HEARTLAND FINANCIAL USA INC
Form DEF 14A
April 04, 2012

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

HEARTLAND FINANCIAL USA, INC.
(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):
x No fee required
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4. Proposed maximum aggregate value of transaction:
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1. Amount Previously Paid:
2. Form, Schedule, or Registration Statement No.:
3. Filing Party:
4. Date Filed:

April 4, 2012

Dear Fellow Stockholder:

You are cordially invited to attend the annual stockholders' meeting of Heartland Financial USA, Inc. to be held at the Grand River Center, 500 Bell Street, Dubuque, Iowa, on Wednesday, May 16, 2012, at 6:00 p.m.

At our annual meeting, we will discuss and vote on the matters described in the notice of annual meeting of stockholders and the proxy statement. Copies of the meeting notice and proxy statement are enclosed, together with a copy of our 2011 Annual Report to Stockholders.

We encourage you to attend our annual meeting in person and enjoy fellowship with other stockholders at the reception following our meeting. Whether or not you plan to attend, however, please complete, sign and date the enclosed proxy and return it in the accompanying postage-paid return envelope as promptly as possible. This will ensure that your shares are represented at the meeting.

I look forward with pleasure to seeing you and visiting with you at the meeting.

Very best personal wishes,
Lynn B. Fuller
Chairman of the Board

1398 Central Avenue · Dubuque, Iowa 52001 · (563) 589-2100

We especially ask you to join the directors and other fellow stockholders for cocktails and hors d' oeuvres at a reception following the meeting. In order to comfortably accommodate all stockholders, we ask that you please return the enclosed reservation card. Doing so will allow us to have a nametag prepared for each attendee. This reception will be held at our corporate headquarters located in the main bank building of Dubuque Bank and Trust Company, 1398 Central Avenue, Dubuque, Iowa, beginning at approximately 7:00 p.m. You need not attend the annual meeting in order to attend the reception.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 16, 2012

TO THE STOCKHOLDERS:

The annual meeting of stockholders of HEARTLAND FINANCIAL USA, INC. will be held at the Grand River Center, 500 Bell Street, Dubuque, Iowa, on Wednesday, May 16, 2012, at 6:00 p.m., for the purpose of considering and voting upon the following matters:

(1) to elect two Class I directors;
(2) to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012;
(3) to approve, on a non-binding advisory basis, compensation to our executive officers;
(4) to vote on a non-binding advisory proposal on the frequency of future executive compensation votes;
(5) to approve the adoption of the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan;
(6) to approve the adoption of the Heartland Financial USA, Inc. 2012 Amended and Restated Stockholder Rights Agreement; and
(7) to transact such other business as may properly be brought before the meeting or any adjournments or postponements of the meeting.

The Board of Directors is not aware of any other business to come before the meeting. Stockholders of record at the close of business on March 19, 2012, are the stockholders entitled to vote at the meeting and any adjournments or postponements of the meeting. Whether or not you plan to attend the meeting, please vote your shares promptly to ensure they are represented at the meeting. In the event there are an insufficient number of votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the annual meeting, the meeting may be adjourned or postponed in order to permit further solicitation of proxies.

By order of the Board of Directors

Lois K. Pearce
Secretary

Dubuque, Iowa
April 4, 2012

Important: The prompt return of proxies will save us the expense of further requests for proxies to ensure a quorum at the meeting. A self-addressed envelope is enclosed for your convenience. No postage is required if mailed within the United States.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on May 16, 2012: The Proxy Statement and Annual Report to Stockholders are available at www.htlf.com.

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Heartland Financial USA, Inc. of proxies to be voted at the annual meeting of stockholders to be held at the Grand River Center located at 500 Bell Street, Dubuque, Iowa, on Wednesday, May 16, 2012, at 6:00 p.m. local time, or at any adjournments or postponements of the meeting. We first mailed this proxy statement and proxy card on or about April 4, 2012.

Please read this proxy statement carefully. You should consider the information contained in this proxy statement when deciding how to vote your shares at the annual meeting. The following information regarding the meeting and the voting process is presented in a question and answer format.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving this proxy statement and proxy card?

You are receiving a proxy statement and proxy card from us because on March 19, 2012, you owned shares of our common stock. This proxy statement describes the matters that will be presented for consideration by the stockholders at the annual meeting. It also gives you information concerning the matters to be voted upon to assist you in making an informed decision.

When you sign the enclosed proxy card, you appoint the proxy holder designated on the proxy card as your representative at the meeting. The proxy holder will vote your shares as you have instructed in the proxy card; this will ensure that your shares will be voted whether or not you attend the meeting. Even if you plan to attend the meeting, you should complete, sign and return your proxy card in advance of the meeting just in case your plans change.

If you have signed and returned the proxy card and an issue comes up for a vote at the meeting that is not identified on the form, the proxy holder will vote your shares, pursuant to your proxy, in accordance with his or her judgment.

What matters will be voted on at the meeting?

You are being asked to vote on the following matters proposed by our Board of Directors:

(1) to elect two Class I directors of Heartland for a term expiring in 2015;
(2) to ratify the selection of KPMG LLP to continue as our independent registered public accounting firm for the fiscal year ending December 31, 2012;
(3) to approve, on a non-binding advisory basis, compensation to our executive officers;
(4) to vote on a non-binding advisory proposal on the frequency of future executive compensation votes;
(5) to approve the adoption of the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan;
(6) to approve the adoption of the Heartland Financial USA, Inc. Amended and Restated Stockholder Rights Agreement; and
(7) to transact such other business as may properly be brought before the meeting or any adjournments or postponements of the meeting.

Our Board of Directors recommends that you vote FOR each of these proposals.

These matters are more fully described in this proxy statement. We are not aware of any other matters that will be voted on at the annual meeting. However, if any other business properly comes before the meeting, the persons named as proxies for stockholders will vote on these matters in a manner they consider appropriate.

How do I vote?

You may vote either by mail or in person at the meeting. To vote by mail, complete and sign the enclosed proxy card and mail it in the enclosed pre-addressed envelope. No postage is required if mailed in the United States. If you mark your proxy card to indicate how you want your shares voted, your shares will be voted as you instruct.

If you sign and return your proxy card but do not mark the form to provide voting instructions, the shares represented by your proxy card will be voted “for” all nominees named in this proxy statement; “for” the ratification of our independent registered public accounting firm; "for" the approval of Heartland executives' compensation as described in the Compensation Discussion and Analysis; "for" annual approval of the non-binding advisory proposal on compensation to our executive officers; “for” the adoption of the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan; and "for" the adoption of the Amended and Restated Heartland Financial USA, Inc. Stockholder Rights Agreement.

If you want to vote in person, please come to the meeting. Please note, however, that if your shares are held in the name of your broker (or in what is usually referred to as “street name”), you will need to arrange to obtain a separate proxy from your broker in order to vote in person at the meeting.

What does it mean if I receive more than one proxy card?

You will receive more than one proxy card if you have multiple holdings reflected in our stock transfer records and/or in accounts with brokers. Please sign and return ALL proxy cards to ensure that all your shares are voted.

If I hold shares in the name of a broker, who votes my shares?

If you received this proxy statement from your broker, your broker should have given you instructions for directing how your broker should vote your shares. It will then be your broker's responsibility to vote your shares for you in the manner you direct.

Under the rules of various national and regional securities exchanges, brokers may generally vote in their discretion on behalf of their customers on routine matters, such as the ratification of KPMG, LLP as our independent registered public accounting firm, but cannot vote on non-routine matters, such as the election of directors; any matter related to executive compensation, such as the non-binding vote on executive compensation and the frequency with which such non-binding vote will be brought to the stockholders; adoption of the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan; and adoption of the Amended and Restated Stockholder Rights Plan, unless they have received voting instructions from the person for whom they are holding shares. If your broker does not receive instructions from you on how to vote particular shares on matters on which your broker does not have discretionary authority to vote, your broker will return the proxy form to us indicating that he or she does not have the authority to vote on these matters. This is generally referred to as a “broker non-vote” and will affect the outcome of the voting as described below under “How many votes are needed for approval of each proposal?” Therefore, we encourage you to provide directions to your broker as to how you want your shares voted on all matters to be brought before the meeting. You should do this by carefully following the instructions your broker gives you concerning its procedures. This ensures that your shares will be voted at the meeting.

What if I change my mind after I return my proxy?

If you hold your shares in your own name, you may revoke your proxy and change your vote at any time before the polls close at the meeting. You may do this by:

* signing another proxy with a later date and returning that proxy to Ms. Lois K. Pearce, Secretary, Heartland Financial USA, Inc., 1398 Central Avenue, Dubuque, Iowa 52001;
* sending notice to us that you are revoking your proxy; or
* voting in person at the meeting.

If you hold your shares in the name of your broker and desire to revoke your proxy, you will need to contact your broker.

How many votes do we need to hold the annual meeting?

A majority of the shares that are outstanding and entitled to vote as of the record date must be present in person or by proxy at the meeting in order to hold the meeting and conduct business.

Shares are counted as present at the meeting if the stockholder either

* is present and votes in person at the meeting; or
* has properly submitted a signed proxy card or other proxy.

On March 19, 2012, there were 16,501,560 shares of common stock issued and outstanding. Therefore, at least 8,250,781 shares need to be present at the annual meeting in order to hold the meeting and conduct business.

What happens if a nominee for director is unable to stand for election?

The Board may, by resolution, provide for a lesser number of directors or designate a substitute nominee. In the latter case, shares represented by proxies may be voted for a substitute nominee. You cannot vote for more than two nominees. The Board has no reason to believe any nominee will be unable to stand for election.

What options do I have in voting on each of the proposals?

You may vote “for” or “withhold authority to vote for” each nominee for director. You may vote to consider executive compensation every “1 Year,” every “2 Years,” every “3 Years,” or abstain from voting on this item. You may vote “for,” “against” or “abstain” on any other proposal that may properly be brought before the meeting.

How many votes may I cast?

Generally, you are entitled to cast one vote for each share of stock you owned on the record date.

How many votes are needed for each proposal?

The directors are elected by a plurality and the two individuals receiving the highest number of votes cast “for” their election will be elected as directors of Heartland. With respect to the Frequency of Say on Pay Proposal, the frequency selected by the stockholders will also be determined based on the plurality of votes cast. This means that the option of one year, two years or three years that receives the most votes cast by stockholders will be the frequency for the advisory vote on executive compensation that has been selected by stockholders.

The affirmative vote of a majority of the shares present in person or by proxy at the meeting and entitled to vote is required to approve the remaining items you are being asked to vote upon: 1) the ratification of the appointment of independent public accountants for the fiscal year ending December 31, 2012; 2) the approval, on a non-binding advisory basis, of compensation to our executive officers; 3) the adoption of the Heartland Financial USA, Inc. 2012 Long-Term Incentive Plan; and 4) the adoption of the Heartland Financial USA, Inc. Amended and Restated Stockholder Rights Agreement.

The vote on our executive compensation and the frequency of future executive compensation votes are advisory and will not be binding upon Heartland or the Board of Directors. However, the Compensation/Nominating Committee of the Board will consider the extent of approval in establishing our compensation plan for subsequent years.

Broker non-votes will not be counted as entitled to vote, but will count for purposes of determining whether or not a quorum is present on the matter. So long as a quorum is present, broker non-votes will have no effect on the outcome of the matters to be taken up at the meeting. Abstentions will have the same effect as negative votes.

Where do I find the voting results of the meeting?

We will announce preliminary voting results at the meeting. The voting results will also be disclosed in a Current Report on Form 8-K that we will file with the SEC by the close of business on the fourth business day after the meeting, which will be by May 22, 2012.

Who bears the cost of soliciting proxies?

We will bear the cost of soliciting proxies. In addition to solicitations by mail, officers, directors and employees of Heartland or its subsidiaries may solicit proxies in person or by telephone. These persons will not receive any special or additional compensation for soliciting proxies. We may reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders.

PROPOSAL 1 - ELECTION OF DIRECTORS

At the annual meeting to be held on May 16, 2012, you will be entitled to vote for two Class I directors for terms expiring in 2015. The Board of Directors is divided into three classes of directors having staggered terms of three years. Both of the nominees for election as Class I directors are incumbent directors. We have no knowledge that either of the nominees will refuse or be unable to serve, but if any of the nominees become unavailable for election, the holders of proxies reserve the right to substitute another person of their choice as a nominee when voting at the meeting.

Set forth below is information concerning the nominees for election and concerning the other directors whose terms of office will continue after the meeting, including the age, year first elected as a director and business experience during the previous five years.

The Board of Directors recommends that you vote your shares FOR each of the nominees.

NOMINEES
CLASS I (Term Expires 2015)

Lynn B. Fuller; 62; Chairman, President and Chief Executive Officer, Heartland Financial USA, Inc., Dubuque, Iowa

* Director of Heartland since 1987
* President of Heartland since 1990
* Chief Executive Officer of Heartland since 1999
* Chairman of the Board of Heartland since 2000
* Director of Dubuque Bank and Trust Company, Wisconsin Community Bank, New Mexico Bank & Trust, Rocky Mountain Bank, Summit Bank & Trust, and Citizens Finance Co., Heartland subsidiaries, for more than five years
* Director of Minnesota Bank & Trust, a Heartland subsidiary, since 2008
* Other past subsidiary directorships: Galena State Bank & Trust, Riverside Community Bank, and First Community Bank (now a branch office of Dubuque Bank and Trust Company)

Mr. Fuller received his undergraduate degree from the University of Dubuque and obtained his MBA from the University of Iowa. He began his banking career with Dubuque Bank and Trust Company in 1971, and worked as an officer at First National Bank of St. Paul from 1976 until returning to Dubuque Bank and Trust Company in 1978. Mr. Fuller has the deepest knowledge and understanding of Heartland and the most extensive experience in the banking business of any director, with hands-on operational experience and decades of experience in all aspects of commercial banking.

John W. Cox, Jr.; 64; Vice President of External Affairs and General Counsel for Jo-Carroll Energy, Inc., Elizabeth, Illinois

* Independent director of Heartland since 2003
* Director of Galena State Bank & Trust, a Heartland subsidiary, since 1998
* Vice President of External Affairs and General Counsel for Jo-Carroll Energy, Inc. since 2007
* Practicing attorney in Galena, Illinois, for over 35 years prior to joining Jo-Carroll Energy, Inc.

Mr. Cox is a former Member of the U.S. House of Representatives from the 16^{th} District of the State of Illinois. During his term in the U. S. Congress, Mr. Cox served on the House Banking and Finance Committees. He brings to our Board significant knowledge of, and contacts with, community leaders in the markets we serve in Northern Illinois, Eastern Iowa and Southwestern Wisconsin, as well as working knowledge of the legal interpretations and consequences of banking decisions.

CONTINUING DIRECTORS
CLASS II (Term Expires 2013)

Mark C. Falb; 64; Chairman of the Board and Chief Executive Officer, Kendall/Hunt Publishing Company and Westmark Enterprises, Inc., Dubuque, Iowa

* Independent Director of Heartland since 1995
* Vice Chairman of the Board of Heartland since 2001
* Chairman, Audit/Corporate Governance Committee and Compensation/Nominating Committee of Heartland since 2001
* Director of Dubuque Bank and Trust Company and Citizens Finance Co., Heartland subsidiaries for more than five years
* Chairman of the Board, Dubuque Bank and Trust Company for more than five years

Mr. Falb has been Chairman of the Board and Chief Executive Officer of Kendall/Hunt Publishing Company, a publisher of textbooks for the Pre-K - 12th grade market and the higher education market, and Westmark Enterprises, Inc., a real estate development company, since 1993. Mr. Falb brings to our Board considerable experience in executive management of nationally based organizations and in finance and financial accounting. He has significant contacts and is considered a community leader in our primary market of Dubuque and the Tri-State area.

John K. Schmidt; 52; Executive Vice President, Chief Operating Officer and Chief Financial Officer, Heartland Financial USA, Inc., Dubuque, Iowa

* Director of Heartland since 2001
* Chief Operating Officer of Heartland since 2004
* Executive Vice President and Chief Financial Officer of Heartland since 1991
* Director of Dubuque Bank and Trust Company, Galena State Bank & Trust, Riverside Community Bank, and Citizens Finance Co., Heartland subsidiaries, for more than five years
* President of Dubuque Bank and Trust Company from 1999-2004
* Director of First Community Bank (now a branch of Dubuque Bank and Trust Company) from 2004-2007

Mr. Schmidt earned his undergraduate degree from the University of Northern Iowa and subsequently was employed by the Office of the Comptroller of the Currency and Peat Marwick Mitchell, currently known as KPMG LLP. He joined Dubuque Bank and Trust Company in 1994. A CPA (inactive), Mr. Schmidt brings to our Board extensive knowledge in bank operational management and accounting.

James R. Hill; 60; President, Hill Companies, LLC, Englewood, Colorado

* Independent Director of Heartland since 2007
* Director and Chairman of the Board of Summit Bank & Trust, a Heartland subsidiary, since 2006

Mr. Hill is and has been for the past thirteen years, President of Hill Companies, LLC, a real estate investment company located in Englewood, Colorado. Prior to forming Hill Companies, Mr. Hill was an executive officer with

Trizec Corporation, Ltd., a leading Canadian real estate development company. Mr. Hill brings broad experience in real estate development and lending to our Board, particularly in the Colorado area, one of our newer geographic markets.

CONTINUING DIRECTORS
CLASS III (Term Expires 2014)

James F. Conlan; 48; Partner with Sidley Austin LLP, Chicago, Illinois

* Director of Heartland since 2000
* Director of Dubuque Bank and Trust Company and Citizens Finance Co., Heartland subsidiaries, for more than five years

Mr. Conlan has been a partner with Sidley Austin LLP, one of the largest law firms in the world, since 1996. He has also been a member of the Executive Committee of Sidley Austin since 2005, Vice Chairman from 2000 to 2006, and Co-Chairman of the Firm-Wide Corporate Reorganization Practice since 2006. Mr. Conlan brings to our Board considerable expertise in complex financial structuring, particularly those associated with workout transactions, and the legal implications of such transactions.

Thomas L. Flynn; 56; Retired President and Chief Executive Officer of Flynn Ready-Mix Concrete Co.

* Independent Director since 2002
* Director of Dubuque Bank and Trust Company and Citizens Finance Co., Heartland subsidiaries, for more than five years

Mr. Flynn was President and Chief Executive Officer of Flynn Ready-Mix Concrete Co. from 1999 until his retirement in 2012 when a majority of the company was sold. He was Chief Financial Officer of Flynn Ready-Mix from 1977 until 1999. He is a Past Chairman of the Board of Directors of the National Ready-Mix Concrete Association. Mr. Flynn is a former member of the Iowa Legislature having served for eight years as a State Senator. He also previously served for ten years as an adjunct faculty member in the Business Department of a local Liberal Arts College teaching courses in finance and business research methods. Mr. Flynn brings to our Board considerable small business expertise, business contacts in one of our principal markets and skill in governance.

All of our directors will hold office for the terms indicated, or until their respective successors are duly elected and qualified. There are no arrangements or understandings between Heartland and any other person pursuant to which any of our directors have been selected for their respective positions. With the exception of Mr. Conlan, who is the brother-in-law of Mr. Fuller, no member of the Board of Directors is related to any other member of the Board.

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

Our Board of Directors

There are currently seven members of the Board of Directors of Heartland. Although it is the responsibility of Heartland's officers to manage day-to-day operations, the Board oversees our business and monitors the performance of our management.

Independence. Our Board has determined that each of Messrs. Falb, Cox, Flynn and Hill (57% of our Board members) are “independent” directors as defined in the rules of the NASDAQ Stock Market and the rules and regulations of the SEC. Messrs. Fuller and Schmidt are not independent because they are executive officers of Heartland. Because Mr. Conlan is the brother-in-law to Mr. Fuller, our Board determined that Mr. Conlan is not independent, although it also determined that

Mr. Conlan discharges his duties in the manner of an independent director. In considering the independence of the directors, our Board reviewed questionnaires prepared by each director, reviewed its own records of transactions with directors and inquired of directors whether they or any member of their immediate families had engaged in any transaction with us, other than transactions made in the ordinary course of business.

Meetings. Our directors meet on at least a quarterly basis, or as needed at special meetings held from time to time. During 2011, the Board of Directors held four regular meetings and ten special meetings. All directors attended at least 75% of the total number of meetings of the Board of Directors and committees on which they served in 2011.

The independent directors are offered the opportunity at each meeting of the Board of Directors to meet without Messrs. Fuller, Schmidt and Conlan in attendance. During 2011, the independent directors met in such capacity three times. At the request of the independent directors, Mr. Conlan attended one meeting. Each of our Audit/Corporate Governance Committee and our Compensation/Nominating Committee consists solely of independent directors and these committees meet in conjunction with most regular Board meetings.

It is Heartland's policy that all directors be in attendance at annual meetings unless excused by the Chairman of the Board. In 2011, all seven of our directors attended the annual meeting in person.

Board Leadership. Under our bylaws, the Chairman of the Board presides at meetings of the Board at which he is in attendance. Mr. Fuller, our Chief Executive Officer, has been Chairman of our Board of Directors since 2000. Mr. Fuller, as the director with the most knowledge of banking operations and of Heartland's business, is the director most capable of leading discussions on important matters affecting Heartland, including formulation and implementation of corporate strategy. Further, our Board believes that Mr. Fuller's role as Chairman creates a firm link with management and a clear indication of management authority, and causes the Board to function more effectively and efficiently. Our Board believes that our performance during Mr. Fuller's tenure, including during this tumultuous economy, reflects the effectiveness of his leadership and his goal of advancing Heartland's interests over his personal gain.

Although Mr. Falb, the Chairman of both our Audit/Corporate Governance Committee and our Compensation/Nominating Committee, has not been formally designated as the “lead director,” he chairs and assists in setting the agenda for executive sessions of the Board, as well as regularly interacts with Messrs. Fuller and Schmidt to convey concerns of the directors and to assist with the full agenda for Board meetings.

Risk Management - Background. Heartland has historically delegated some portion of the risk management function for traditional bank products to its subsidiary banks, and the role of Heartland's management has traditionally been to oversee and audit this function and to manage risk on an enterprise-wide basis for assets and liabilities, such as securities, bank borrowings and interbank transactions. The economic environment of the past four years has led Heartland to take a more active role in the risk management of traditional loan and deposit products. In addition to a more formalized approach to risk management at Heartland, subsidiary bank, and branch levels, Heartland has developed a specialized program for working with and through the disposition of troubled loans, which, as many banking companies have experienced, have risen due to the economic dislocation of the past few years. The program encompasses specialized personnel at Heartland, as well as, at the subsidiary bank level, with the experience and authority to manage troubled loans and other assets.

Risk Management - The Board. The Heartland Board of Directors oversees planning and responding to risks arising from changing business conditions or the initiation of new activities or products. The Heartland Board of Directors also is responsible for overseeing compliance with laws and regulations, responding to recommendations from auditors and supervisory authorities, and overseeing management's conformance with internal policies and controls addressing the operations and risks of significant activities. The Board of Directors receives periodic reviews of Heartland's risk management programs and approves risk oversight and controls based upon reporting from management. The Audit/Corporate Governance Committee oversees risks associated with financial reporting, including internal control over financial reporting, and identifies and oversees compliance with changing law and regulation. The Compensation/Nominating Committee also identifies, reviews and oversees risk created by Heartland's executive benefit programs and employee compensation plans.

Risk Management - Senior Management. Senior Management of Heartland has direct oversight and involvement in risk management via reporting and regular cross-functional communications. This is primarily accomplished through senior management personnel who are assigned responsibility for monitoring and managing all types of risk within their functional areas of responsibility, aided by the input and support of other managers who have a stakeholder interest in the various risk areas. Typically, the senior manager will work with Heartland and subsidiary bank staff to develop, implement and monitor standardized policies, procedures, products, risk limits and tolerances. The Board believes that this structure enables Heartland to pro-actively manage material risks as close as reasonably possible to the level where functional decisions are made.

Committees of the Board

Audit/Corporate Governance Committee. Currently, the members of the Audit/Corporate Governance Committee are Messrs. Falb, Cox, Flynn and Hill, each of whom is an “independent” director under the listing standards of the NASDAQ Stock Market and the rules and regulations of the SEC. The Board of Directors has determined that each member of the Audit/Corporate Governance Committee qualifies as, and should be named as an “audit committee financial expert” as set forth in the rules and regulations of the SEC. The Board based this decision on the educational background and experience of Mr. Falb and Mr. Flynn in financial accounting, of Mr. Hill in business administration and of Mr. Cox in law, and the experience of each of these committee members as executive officers of other companies and other relevant experience using and analyzing financial statements.

The Audit/Corporate Governance Committee charter can be found under the investor relations section of our website, www.htlf.com. The primary duties and functions of the Audit/Corporate Governance Committee are to:

* monitor the integrity of the financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;
* retain, oversee, review and terminate our independent registered public accounting firm and pre-approve all services performed by the independent registered public accounting firm;
* provide an avenue of communication among the independent registered public accounting firm, management, the internal audit function and the Board of Directors;
* encourage adherence to, and continuous improvement of, our policies, procedures and practices at all levels;
* review areas of potential significant financial risk; and
* monitor compliance with legal and regulatory requirements and establish appropriate corporate governance policies for Heartland.

The Audit/Corporate Governance Committee's duties and functions are set forth in more detail in its charter.

Mr. Falb has served as Chairman of the Audit/Corporate Governance Committee since 2001. During 2011, the Audit/Corporate Governance Committee met four times. To promote independence of the audit function, the Audit/Corporate Governance Committee consults both separately and jointly with our independent registered public accounting firm, internal auditors and management.

The report of the Audit/Corporate Governance Committee is contained later in this proxy statement and the processes used by the Audit/Corporate Governance Committee to approve audit and non-audit services are described later in this proxy statement under the caption “Relationship With Independent Registered Public Accounting Firm-Audit/Corporate Governance Committee Pre-Approval Policy.”

Compensation/Nominating Committee. The Compensation/Nominating Committee currently consists of Messrs. Falb, Cox, Flynn and Hill, each of whom is an “independent” director as defined by listing requirements of the NASDAQ Stock Market, an “outside” director pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, and a “non employee” director under Section 16 of the Securities Exchange Act of 1934. Mr. Falb has served as Chairman of the Compensation/Nominating Committee since 2001.

The charter of the Compensation/Nominating Committee can be found under the investor relations section of our website, www.htlf.com. The primary duties and functions of the Compensation/Nominating Committee are to:

* discharge the responsibilities of the Board of Directors relating to the compensation of our executive officers;
* evaluate and make recommendations to the Board of Directors relating to the compensation of individuals serving as directors;

* direct the creation of and approve the annual compensation discussion and analysis on executive compensation for inclusion in our proxy statement in accordance with all applicable rules and regulations; and
* identify individuals qualified to become members of the Board of Directors and select such individuals as director nominees for the next annual meeting of stockholders.

The Compensation/Nominating Committee meets as often as necessary to evaluate the performance of the named executive officers, to determine salaries and bonuses for the coming year and to consider and approve any grants under incentive compensation programs. In formulating and approving the compensation plans for executive officers, the

Compensation/Nominating Committee also meets with the risk management personnel of Heartland to consider whether the executive compensation programs are appropriately balanced, do not create inappropriate risk-taking incentives and do not impair the safety and soundness of Heartland and its subsidiary banks. The Compensation/Nominating Committee held eight meetings in 2011.

The Compensation/Nominating Committee's duties and functions are set forth in more detail in its charter. The process used by the committee to evaluate and determine executive compensation is described in this proxy statement under the caption “Executive Officers and Directors Compensation - Compensation Discussion and Analysis - Administration of our Compensation Program." The report of the Compensation/Nominating Committee is also contained later in this proxy statement.

Compensation Committee Interlocks and Insider Participation

During 2011, the Compensation/Nominating Committee, which sets the salaries and compensation for our executive officers, was comprised solely of independent directors Messrs. Falb, Cox, Flynn and Hill. None of these individuals was an officer or employee of Heartland in 2011, and none of these individuals is a former officer or employee of Heartland. In addition, during 2011, no executive officer of Heartland served on the board of directors or compensation committee of any other corporation with respect to which any member of the Compensation/Nominating Committee was engaged as an executive officer.

Director Nominations and Qualifications

In carrying out its nominating function, the Compensation/Nominating Committee evaluates all potential nominees for election, including incumbent directors, Board nominees and stockholder nominees, in the same manner. We are not currently seeking new candidates to serve on the Board and we did not receive any stockholder nominations for the 2012 annual meeting. The Compensation/Nominating Committee believes that, at a minimum, potential directors should have the highest personal and professional ethics, integrity and values, a sufficient educational and professional background that enables them to understand our business, exemplary management and communications skills, demonstrated leadership skills, sound judgment in his or her professional and personal life, a strong sense of service to the communities which we serve and an ability to meet the standards and duties set forth in our code of conduct. Additionally, no nominee can be eligible for election or re-election as a director if, at the time of such election, such person is 70 or more years of age. Each nominee must also be willing to devote sufficient time to carrying out his or her Board duties and responsibilities effectively. Although our Compensation/Nominating Committee considers diversity, including diversity of experience, gender and ethnicity in nominations, it does not have a formal diversity policy.

The Compensation/Nominating Committee also evaluates potential nominees to determine if they have any conflicts of interest that may interfere with their ability to serve as effective Board members and whether they are “independent” in accordance with NASDAQ Stock Market requirements (to ensure that at least a majority of the directors will, at all times, be independent). In the past, the Compensation/Nominating Committee has not retained any third party to assist it in identifying candidates, but it has the authority to retain a third-party firm or professional for the purpose of identifying candidates.

Stockholder Communications with the Board, Nomination and Proposal Procedures

General Communications with the Board. As set forth on our website, www.htlf.com, our Board of Directors can be contacted through Heartland's corporate headquarters at 1398 Central Avenue, P.O. Box 778, Dubuque, Iowa 52004-0778, Attn: Lois K. Pearce, or by telephone at Heartland's administrative offices at (563) 589-2100, or toll free at (888) 739-2100. Each communication will be forwarded to the Board or the specific directors identified in the communication as soon as reasonably possible.

Nominations of Directors. In order for a stockholder nominee to be considered by the Compensation/Nominating Committee as a nominee and included in our proxy statement, the nominating stockholder must file a written notice of the proposed director nomination with our corporate secretary, at the above address, at least 120 days prior to the anniversary of the date the previous year's proxy statement was mailed to stockholders. Nominations must include the full name and address of the proposed nominee and a brief description of the proposed nominee's business experience for at least the previous five years. All submissions must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected. The Compensation/Nominating Committee may request additional information in order to make a determination as to whether to nominate the person for director.

In accordance with our bylaws, a stockholder may otherwise nominate a director for election at an annual meeting of stockholders by delivering written notice of the nomination to our corporate secretary, at the above address, not less than 30 days nor more than 75 days prior to the date of the annual meeting. The stockholder's notice of intention to nominate a director must include (i) the name and address of record of the stockholder who intends to make the nomination; (ii) a representation that the stockholder is a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the name, age, business and residence address, and principal occupation or employment of each nominee; (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (v) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, as then in effect; and (vi) the consent of each nominee to serve as a director of the corporation if so elected. We may request additional information after receiving the notification for the purpose of determining the proposed nominee's eligibility to serve as a director. Persons nominated for election to the Board pursuant to this paragraph will not be included in our proxy statement.

Other Stockholder Proposals. To be considered for inclusion in our proxy statement and form of proxy for our 2013 annual meeting of stockholders, stockholder proposals must be received by our corporate secretary, at the above address, no later than December 5, 2012, and must otherwise comply with the notice and other provisions of our bylaws, as well as SEC rules and regulations.

For proposals to be otherwise brought by a stockholder and voted upon at an annual meeting, the stockholder must file written notice of the proposal with our corporate secretary not less than 30 nor more than 75 days prior to the scheduled date of the annual meeting.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to all of our directors and employees. The code sets forth the standard of ethics that we expect all of our directors and employees to follow, including our Chief Executive Officer and Chief Financial Officer. The code is posted on our website, www.htlf.com. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding any amendment to or waiver of the code with respect to our Chief Executive Officer and Chief Financial Officer, and persons performing similar functions, by posting such information on our website.

Director Compensation

Our Board of Directors believes that any compensation received by a non-employee director should be tied directly to the success of Heartland and, by extension, the success of all Heartland stockholders. Beginning in 2008, non-employee directors have been compensated for service on the Heartland Board of Directors solely by issuance of shares of restricted stock granted under the 2005 Long-Term Incentive Plan in an amount determined by the committee at its annual meeting. Such shares are awarded as of the date of the annual meeting and vest on the earlier of the one year anniversary of grant or the date of the next annual meeting. In the event a director leaves the Board for any reason prior to any vesting date (other than due to death or disability), the committee retains sole discretion to determine the disposition of the unvested shares. In the event of the death or disability of the director, the shares vest.

Each of Messrs. Conlan, Cox, and Hill were granted 1,000 shares of our common stock on May 18, 2011, as their sole compensation for the period from the May 18, 2011 Annual Meeting to the May 16, 2012 Annual Meeting. Mr. Falb and Mr. Flynn who chair and co-chair, respectively, both Audit/Corporate Governance and Compensation/Nominating committees were granted 1,100 shares. Mr. Fuller and Mr. Schmidt, who are officers, do not receive any compensation for serving on the Board of Heartland or any of its subsidiary banks. Messrs. Conlan, Cox, Falb and Flynn also serve on the Board of one of our subsidiary banks and receive cash compensation for such service.

The following table shows the compensation earned during 2011 by each of our independent directors for service on the Heartland Board of Directors and the Boards of our subsidiary banks:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Total
James F. Conlan	$11,030	$13,311	$24,341
John W. Cox, Jr.	$7,770	$14,790	$22,560
Mark C. Falb	$12,950	$16,269	$29,219
Thomas L. Flynn	$15,520	$14,790	$30,310
James R. Hill	$—	$14,790	$14,790

(1) The amounts in this column include fees earned or paid in cash for services as a director at one of Heartland's bank subsidiaries. The fees for Messrs. Conlan, Falb and Flynn are for service on the Board and Committees of Dubuque Bank and Trust Company. The fees for Mr. Cox are for services on the Board of Galena State Bank & Trust. Mr. Hill did not receive director fees for serving on the Board of Summit Bank & Trust. Messrs. Conlan and Flynn chose to receive Heartland common stock in lieu of cash for their service on the Board and Committees of Dubuque Bank and Trust Company, with the number of shares issued based upon the closing price of $16.15 per share on December 21, 2011, the date of the last regular board meeting of the year.

(2) The amounts in this column were based upon the $14.79 per share closing price for our common stock on May 18, 2011, the date of issuance.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table lists the beneficial ownership of our common stock at January 31, 2012, by each person we know to beneficially own more than 5% of our outstanding common stock, by each director or nominee, by each executive officer named in the summary compensation table and by all directors and executive officers of Heartland as a group.

Name of Individual and Number of Persons in Group	Amount and Nature of Beneficial Ownership[(1)]		Percent of Class	
5% Stockholders, Directors and Nominees				
Directors				
James F. Conlan	327,834	(2)	2.0	%
John W. Cox, Jr.	28,087	(3)	*	
Mark C. Falb	100,241	(4)	*	
Thomas L. Flynn	69,577	(5)	*	
Lynn B. Fuller	948,158	(6)	5.8	%
James R. Hill	5,888			
John K. Schmidt	221,993	(7)	1.3	%
Other Executive Officers				
Kenneth J. Erickson	188,228	(8)	1.1	%
Douglas J. Horstmann	170,353	(9)	1.0	%
Melvin E. Miller	47,111	(10)	*	
All directors and executive officers as a group (12 persons)	2,123,060		12.9	%

* Less than one percent

(1) Includes the following shares that may be purchased through the exercise of options within 60 days of January 31, 2012: Mr. Lynn B. Fuller - 55,333 shares; Mr. Schmidt - 41,166 shares; Mr. Erickson - 16,333 shares; Mr. Horstmann - 14,500 shares; Mr. Miller - 17,166 shares and all directors and executive officers as a group - 151,831 shares. All shares shown represent sole voting and investment power, except as set forth in the footnotes below. Inclusion of shares shall not constitute an admission of beneficial ownership or voting and investment power over included shares.

(2) Includes 225,602 shares held by Mr. Conlan's spouse, as trustee, and 80,783 shares held in trust for his children, over which Mr. Conlan's spouse is trustee. Also includes 1,000 shares of restricted stock over which Mr. Conlan has voting power but receives no dividends.

(3) Includes 16,833 shares held by John W. Cox, Jr., Inc., of which Mr. Cox is a controlling stockholder and 4,729 shares held by McJoyce, Inc. of which Mr. Cox is a controlling stockholder. Also includes 1,000 shares of restricted stock over which Mr. Cox has voting power but from which he receives no dividends.

(4) Includes 68,856 shares held by Mr. Falb's spouse, as trustee. Also includes 1,100 shares of restricted stock over which Mr. Falb has voting power but receives no dividends.

(5) Includes 2,786 shares held by Mr. Flynn's spouse in an individual retirement account and 26,853 shares held by Mr. Flynn jointly with his spouse. Also includes 1,100 shares of restricted stock over which Mr. Flynn has voting power but receives no dividends.

(6) Includes an aggregate of 6,673 shares held by Mr. Fuller's spouse and son, 750,886 shares held in a trust for which Mr. Fuller is sole trustee, and 123,078 shares held in a trust for which Mr. Fuller serves as co-trustee. Mr. Fuller's mailing address is: Heartland Financial USA, Inc., 1398 Central Avenue, P.O. Box 778, Dubuque, Iowa 52004-0778.

(7) Includes an aggregate of 25,948 shares held by Mr. Schmidt's spouse and minor children and 2,088 shares held by Mr. Schmidt jointly with his spouse.

(8) Includes 69,875 shares held by Mr. Erickson's spouse.

(9) Includes 27,000 shares held by Mr. Horstmann's spouse, as trustee.

(10) Includes 12,136 shares held jointly with Mr. Miller's spouse.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors, executive officers and 10% stockholders file reports of ownership and changes in ownership with the SEC. Such persons are also required to furnish us with copies of all Section 16(a) forms they file. Based solely upon our review of such forms, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers or 10% stockholders were satisfied during 2011.

EXECUTIVE OFFICERS AND DIRECTORS COMPENSATION

Compensation Discussion and Analysis

Overview

This Compensation Discussion and Analysis addresses our compensation philosophy and objectives with respect to our named executive officers, compensation factors, elements of compensation and the basis for compensation decisions for 2011. Our named executive officers are Lynn B. Fuller, John K. Schmidt, Kenneth J. Erickson, Douglas J. Horstmann and Melvin E. Miller.

Historically, we have designed our executive compensation program to be both competitive in the marketplace and to align the interests of our executive officers with the long-term interests of our stockholders. Overall, our goal has been to pay total cash compensation (base salary plus incentive compensation) near the median of our peer group for comparable positions and performance. We have attempted to maintain base salary at slightly less than the median but incentive compensation above the median because we believe this is a reasonable way in which to encourage performance. We have also strived to pay a larger portion of the total compensation to executive officers in performance-based pay that is tied to the achievement of our 1-Year and 5-Year Plans of business operations because we believe this appropriately focuses our executive officers on consistent, sustained performance.

As discussed below, during the past five years, the economic and changing regulatory environments have caused us to adjust our compensation program for both economic realities and changing regulation. During 2007 and 2008, when we, along with many other bank holding companies, found our income to be less than historical earnings and short of projected earnings, we froze the salaries of our Chief Executive Officer and Chief Financial Officer. In 2009, our Compensation/Nominating Committee also froze the salaries of all officers who had earned $60,000 or more in 2008. Further, because we participated in the Capital Purchase Program of the United States Department of the Treasury's Troubled Asset Relief Program (“TARP”) from December19, 2008, until September 15, 2011, we were prohibited in 2009 through the first nine months of 2011 from paying cash incentive compensation to our five most highly compensated officers, including our Chief Executive Officer, Chief Financial Officer and several other named executive officers. Therefore, our five most highly compensated officers did not receive cash bonuses or other incentive compensation in 2009 or 2010.

In 2010, our operations recovered to nearly pre-recession levels. In recognition of our named executive officers' important role in this recovery and the fact that their salaries and equity compensation were frozen during the previous several years, the Compensation/Nominating Committee reexamined and increased the salaries of our executive officers in 2010. Although the increased salaries brought their compensation closer to that of our peers, our executive officers continued to receive less overall compensation than officers at comparable peers.

In 2011, our earnings and operations continued to rebound, and our named executive officers received base salary increases to bring their base salaries nearly equal to the median at comparable peers. Because we remained a TARP participant until September 15, 2011, we were unable to provide bonuses and equity compensation to four of our five named executive officers. On September 15, 2011, our application to be a participant in the United States Treasury's Small Business Lending Fund (“SBLF”) was approved, and we simultaneously repaid our obligations under TARP. The Compensation/ Nominating Committee reevaluated compensation for our executive officers after repayment, and as a result:

* Approved a cash incentive payout for named executive officer, Douglas J. Horstmann, based on performance at Dubuque Bank and Trust Company, for which he serves as President and CEO, for the period from September 15, 2011, through December 31, 2011.
* Approved a cash incentive payout for named executive officer, Melvin E. Miller, who was not one of Heartland's most highly compensated employees as defined by TARP. Mr. Miller received his full cash incentive payout for the period of January 1, 2011, through December 31, 2011.

* Did not pay cash incentive compensation for the period from September 15, 2011, through December 31, 2011, to Mr. Fuller, Mr. Schmidt or Mr. Erickson.
* Instructed management to consider revising and creating a new long-term incentive program under which Heartland may pay performance-based equity compensation. Notwithstanding the recommendation for such a program, our executive officers were not granted performance-based restricted stock units in October 2011 (at the time other qualified officers were), due to management's recommendation that we honor TARP restrictions through the end of the year.

In summary, although the base salary levels of our named executive officers during 2011 were close to those of our peers, total compensation, including the pro-rata bonus and non-performance-based equity awards for these officers, still remained slightly below peer median for 2010, which was consistent with the Compensation/Nominating Committee's intent.

Although the Compensation/Nominating Committee believes that any incentive compensation system that we implement will need to comply with the regulatory framework described below and be carefully structured to take into account any risk of adverse impact, the Committee continues to believe that tying compensation to financial and operational performance is important. Because our 2006 Long-Term Incentive Plan is expiring and the restrictions on incentive pay under TARP no longer apply to us, we are preparing to implement a new 2012 Long-Term Incentive Plan. We believe this new incentive plan is necessary to reward not only our named executive officers, but other qualifying officers in a manner that aligns the interests of our officers with the long-term interests of our stockholders.

Regulatory Impact on Compensation

As a publicly-traded financial institution, Heartland must contend with several overlapping layers of regulation when considering and implementing compensation-related decisions. Except for the TARP regulations described below, these regulations do not set specific parameters within which compensation decisions must be made, but do require Heartland and the Compensation/Nominating Committee to be mindful of the risks that often go hand-in-hand with compensation programs designed to incentivize the achievement of better than average performance. Although the regulatory focus on risk assessment has increased over the last several years, the incorporation of general concepts of risk assessment into compensation decisions is not a recent development.

As indicated above, we became subject to substantial restrictions on the form of compensation we were able to provide to our executive officers when we became a participant in TARP in late 2008. These restrictions included a prohibition on certain types of incentive compensation to our five most highly paid employees. With respect to periods following the repayment of our TARP obligations on September 15, 2011, we are no longer subject to these restrictions.

Under its long-standing Interagency Guidelines Establishing Standards for Safety and Soundness, the FDIC prohibits excessive compensation as an unsafe and unsound practice. In describing a framework within which to make a determination as to whether compensation is to be considered excessive, the FDIC has indicated that financial institutions should consider whether aggregate cash amounts paid, or noncash benefits provided, to employees are unreasonable or disproportionate to the services performed by an employee. The FDIC encourages financial institutions to review an employee's compensation history and to consider internal pay equity, and, as appropriate, to consider benchmarking compensation to peer groups. Finally, the FDIC provides that such an assessment must be made in light of the institution's overall financial condition.

In the summer of 2010, the financial institution regulatory agencies issued additional joint guidance, Guidance on Sound Incentive Compensation Policies, which was in many respects intended to serve as a compliment to the Safety and Soundness standards. The joint agency guidance establishes a framework for assessing the soundness of incentive compensation plans, programs and arrangements maintained by financial institutions. The joint agency guidance is narrower in scope than the Safety and Soundness standards because it applies only to senior executive officers and those other individuals who, either alone or as a group, could pose a material risk to the institution. The joint agency guidance is intended to focus the institution's attention on balanced risk-taking incentives, on compatibility with effective controls and risk management, and on general principles of strong corporate governance.

The Dodd-Frank Act also requires the federal financial institution regulatory agencies to jointly adopt regulations or guidelines that govern incentive-based compensation practices at institutions with more than $1 billion in assets. Proposed regulations implementing the Dodd-Frank requirement were issued in March 2011. Although these new regulations are not effective, with respect to financial institutions with less than $50 billion in assets, the regulations largely restate the framework set forth in the Safety and Soundness standards and joint agency guidance described above.

In addition to the guidelines and regulations imposed upon us by financial institution regulatory agencies, as a publicly-traded corporation, Heartland is also subject to the SEC's rules regarding risk assessment. Those rules require a publicly-traded company to determine whether any of its existing incentive compensation plans, programs or arrangements create risks that are reasonably likely to have a material adverse effect on the company.

The Compensation/Nominating Committee believes that a sensible approach to balancing risk-taking and rewarding reasonable, but not necessarily easily attainable, goals has always been a component of its overall assessment of the compensation plans, programs and arrangements it has established for Heartland's named executive officers. In this regard, the Committee has regularly revisited the components of the frameworks set forth in the Safety and Soundness standards and the joint guidance as an effective tool for conducting its own assessment of the balance between risk and reward built into Heartland's compensation programs for named executive officers, and will monitor adoption of the final regulations under the Dodd-Frank Act to incorporate into its risk assessment procedures the new regulations and procedures as adopted.

Administration of Our Compensation Program

Role of the Compensation/Nominating Committee. The Compensation/Nominating Committee, which consists solely of independent directors, is primarily responsible for setting executive compensation for Heartland. Although many decisions for our compensation program in the following year are made in the last quarter of the current fiscal year, the Compensation/Nominating Committee continues to meet and, as appropriate, evaluate and adjust the compensation program throughout the year. During 2011, the Compensation/Nominating Committee met eight times to establish the compensation program for 2011, to consider and respond to regulatory developments, to monitor the program's effect on risk and to establish a preliminary plan for 2012 compensation, including the development of the 2012 Long-Term Incentive Plan, which is presented for approval by stockholders at our annual stockholders' meeting on May 16, 2012.

The Compensation/Nominating Committee reviews and evaluates a broad range of material requested and received from management, the Committee's independent compensation consultant and legal counsel in establishing compensation programs, including, but not limited to, the following:

* Financial reports covering, among other things, historical and year-to-date financial performance vs. budget and financial performance vs. representative peer groups;
* Reports on levels of achievement of individual and corporate performance objectives;
* Reports on Heartland's strategic objectives and future budgets;
* Information on executive officers' stock ownership and option holdings;
* Agreements and other plan documents regarding compensation; and
* Reports from consultants retained by the Compensation/Nominating Committee.

The Compensation/Nominating Committee makes all decisions regarding the compensation of our executive officers. Although the Compensation/Nominating Committee reports its decisions to our Board of Directors, and the Board normally ratifies the decisions, there is no requirement for Board approval.

Consideration of Advisory Vote. Although we have not yet been subject to the "say on pay" advisory vote on executive compensation under the Dodd-Frank Act until this year, as a participant in TARP, we have submitted our executive compensation to a non-binding stockholder vote since 2009. We believe it is important for our stockholders to vote on these matters and our Compensation/Nominating Committee considers the advisory vote on executive compensation when establishing and revising our compensation plans.

At our annual meetings in each of 2009, 2010 and 2011, over 90% of the shares cast on the advisory vote on executive compensation were cast in favor of our executive compensation. After reviewing these results, our

Compensation/Nomintating Commmittee determined that, given the significant level of positive support, no changes in compensation policies or decision were necessary.

Role of Management. Our management performs employee performance evaluations, establishes business performance targets and objectives and recommends salaries, bonuses and equity awards. Our Chief Executive Officer and Chief Financial Officer assist the Chairman of the Compensation/Nominating Committee with setting the agenda for the Committee's meetings and coordinating the preparation of materials for all such meetings. At the request of the Compensation/Nominating Committee, our Chief Executive Officer and Chief Financial Officer also provide information regarding our strategic objectives, evaluations of executive officers' performance and compensation recommendations for executive officers other than themselves. Our Chief Executive Officer and Chief Financial Officer, however, do not approve the compensation arrangements of any executive officers or participate in the formulation of their own compensation.

Role of Advisors - Peer Comparison. Frederic W. Cook & Co., Inc. ("FWCC") was retained by the Compensation/Nominating Committee to provide compensation consulting services in 2011. FWCC does not provide any services to Heartland except for its services to the Compensation/Nominating Committee in advising on executive compensation. The Committee has, therefore, determined that FWCC is independent. FWCC's role includes providing market information on compensation levels and practices, assisting in the design of compensation programs, providing input on related technical and regulatory matters and working with other advisors in developing current peer comparison groups.

The Compensation/Nominating Committee annually reviews peer group comparisons generated by FWCC as a benchmark in establishing our compensation program, and establishes appropriate and competitive ranges of short- and long-term compensation based upon the median of the peer group. Various components of executive compensation (e.g., base salaries, bonuses, equity compensation, retirement plan contributions and other benefits) are compared to the peer group for similar positions. In addition, information on the usage of shares and related dilution levels for equity incentive plans is also prepared for and reviewed by the Compensation/Nominating Committee.

Consistent with our past practices, our current peer group consists of similar-sized, strong-performing, publicly-traded bank holding companies in the United States Midwest and Mountain regions. This year, in consultation with FWCC and with assistance from RBC Capital Markets, over half of the benchmark peer group was replaced due to merger/acquisition activity, severe financial problems and change in size. The companies included in the 2011 analysis were:

BancFirst Corporation	Banner Corporation	CoBiz Financial Inc.
Community Trust Bancorp Inc.	Enterprise Financial Services Corp.	First Busey Corporation
First Financial Bankshares Inc.	First Financial Corporation	First Merchants Corporation
Glacier Bancorp Inc.	National Penn Bancshares Inc.	Republic Bancorp Inc.
S&T Bancorp Inc.	SY Bancorp Inc.	West Coast Bancorp
Western Alliance Bancorporation		

Elements of Compensation

Historically, our executive officers' compensation has been comprised of four components: base salary, cash bonus, equity compensation and additional benefits. While we were a TARP participant we were unable to pay an annual cash bonus to our five most highly compensated employees. On September 15, 2011, we exited TARP, thus substantially removing the TARP-related compensation restrictions and limitations on the affected employees. In setting 2011 compensation for our named executive officers, the Compensation/Nominating Committee determined each of the components for the named executive officers based in part on the Committee's subjective judgment, taking into account qualitative and quantitative factors as set forth in the discussion below.

Base Salary. The Compensation/Nominating Committee regards base salary as an important component of executive compensation because it provides executives with a regular income. Base salaries are intended to assist us in attracting executives and recognizing different levels of responsibility and contribution among executives. The determination of base salary is based upon the executive's qualifications and experience, scope of responsibility and potential to achieve the goals and objectives established for the executive. Additionally, past performance, internal pay equity and comparison to competitive salary practices in the peer group are also considered.

As mentioned above, the historical goal of the Compensation/Nominating Committee has been to establish base salaries for executives at a level at or below peer median, with a significant portion of the executives' additional compensation to come in the form of incentive compensation. During the turbulent economic years from 2007 through 2009, however, our executive officers' salaries were either frozen or subject to minimal increases and from December 2008 through September 2011, TARP restrictions prohibited the payment of incentive compensation to the top five most highly compensated employees of Heartland, which affected four of our five named executive officers. In setting 2010 compensation, the Compensation/Nominating Committee concluded that the salary freezes and the TARP-related restrictions were causing Heartland's executive compensation to become increasingly uncompetitive. Accordingly, the Compensation/Nominating Committee approved significant increases in the salaries of Mr. Fuller and Mr. Schmidt for 2010 that caused those salaries to approach the median of their peer groups for 2009, and more moderate increases in the base salaries for the other named executive officers

For 2011, the Compensation/Nominating Committee reviewed peer group information from FWCC that indicated that the combination of base salaries and equity awards for our named executive officers for 2010 was almost exactly at the median of our peer group. This same data indicated that base salaries were slightly below median, that the value of long-term equity incentives represented by restricted stock units ("RSUs") that vest after TARP repayment was above peer group median and that overall aggregate compensation was approximately at median for each named executive officer. Accordingly, the Compensation/Nominating Committee approved an average increase in the base salaries of the named executive officers of approximately 2% for 2011, including an increase of 2.17% for Mr. Fuller to $470,000, of 2.15% for Mr. Schmidt to $332,000, of 1.15% for Mr. Erickson to $263,000, of 2.04% for Mr. Horstmann to $250,000 and of 2.67% for Mr. Miller to $154,000.

For 2012, and given repayment of TARP, the Compensation/Nominating Committee determined to return to its historical practice of fixing base salaries at slightly below the median of peers, and paying more of the aggregate compensation in incentive pay. Accordingly, the Committee established 2012 base salaries for four of the named executive officers at the same level as 2011. Mr. Fuller's base salary was set at $470,000 for 2012, Mr. Schmidt's at $332,000, Mr. Erickson's at $263,000, and Mr. Horstmann's at $250,000. Mr. Miller's base salary was increased for 2012 from $154,000 to $163,000.

Performance-Based Plan - Executive Bonuses. Although we have traditionally established an executive incentive plan that pays cash incentives based upon our 1-Year and 5-Year Plans of business operations, the executive compensation restrictions contained in the TARP rules prohibited Heartland from paying or accruing cash incentives on behalf of the top five most highly paid employees (as determined on an annual basis) during the TARP period that ended on September 15, 2011. Each of the named executive officers, other than Mr. Miller, was subject to this cash incentive prohibition during all of 2010 and a portion of 2011 until September 15. Further, although earnings had greatly improved, because Heartland was not expected to reach the stretch budget, and at the suggestion of Mr. Fuller, no incentive pay was granted to the three most highly paid executive officers for the period from September 15, 2011, to December 31, 2011. Messrs. Fuller, Schmidt and Erickson did not receive any cash incentive compensation for 2010 and 2011.

Each of our subsidiary banks establishes an incentive plan for its executive management, but the plan for Mr. Horstmann, as President of Dubuque Bank and Trust Company, was suspended during the period that we were subject to restrictions under TARP: from 2009 through September 15, 2011. The plan provided that, absent TARP restrictions, Mr. Horstmann would have been entitled to a targeted bonus of $112,500 in 2011 equal to 45% of his salary based upon the following criteria:

* 10% of his targeted bonus if Heartland's return on equity for the calendar year equaled or exceeded 9.91%;
* 20% of his targeted bonus if Dubuque Bank and Trust Company's net income for the calendar year 2011 exceeded $16,568,000;
* 20% of his targeted bonus if Dubuque Bank and Trust Company's return on average equity for the calendar year 2011 exceeded 15.0%;
* 35% of his targeted bonus based upon Dubuque Bank and Trust Company's commercial and agricultural loan growth goals. A score of 100% would require Dubuque Bank and Trust Company to achieve $20.0 million in additional commercial and agricultural loans outstanding from the December 31, 2010, balances; and
* 15% of his targeted bonus based upon achievement of Dubuque Bank and Trust Company's demand and savings deposit growth goals. A score of 100% would require Dubuque Bank and Trust Company to achieve $42.9 million in additional year-to-date average demand and savings deposit over the year-to-date average December 31, 2010, balances.

Based on these criteria and the performance of Heartland and Dubuque Bank and Trust Company for 2011, Mr. Horstmann would have been entitled to a bonus of $80,210 for the entire year. Because the TARP restrictions lapsed in September, our Compensation/Nominating Committee granted Mr. Horstmann a bonus of one quarter of this amount or $20,052.

Mr. Miller, the Chief Investment Officer of Heartland, was not one of the five most highly compensated employees subject to TARP restrictions and did participate in the cash incentive plan for the entire fiscal year under which he was entitled to a targeted bonus of up to $53,900 based upon achievement of three corporate goals and several personal goals. The corporate goals for Mr. Miller were as follows:

* 40% of his targeted bonus if Heartland's return on equity for the calendar year equaled or exceeded 9.91%;
* 30% of his targeted bonus if Heartland's investment income was at least 80% of the industry standard mark; and
* 30% of his targeted bonus if Heartland's net interest margin equaled or exceeded 3.97%.

Based on these criteria and the performance of Heartland for 2011, along with the achievement of all his personal goals for 2011, Mr. Miller was granted a bonus of $45,918.

For 2012, and given the elimination of the TARP prohibitions, the Compensation/Nominating Committee has reformulated its performance-based plan and frozen base salaries of the named executive officers at 2011 levels, except for Mr. Miller. Under the 2012 performance-based plan, the named executive officers of Heartland will be entitled to incentive compensation ranging as a percentage of their salaries, at the maximum, from roughly 59% for Mr. Erickson to roughly 81% for Mr. Fuller, based upon achievement of up to six separate performance standards. The performance standards for Mr. Fuller and Mr. Schmidt include specific criteria relative to return on equity (40% weighting), loan growth (20% weighting), deposit growth (20% weighting), non-performing assets (6% weighting), net charge-offs (6% weighting) and 5-year plan achievement by subsidiary banks (8% weighting).

Equity Compensation. The Compensation/Nominating Committee believes that equity compensation is an effective way of creating a long-term link between the compensation provided to officers and other key management personnel with gains to be realized by stockholders. Our equity compensation program is also intended to support pay-for-performance, foster employee stock ownership, and focus the management team on increasing value for the stockholders. In addition, the Compensation/Nominating Committee believes that equity compensation provides balance to the overall compensation program, with the bonus program focusing on the achievement of year-to-year goals, and the equity compensation program creating incentives for increases in stockholder value over a longer term.

Traditionally, we have granted nonqualified stock options and performance-based restricted stock to our officers under our 2005 Long-Term Incentive Plan. TARP compensation limitations, however, effectively prohibited the granting of equity awards to our five most highly compensated employees, other than restricted stock or RSUs that vested over a period of not less than two years, and could not be settled until after repayment of TARP obligations. Accordingly, in both 2010 and 2011, the Compensation/Nominating Committee granted time-based RSUs to the named executive officers, with the following characteristics:

* Represent the right to receive shares of Heartland common stock at a specified date in the future, subject to time-based vesting;
* Vest over five years in three equal installments on the 3rd, 4th, and 5th anniversaries of the grant date (the same vesting period used for previously granted options);
* Will be settled in common stock upon vesting;
* Will not entitle the grantee to dividends until settled;
* Will be forfeited upon termination of employment, except that the RSUs will continue to vest after retirement if retirement occurs after the second anniversary of the grant date; and
* Were subject to a restriction that they could not be settled until TARP had been repaid, which restriction is no longer applicable following our TARP repayment.

Because we exited TARP in 2011, and our 2005 performance-based restricted stock program expired in 2009, the Compensation/Nominating Committee created a new performance-based equity grant program under which awards will be earned based on achievement of Heartland's 5-Year Plan of business operations. The purpose of this program is to drive the achievement of the 5-Year Plan and other long-term business goals, enhance the ability to retain and attract senior leadership talent, provide compensation opportunities tied to long-term service and stockholder value, and reinforce our pay-for-performance and stockholder-alignment philosophy. The program is intended to complement other compensation elements such as salary, annual cash bonus, annual stock awards, perquisites and benefits, and will be used for a select group of executive management at both the holding company and subsidiary levels who are in a position to directly impact the ability to achieve our 5-Year Plan.

Unlike our prior 5-Year performance-based restricted stock program, under which awards were made in a single grant at the beginning of a 5-year performance period, this new program will involve a series of annual grants that have performance measures aligned with each year of our 5-Year Plan. Although the intent of this new program will be to track as closely as possible to the 5-Year Plan performance goals, the Compensation/Nominating Committee will have discretion and complete flexibility to modify the program as Heartland's business or industry changes.

Awards under the new program will be made in the form of RSUs, reflecting the right to receive an unrestricted, freely transferable share of Heartland common stock in the future, provided that certain criteria are met. First, the RSUs must be "earned" by achieving the goals and benchmarks established in the 5-Year Plan; and second, the earned RSUs must become vested, which generally will require a two-year service period. RSUs may be earned under the program based on the achievement of two key performance measures: (1) 70% based on earnings, and (2) 30% based on assets.

The first grants of performance-based RSUs were made to our senior management in October 2011. However, Mr. Fuller recommended that the five most highly compensated executive officers waive participation in this new performance-based RSU program until 2012 when Heartland will have a full calendar year without TARP restrictions. The Compensation/Nominating Committee concurred and in October 2011 granted RSUs to key Heartland and subsidiary executives, excluding Messrs. Fuller, Schmi