME (LOSS)				
Securities:				
Net change in unrealized gain (loss) on securities	(2,764	) 9,772	8,714	30,682
Reclassification adjustment for net gains realized in net income	(3,110	) (854	) (7,463	) (1,635
Net change in non-credit related other than temporary impairment	24	24	48	48
Income taxes	2,361	(3,523	) (498	) (11,482
Other comprehensive income (loss) on securities	(3,489	) 5,419	801	17,613
Derivatives used in cash flow hedging relationships:				
Net change in unrealized loss on derivatives	1,509	(936	) 55	(1,075
Reclassification adjustment for net loss on derivatives realized in net income	559	573	1,123	1,094
Income taxes	(775	) 135	(448	) (7
Other comprehensive income (loss) on cash flow hedges	1,293	(228	) 730	12
Other comprehensive income (loss)	(2,196	) 5,191	1,531	17,625
TOTAL COMPREHENSIVE INCOME	\$12,964	\$15,965	\$32,400	\$35,289

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$30,869	\$17,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,174	8,547
Provision for loan and lease losses	7,345	9,082
Net amortization of premium on securities	14,645	12,497
Securities gains, net	(7,463)	(1,635)
Decrease in trading account securities	—	1,801
Stock based compensation	1,908	1,831
Write downs and losses on repossessed assets, net	924	921
Loans originated for sale	(724,081)	(402,605)
Proceeds on sales of loans held for sale	710,753	377,272
Net gains on sale of loans held for sale	(21,328)	(15,175)
Decrease in accrued interest receivable	1,478	616
(Increase) decrease in prepaid expenses	100	(698)
Decrease in accrued interest payable	(867)	(908)
Capitalization of servicing rights	(7,156)	(3,344)
Write downs and losses on sales of assets, net	938	—
Other, net	(10,275)	1,644
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,964	7,510
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of securities available for sale	526,026	509,891
Proceeds from the sale of other investments	10,336	7,356
Proceeds from the maturity of and principal paydowns on securities available for sale	86,625	72,651
Proceeds from the maturity of and principal paydowns on securities held to maturity	646	619
Proceeds from the maturity of and principal paydowns on time deposits in other financial institutions	250	250
Purchase of securities available for sale	(529,670)	(349,740)
Purchase of securities held to maturity	—	(20,944)
Purchase of other investments	(9,009)	(6,445)
Net increase in loans and leases	(184,039)	(212,384)
Purchase of bank owned life insurance policies	(1,100)	—
Capital expenditures	(3,984)	(4,205)
Net cash and cash equivalents received in acquisition	7,103	—
Proceeds from the sale of equipment	15	—
Proceeds on sale of OREO and other repossessed assets	5,402	10,663
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(91,399)	7,712
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits and savings accounts	64,348	4,664
Net increase (decrease) in time deposit accounts	50,980	(29,681)
Net increase in short-term borrowings	86,718	20,738

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Proceeds from short term FHLB advances	248,100	170,000	
Repayments of short term FHLB advances	(212,000)	(179,000))
Proceeds from other borrowings	29,000	5,000	
Repayments of other borrowings	(134,389)	(25,394))
Purchase of treasury stock	(2,173)	(608))
Proceeds from issuance of common stock	1,578	429	
Excess tax benefits on exercised stock options	651	119	
Dividends paid	(4,527)	(4,099))
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	128,286	(37,832))
Net increase (decrease) in cash and cash equivalents	45,851	(22,610))
Cash and cash equivalents at beginning of year	73,871	125,270	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$119,722	\$102,660	
Supplemental disclosures:			
Cash paid for income/franchise taxes	\$6,969	\$1,641	
Cash paid for interest	\$20,836	\$18,034	
Loans transferred to OREO	\$4,046	\$6,097	
Purchases of securities available for sale, accrued, not paid	\$—	\$11,175	
Sales of securities available for sale, accrued, not settled	\$34,129	\$—	
Stock consideration granted for acquisition	\$53,052	\$—	
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 (Loss)	Treasury Stock	Total Equity
Balance at January 1, 2014	\$81,698	\$18,399	\$91,632	\$265,067	\$ (17,336)	\$—	\$439,460
Comprehensive income				17,664	17,625		35,289
Cash dividends declared:							
Preferred, \$5.00 per share							