

**Report of Organizational Actions
 Affecting Basis of Securities**

▶ See separate instructions.

Part I Reporting Issuer

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|--|--|---|----------------------|
| 1 Issuer's name Heartland Financial USA, Inc. | | 2 Issuer's employer identification number (EIN) 42-1450748 | |
| 3 Name of contact for additional information Jacquie Manternach | 4 Telephone No. of contact 563-583-1993 | 5 Email address of contact jmanternach@htlf.com | |
| 6 Number and street (or P.O. box if mail is not delivered to street address) of contact 1398 Central Avenue | | 7 City, town, or post office, state, and Zip code of contact Dubuque, IA 52001 | |
| 8 Date of action November 16, 2012 | 9 Classification and description Common Stock | | |
| 10 CUSIP number 42234Q1022 | 11 Serial number(s) | 12 Ticker symbol HTLF | 13 Account number(s) |

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ On November 16, 2012, First Shares, Inc. ("First Shares") merged with and into Heartland Financial USA, Inc. ("Heartland") with Heartland surviving.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ For each share of First Shares common stock, shareholders received \$18.37 in cash and 0.8677 shares of Heartland common stock. The aggregate basis in the Heartland stock received will equal the shareholder's aggregate tax basis in the First Shares stock surrendered in the merger, increased by the amount of taxable gain, if any, and decreased by the amount of cash received. Cash received by the shareholders in redemption of First Shares stock is treated as payment for stock and not as a dividend. The holding period for the shares of Heartland common stock received in the merger will include the holding period for the shares of First Shares exchanged.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ As a result of the merger, all of the outstanding shares of common stock of First Shares were converted into shares of common stock of Heartland. The number of shares of Heartland common stock issuable for each First Shares common stock was equal to the quotient of (A) the greater of (x) \$6,200,000 and (y) 4.8% of adjusted tangible assets, divided by (B) the product of (x) the average closing price multiplied by (y) outstanding First Shares common stock.

On November 16, 2012, Heartland closed the purchase of First Shares. Based on the 30-day average closing price of Heartland common shares, First Shares shareholders received 0.8677 shares of Heartland and \$18.37 in cash for each First Shares share tendered. The aggregate purchase price was \$10.9 million.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶
Shareholders of First Shares hold their common stock as capital assets within the meaning of Internal Revenue Code (IRC) section 1221.
The merger qualifies as a reorganization within the meaning of IRC section 368(a).

Under IRC section 1032, Heartland will not recognize gain or loss on the property received in the reorganization. Under IRC section 362(b), Heartland will take a carryover basis in the property, increased by any gain recognized by First Shares. Under IRC section 1223(2), Heartland's holding period in the assets will include First Shares' respective holding periods in the assets. Under IRC section 361(a), First Shares will not recognize any gain or loss on the transfer of property to Heartland.

Under section 356(a)(1), a First Shares shareholder generally will recognize gain but not loss, equal to the lesser of (1) the excess, if any, of the fair market value of Heartland common stock and the amount of cash received over the shareholder's adjusted basis in the First Shares common stock exchanged in the merger or (2) the amount of cash received by the shareholder. The cash received would not be treated as a distribution (356(a)(2) & 302(b)(2)). Under section 358(a), First Shares' shareholders take a basis in the Heartland stock equal to their basis in the First Shares stock, decreased by the amount of cash and property they receive and loss they recognize on the transaction, and increased by the amount of gain they recognize on the transaction. First Shares' shareholders holding period will track under Section 1223(1).

18 Can any resulting loss be recognized? ▶ The merger qualifies as a reorganization within the meaning of Sec. 368(a). First Shares and Heartland will not recognize any gain or loss for U.S. federal income tax purposes. A First Shares shareholder generally will recognize gain but not loss, equal to the lesser of (1) the excess, if any, of the fair market value of Heartland common stock and the amount of cash received over the shareholder's adjusted basis in the First Shares common stock exchanged in the merger or (2) the amount of cash received by the shareholder in the merger.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶
The reportable year is the tax year ended December 31, 2012. See Form 424(B)(3) filed with the SEC on September 20, 2012 for more information.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ▶ *Jacqui Manternach* Date ▶ January 14, 2013
 Print your name ▶ Jacqui Manternach Title ▶ Senior Vice President, Finance

Paid Preparer Use Only

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|---|--|------------------------|---|--------------------------|
| Print/Type preparer's name <u>Janssen</u> | Preparer's signature <u><i>Gary Janssen</i></u> | Date <u>1/14/13</u> | Check <input type="checkbox"/> if self-employed | PTIN <u>P00453528</u> |
| Firm's name ▶ <u>KPMG LLP</u> | Firm's EIN ▶ <u>13-5565207</u> | | Phone no. <u>515-288-7465</u> | |
| Firm's address ▶ <u>666 Grand Avenue, Ste 2500 Des Moines, IA 50309</u> | | | | |