

QCR HOLDINGS INC  
Form 10-Q  
August 14, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ending June 30, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-22208

**QCR HOLDINGS, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**42-1397595**

(I.R.S. Employer Identification No.)

**3551 7<sup>th</sup> Street, Moline, Illinois 61265**

(Address of principal executive offices, including zip code)

**(309) 743-7761**

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

(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 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 "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of August 1, 2013, the Registrant had outstanding 5,807,332 shares of common stock, \$1.00 par value per share.

## QCR HOLDINGS, INC. AND SUBSIDIARIES

INDEX

	Page
	Number(s)
<u>Part I</u> FINANCIAL INFORMATION	
Item 1	
Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets As of June 30, 2013 and December 31, 2012	2
Consolidated Statements of Income For the Three Months Ended June 30, 2013 and 2012	3
Consolidated Statements of Income For the Six Months Ended June 30, 2013 and 2012	4
Consolidated Statements of Comprehensive Income For the Three and Six Months Ended June 30, 2013 and 2012	5
Consolidated Statement of Changes in Stockholders' Equity For the Six Months Ended June 30, 2013 and 2012	6
Consolidated Statements of Cash Flows For the Six Months Ended June 30, 2013 and 2012	7
Notes to the Consolidated Financial Statements	8-27
Item 2	
Management's Discussion and Analysis of Financial Condition and Results of Operations	27-54
Item 3	
Quantitative and Qualitative Disclosures About Market Risk	54-55
Item 4	
Controls and Procedures	56
<u>Part II</u> OTHER INFORMATION	
Item 1	
Legal Proceedings	57

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Item 1A	Risk Factors	57
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 3	Defaults upon Senior Securities	57
Item 4	Mine Safety Disclosures	57
Item 5	Other Information	57
Item 6	Exhibits	58
Signatures		59

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)****As of June 30, 2013 and December 31, 2012**

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$44,316,890	\$61,568,446
Federal funds sold	16,666,000	26,560,000
Interest-bearing deposits at financial institutions	34,573,775	22,359,490
Securities held to maturity, at amortized cost	105,201,749	72,079,385
Securities available for sale, at fair value	598,265,400	530,159,986
Total securities	703,467,149	602,239,371
Loans receivable held for sale	2,083,075	4,577,233
Loans/leases receivable held for investment	1,528,643,027	1,282,810,406
Gross loans/leases receivable	1,530,726,102	1,287,387,639
Less allowance for estimated losses on loans/leases	(21,156,379 )	(19,925,204 )
Net loans/leases receivable	1,509,569,723	1,267,462,435
Premises and equipment, net	39,064,663	31,262,390
Goodwill	3,222,688	3,222,688
Core deposit intangible	3,440,076	-
Bank-owned life insurance	51,078,588	45,620,489
Restricted investment securities	16,875,975	15,747,850
Other real estate owned, net	3,858,629	3,954,538
Other assets	20,637,321	13,732,795
Total assets	\$2,446,771,477	\$2,093,730,492

**LIABILITIES AND STOCKHOLDERS' EQUITY****LIABILITIES**

## Deposits:

Noninterest-bearing	\$493,963,650	\$450,659,723
Interest-bearing	1,222,816,260	923,454,377
Total deposits	1,716,779,910	1,374,114,100
Short-term borrowings	157,186,204	171,082,961
Federal Home Loan Bank advances	209,949,500	202,350,000
Other borrowings	142,644,062	138,239,762
Junior subordinated debentures	40,210,175	36,085,000
Other liabilities	34,555,713	31,424,848
Total liabilities	2,301,325,564	1,953,296,671

**STOCKHOLDERS' EQUITY**

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Preferred stock, \$1 par value; shares authorized 250,000 June 2013 - 54,867 shares issued and outstanding December 2012 - 54,867 shares issued and outstanding	54,867	54,867
Common stock, \$1 par value; shares authorized 20,000,000 June 2013 - 5,918,313 shares issued and 5,797,067 outstanding December 2012 - 5,039,448 shares issued and 4,918,202 outstanding	5,918,313	5,039,448
Additional paid-in capital	91,514,136	78,912,791
Retained earnings	58,786,271	53,326,542
Accumulated other comprehensive income (loss)	(9,221,164 )	4,706,683
Less treasury stock, June 30, 2013 and December 2012 - 121,246 common shares, at cost	(1,606,510 )	(1,606,510 )
Total stockholders' equity	145,445,913	140,433,821
Total liabilities and stockholders' equity	\$2,446,771,477	\$2,093,730,492

See Notes to Consolidated Financial Statements (Unaudited)

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****Three Months Ended June 30,**

	2013	2012
Interest and dividend income:		
Loans/leases, including fees	\$ 16,369,605	\$ 15,973,109
Securities:		
Taxable	2,629,832	2,765,779
Nontaxable	944,100	538,285
Interest-bearing deposits at financial institutions	61,724	92,577
Restricted investment securities	131,151	164,778
Federal funds sold	2,989	-
Total interest and dividend income	20,139,401	19,534,528
Interest expense:		
Deposits	1,176,855	1,629,517
Short-term borrowings	103,435	77,287
Federal Home Loan Bank advances	1,726,622	1,829,120
Other borrowings	1,162,893	1,224,083
Junior subordinated debentures	261,544	259,028
Total interest expense	4,431,349	5,019,035
Net interest income	15,708,052	14,515,493
Provision for loan/lease losses	1,520,137	1,048,469
Net interest income after provision for loan/lease losses	14,187,915	13,467,024
Noninterest income:		
Trust department fees	1,197,181	852,234
Investment advisory and management fees	695,094	679,326
Deposit service fees	1,054,223	875,073
Gains on sales of residential real estate loans	246,621	271,333
Gains on sales government guaranteed portions of loans	765,738	610,988
Securities gains	16,460	104,600
Earnings on bank-owned life insurance	423,883	358,660
Bargain purchase gain on Community National acquisition	1,841,385	-
Credit card issuing fees, net of processing costs	85,017	142,173
Losses on other real estate owned, net	(83,339 )	(389,465 )
Other	706,493	562,587
Total noninterest income	6,948,756	4,067,509
Noninterest expense:		
Salaries and employee benefits	9,186,233	8,255,639
Occupancy and equipment expense	1,586,841	1,364,912

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Professional and data processing fees	1,438,753	1,126,877
FDIC and other insurance	627,390	576,215
Loan/lease expense	251,868	263,166
Advertising and marketing	412,041	344,100
Postage and telephone	257,611	236,942
Stationery and supplies	150,718	135,211
Bank service charges	284,345	198,492
Acquisition costs	432,326	-
Other-than-temporary impairment losses on securities	-	62,400
Other	606,223	545,129
Total noninterest expense	15,234,349	13,109,083
Net income before income taxes	5,902,322	4,425,450
Federal and state income tax expense	1,857,091	1,152,071
Net income	\$4,045,231	\$3,273,379
Less: Net income attributable to noncontrolling interests	-	201,223
Net income attributable to QCR Holdings, Inc.	\$4,045,231	\$3,072,156
Less: Preferred stock dividends	810,838	935,786
Net income attributable to QCR Holdings, Inc. common stockholders	\$3,234,393	\$2,136,370
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$0.60	\$0.44
Diluted	\$0.59	\$0.44
Weighted average common shares outstanding	5,393,062	4,835,773
Weighted average common and common equivalent shares outstanding	5,497,275	4,901,853
Cash dividends declared per common share	\$0.04	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)



**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****Six Months Ended June 30,**

	2013	2012
Interest and dividend income:		
Loans/leases, including fees	\$31,458,432	\$31,943,946
Securities:		
Taxable	5,090,281	5,571,593
Nontaxable	1,746,573	934,111
Interest-bearing deposits at financial institutions	121,478	212,582
Restricted investment securities	256,256	246,100
Federal funds sold	3,863	-
Total interest and dividend income	38,676,883	38,908,332
Interest expense:		
Deposits	2,293,646	3,345,257
Short-term borrowings	167,702	142,231
Federal Home Loan Bank advances	3,459,434	3,693,441
Other borrowings	2,353,648	2,481,476
Junior subordinated debentures	503,084	526,981
Total interest expense	8,777,514	10,189,386
Net interest income	29,899,369	28,718,946
Provision for loan/lease losses	2,577,919	1,828,915
Net interest income after provision for loan/lease losses	27,321,450	26,890,031
Noninterest income:		
Trust department fees	2,236,851	1,735,966
Investment advisory and management fees	1,304,435	1,200,788
Deposit service fees	1,962,046	1,779,479
Gains on sales of residential real estate loans	537,772	562,766
Gains on sales government guaranteed portions of loans	1,610,962	718,645
Security gains	16,460	104,600
Earnings on bank-owned life insurance	862,570	797,062
Bargain purchase gain on Community National acquisition	1,841,385	-
Credit card issuing fees, net of processing costs	134,971	269,188
Losses on other real estate owned, net	(529,969 )	(578,669 )
Other	2,175,302	1,434,562
Total noninterest income	12,152,785	8,024,387
Noninterest expense:		
Salaries and employee benefits	17,928,916	16,380,319
Occupancy and equipment expense	3,015,711	2,717,175

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Professional and data processing fees	2,578,814	2,277,067
FDIC and other insurance	1,183,301	1,157,071
Loan/lease expense	496,959	481,900
Advertising and marketing	676,609	620,116
Postage and telephone	476,302	525,182
Stationery and supplies	261,388	278,177
Bank service charges	559,840	398,221
Acquisition costs	788,904	-
Other-than-temporary impairment losses on securities	-	62,400
Other	1,226,105	949,535
Total noninterest expense	29,192,849	25,847,163
Net income before income taxes	10,281,386	9,067,255
Federal and state income tax expense	2,971,011	2,391,027
Net income	\$7,310,375	\$6,676,228
Less: Net income attributable to noncontrolling interests	-	367,254
Net income attributable to QCR Holdings, Inc.	\$7,310,375	\$6,308,974
Less: Preferred stock dividends	1,621,675	1,874,411
Net income attributable to QCR Holdings, Inc. common stockholders	\$5,688,700	\$4,434,563
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$1.10	\$0.92
Diluted	\$1.08	\$0.91
Weighted average common shares outstanding	5,160,327	4,818,090
Weighted average common and common equivalent shares outstanding	5,265,809	4,867,628
Cash dividends declared per common share	\$0.04	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)****Three and Six Months Ended June 30,**

	Three Months Ended June 30,	
	2013	2012
Net income	\$4,045,231	\$3,273,379
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(21,238,019)	2,114,026
Less reclassification adjustment for gains included in net income before tax	16,460	104,600
	(21,254,479)	2,009,426
Tax expense (benefit)	(8,162,990 )	768,381
Other comprehensive income (loss), net of tax	(13,091,489)	1,241,045
Comprehensive income (loss) attributable to QCR Holdings, Inc.	\$(9,046,258 )	\$4,514,424

	Six Months Ended June 30,	
	2013	2012
Net income	\$ 7,310,375	\$ 6,676,228
Other comprehensive loss:		
Unrealized losses on securities available for sale:		
Unrealized holding losses arising during the period before tax	(22,594,571 )	(346,545 )
Less reclassification adjustment for gains included in net income before tax	16,460	104,600
	(22,611,031 )	(451,145 )
Tax benefit	(8,683,184 )	(174,955 )
	(13,927,847 )	(276,190 )

Other comprehensive  
loss, net of tax

Comprehensive income (loss) attributable to QCR Holdings, Inc.	\$	(6,617,472	)	\$	6,400,038
---	----	------------	---	----	-----------

See Notes to Consolidated Financial Statements (Unaudited)

## QCR HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Six Months Ended June 30, 2013 and 2012

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Treasury Stock	Total
<b>Balance</b>								
<b>December 31, 2012</b>	<b>\$54,867</b>	<b>\$5,039,448</b>	<b>\$78,912,791</b>	<b>\$53,326,542</b>	<b>\$4,706,683</b>	<b>\$-</b>	<b>\$(1,606,510)</b>	<b>\$140,433,821</b>
Net income	-	-	-	3,265,144	-	-	-	3,265,144
Other comprehensive loss, net of tax	-	-	-	-	(836,358 )	-	-	(836,358 )
Preferred cash dividends declared	-	-	-	(810,837 )	-	-	-	(810,837 )
Proceeds from issuance of 5,884 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	5,884	63,487	-	-	-	-	69,371
Proceeds from issuance of 19,278 shares of common stock as a result of stock options exercised	-	19,278	153,550	-	-	-	-	172,828
Exchange of 7,048 shares of common stock in connection with stock	-	(7,048 )	(111,628 )	-	-	-	-	(118,676 )

options exercised								
Stock compensation expense	-	-	293,798					293,798
Tax benefit of nonqualified stock options exercised	-	-	35,251	-	-	-	-	35,251
Restricted stock awards	-	16,798	(16,798 )	-	-	-	-	-
Exchange of 16,798 shares of common stock in connection with restricted stock vested, net	-	(16,798 )	(289,113 )	-	-	-	-	(305,911 )
<b>Balance</b>								
<b>March 31, 2013</b>	<b>\$54,867</b>	<b>\$5,057,562</b>	<b>\$79,041,338</b>	<b>\$55,780,849</b>	<b>\$3,870,325</b>	<b>\$-</b>	<b>\$(1,606,510)</b>	<b>\$142,198,431</b>
Net income	-	-	-	4,045,231	-	-	-	4,045,231
Other comprehensive loss, net of tax	-	-	-	-	(13,091,489)	-	-	(13,091,489 )
Common cash dividends declared, \$0.04 per share	-	-	-	(228,971 )	-	-	-	(228,971 )
Preferred cash dividends declared	-	-	-	(810,838 )	-	-	-	(810,838 )
Issuance of 834,715 shares of common stock as a result of the acquisition of Community National Bancorporation, net	-	834,715	12,181,894	-	-	-	-	13,016,609
Proceeds from issuance of 9,560 shares of common stock as a result of stock purchased under the Employee Stock Purchase	-	9,560	104,221	-	-	-	-	113,781

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Plan								
Proceeds from issuance of 3,769 shares of common stock as a result of stock options exercised	-	3,769	33,070	-	-	-	-	36,839
Stock compensation expense	-	-	162,123					162,123
Tax benefit of nonqualified stock options exercised	-	-	4,197	-	-	-	-	4,197
Restricted stock awards	-	12,707	(12,707 )	-	-	-	-	-
<b>Balance June 30, 2013</b>	<b>\$54,867</b>	<b>\$5,918,313</b>	<b>\$91,514,136</b>	<b>\$58,786,271</b>	<b>\$(9,221,164 )</b>	<b>\$-</b>	<b>\$(1,606,510)</b>	<b>\$145,445,913</b>

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Treasury Stock	Total
<b>Balance December 31, 2011</b>	<b>\$65,090</b>	<b>\$4,879,435</b>	<b>\$89,702,533</b>	<b>\$44,585,902</b>	<b>\$4,754,714</b>	<b>\$2,051,538</b>	<b>\$(1,606,510)</b>	<b>\$144,432,7</b>
Net income	-	-	-	3,236,818	-	166,031	-	3,402,849
Other comprehensive loss, net of tax	-	-	-	-	(1,517,235)	-	-	(1,517,235)
Preferred cash dividends declared	-	-	-	(938,625 )	-	-	-	(938,625)
Proceeds from issuance of 7,767 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	7,767	55,566	-	-	-	-	63,333
	-	276	2,374	-	-	-	-	2,650

Proceeds from issuance of 276 shares of common stock as a result of stock options exercised								
Exchange of 576 shares of common stock in connection with payroll taxes for restricted stock	-	(576 )	(2,103 )	-	-	-	-	(2,679)
Stock compensation expense	-	-	326,245					326,245
Restricted stock awards	-	57,770	(57,770 )	-	-	-	-	-
Other adjustments to noncontrolling interests	-	-	-	-	-	(2,066 )	-	(2,066)
<b>Balance March 31, 2012</b>	<b>\$65,090</b>	<b>\$4,944,672</b>	<b>\$90,026,845</b>	<b>\$46,884,095</b>	<b>\$3,237,479</b>	<b>\$2,215,503</b>	<b>\$(1,606,510)</b>	<b>\$145,767,1</b>
Comprehensive income:								
Net income	-	-	-	3,072,156	-	201,223	-	3,273,379
Other comprehensive income, net of tax	-	-	-	-	1,241,045	-	-	1,241,045
<b>Comprehensive income</b>								<b>4,514,424</b>
Common cash dividends declared, \$0.04 per share	-	-	-	(189,091 )	-	-	-	(189,091)
Preferred cash dividends declared	-	-	-	(935,786 )	-	-	-	(935,786)
Redemption of 10,223 shares of Series F Noncumulative Perpetual Preferred Stock	(10,223)	-	(10,212,777)	-	-	-	-	(10,223,0
Proceeds from issuance of 10,856 shares of common stock	-	10,856	78,055	-	-	-	-	88,911



as a result of stock purchased under the Employee Stock Purchase Plan Proceeds from issuance of 9,090 shares of common stock	-	9,090	79,902	-	-	-	-	88,992
as a result of stock options exercised Exchange of 611 shares of common stock in connection with stock options exercised Proceeds from exercise of warrants to purchase 4,300 shares of common stock issued in conjunction with the Series A Subordinated Notes Stock compensation expense Other adjustments to noncontrolling interests	-	(611 )	(7,125 )	-	-	-	-	(7,736)
	-	4,300	38,700	-	-	-	-	43,000
	-	-	177,269	-	-	-	-	177,269
	-	-	-	-	-	(2,065 )	-	(2,065)
<b>Balance June 30, 2012</b>	<b>\$54,867</b>	<b>\$4,968,307</b>	<b>\$80,180,869</b>	<b>\$48,831,374</b>	<b>\$4,478,524</b>	<b>\$2,414,661</b>	<b>\$(1,606,510)</b>	<b>\$139,322,0</b>

See Notes to Consolidated Financial Statements (Unaudited)

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****Six Months Ended June 30,**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$7,310,375	\$6,676,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,280,550	1,198,809
Provision for loan/lease losses	2,577,919	1,828,915
Stock-based compensation expense	455,921	503,514
Losses on other real estate owned, net	529,969	578,669
Amortization of premiums on securities, net	1,972,391	2,050,358
Securities gains	(16,460 )	(104,600 )
Other-than-temporary impairment losses on securities	-	62,400
Loans originated for sale	(52,272,708 )	(51,881,417 )
Proceeds on sales of loans	56,915,600	52,645,621
Gains on sales of residential real estate loans, net	(537,772 )	(562,766 )
Gains on sales of government guaranteed portions of loans, net	(1,610,962 )	(718,645 )
Increase in cash value of bank-owned life insurance	(862,570 )	(797,062 )
Bargain purchase gain on Community National acquisition	(1,841,385 )	-
Decrease (increase) in other assets	6,556,417	(6,150,757 )
Decrease in other liabilities	(797,225 )	(734,316 )
Net cash provided by operating activities	\$19,660,060	\$4,594,951
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease in federal funds sold	22,229,000	17,160,000
Net increase in interest-bearing deposits at financial institutions	(10,189,746 )	(1,701,827 )
Proceeds from sales of other real estate owned	303,766	814,071
Activity in securities portfolio:		
Purchases	(238,534,747)	(311,369,517)
Calls, maturities and redemptions	124,663,560	201,683,047
Paydowns	27,762,742	14,403,547
Sales	6,167,531	19,215,075
Activity in restricted investment securities:		
Purchases	(4,818,750 )	(1,003,850 )
Redemptions	4,950,000	1,033,100
Net increase in loans/leases originated and held for investment	(51,708,379 )	(16,077,756 )
Purchase of premises and equipment	(950,802 )	(898,464 )
Net cash received from Community National acquisition	3,025,073	-
Net cash used in investing activities	\$(117,100,752)	\$(76,742,574 )

(Continued)

7

---

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued****Six Months Ended June 30,**

	2013	2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net decrease in deposits	87,620,739	110,012,711
Net decrease in short-term borrowings	(13,896,757 )	(28,137,412 )
Activity in Federal Home Loan Bank advances:		
Advances	119,000,000	14,000,000
Calls and maturities	(111,400,500)	(15,000,000 )
Proceeds from other borrowings term note	10,000,000	-
Advance (payment) on 364-day revolving note, net	(5,600,000 )	2,000,000
Repayment of Community National's other borrowings at acquisition	(3,950,000 )	-
Payment of cash dividends on common and preferred stock	(1,813,624 )	(2,278,183 )
Redemption of 10,223 shares of Series F Noncumulative Perpetual Preferred Stock	-	(10,223,000 )
Proceeds from issuance of common stock, net	229,278	276,471
Net cash provided by financing activities	\$80,189,136	\$70,650,587
Net decrease in cash and due from banks	(17,251,556 )	(1,497,036 )
Cash and due from banks, beginning	61,568,446	53,136,710
Cash and due from banks, ending	\$44,316,890	\$51,639,674
<b>Supplemental disclosure of cash flow information, cash payments for:</b>		
Interest	\$8,897,240	\$10,343,656
Income/franchise taxes	\$1,031,120	\$881,000
<b>Supplemental schedule of noncash investing activities:</b>		
Change in accumulated other comprehensive income (loss), unrealized losses on securities available for sale, net	\$(13,927,847 )	\$(276,190 )
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(424,587 )	\$(10,415 )
Transfers of loans to other real estate owned	\$187,500	\$2,143,017
<b>Supplemental disclosure of cash flow information for Community National acquisition:</b>		
<b>Fair value of assets acquired:</b>		
Cash and due from banks *	\$9,286,757	\$-
Federal funds sold	12,335,000	-
Interest-bearing deposits at financial institutions	2,024,539	-
Securities available for sale	45,853,826	-
Loans/leases receivable held for investment, net	195,658,486	-
Premises and equipment, net	8,132,021	-
Core deposit intangible	3,440,076	-
Bank-owned life insurance	4,595,529	-

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Restricted investment securities	1,259,375	-
Other real estate owned	550,326	-
Other assets	5,178,583	-
Total assets acquired	\$288,314,518	\$-
<b>Fair value of liabilities assumed:</b>		
Deposits	\$255,045,071	\$-
Other borrowings	3,950,000	-
Junior subordinated debentures	4,125,175	-
Other liabilities	3,911,053	-
Total liabilities assumed	\$267,031,299	\$-
Net assets acquired	\$21,283,219	\$-
<b>Consideration paid:</b>		
Cash paid *	\$6,261,684	\$-
Issuance of 834,715 shares of common stock	13,180,150	-
Total consideration paid	\$19,441,834	\$-
Bargain purchase gain	\$1,841,385	\$-

\* Net cash received at closing totaled \$3,025,073

See Notes to Consolidated Financial Statements (Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2012, including QCR Holdings, Inc.'s (the "Company") Form 10-K filed with the Securities and Exchange Commission on March 11, 2013. Accordingly, footnote disclosures, which would substantially duplicate the disclosures contained in the audited consolidated financial statements, have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results of the interim period ended June 30, 2013, are not necessarily indicative of the results expected for the year ending December 31, 2013.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include four commercial banks: Quad City Bank & Trust Company ("QCBT"), Cedar Rapids Bank & Trust Company ("CRBT"), Rockford Bank & Trust Company ("RB&T"), and Community National Bank ("CNB"). On May 13, 2013, the Company acquired Community National Bancorporation ("Community National") and CNB. See Note 2 for additional information on the acquisition. QCBT, CRBT, and RB&T are all state-chartered commercial banks; while CNB is a national-chartered commercial bank. The Company also engages in direct financing lease contracts through its wholly-owned equity investment by QCBT in m2 Lease Funds, LLC ("m2 Lease Funds"). All material intercompany transactions and balances have been eliminated in consolidation.

Recent accounting developments: In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-11, *Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, FASB issued ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. Both ASU 2011-11 and ASU 2013-01 were effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. Adoption did not have a significant impact on the Company’s consolidated financial statements.

In February 2013, FASB issued ASU 2013-02, *Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. ASU 2013-02 supersedes and replaces the presentation requirements for reclassifications out of accumulated other comprehensive income (“AOCI”) in ASUs 2011-05 and 2011-12, which were adopted by the Company during the current year. The amendments require an entity to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required. Adoption did not have a significant impact on the Company’s consolidated financial statements.

In July 2013, FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Management is in the process of evaluating the impact of ASU 2013-11 on the Company’s consolidated financial statements.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified, with no effect on net income or stockholders’ equity, to conform with the current period presentation.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 2 – ACQUISITION OF COMMUNITY NATIONAL BANCORPORATION AND COMMUNITY NATIONAL BANK

On May 13, 2013, the Company acquired 100% of Community National's outstanding common stock for aggregate consideration totaling \$19,441,834, which consisted of 834,715 shares of QCR Holdings common stock valued at \$13,180,150 and cash of \$6,261,684. Community National was the bank holding company providing bank and bank related services through its wholly-owned bank subsidiary, CNB. CNB is a commercial bank headquartered in Waterloo, Iowa and serves Waterloo, Cedar Falls, and Mason City, Iowa and Austin, Minnesota. As a de novo bank, CNB commenced its operations in 1997. The Company has operated CNB as a separate banking charter since the acquisition.

The Company accounted for the business combination under the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805, “Business Combinations” (“ASC 805”). The Company recognized the full fair value of the assets acquired and liabilities assumed at the acquisition date, net of applicable income tax effects. The excess of fair value of net assets over the carrying value is recorded as bargain purchase gain which is included in noninterest income on the statement of income. The market value adjustments are accreted or amortized on a level yield basis over the expected term. Additionally, the Company recorded a core deposit intangible totaling \$3,440,076 which is the portion of the acquisition purchase price which represents the value assigned to the existing deposit base. The core deposit intangible has a finite life and is amortized by the straight-line method over the estimated useful life of the deposits.

The Company's acquired loans were recorded at fair value at the acquisition date and no separate valuation allowance was established. The initial fair value was determined with the assistance of a valuation specialist that discounted expected cash flows at appropriate rates. The discount rates were based on market rates for new originations of comparable loans and did not include a factor for credit losses as that was included in the estimated cash flows. ASC Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality”, applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. If both conditions exist, the Company determines whether to account for each loan individually or whether such loans will be assembled into pools based on common risk characteristics such as credit score, loan type, and origination date. Based on this evaluation, the Company determined that the loans acquired from the Community National acquisition subject to ASC Topic 310-30 would be accounted for individually. At the acquisition date, the historical cost and fair value of these loans totaled \$3,033,022



and \$2,207,891, respectively.

The Company considered expected prepayments and estimated the total expected cash flows, which includes undiscounted expected principal and interest. The excess of that amount over the fair value of the loan is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the expected life of the loan. The excess of the contractual cash flows over expected cash flows is referred to as nonaccretable difference and is not accreted into income. Over the life of the loan, the Company continues to estimate expected cash flows. Subsequent decreases in expected cash flows are recognized as impairments in the current period through the allowance for loan losses. Subsequent increases in cash flows to be collected are first used to reverse any existing valuation allowance and any remaining increase is recognized prospectively through an adjustment of the loan's yield over its remaining life. At the acquisition date, accretable yield totaled \$4,128,315 and nonaccretable yield totaled \$397,894.

The Company assumed junior subordinated debentures with principal outstanding of \$6,702,000 and fair value of \$4,125,175 after a discount of \$2,576,825. The initial fair value was determined with the assistance of a valuation specialist that discounted expected cash flows at appropriate rates. The discount will be accreted as interest expense on a level yield basis over the expected remaining term of the junior subordinated debentures.

Results of the operations of the acquired business are included in the income statement from the effective date of the acquisition.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The fair values of the assets acquired and liabilities assumed including the consideration paid and resulting bargain purchase gain is as follows:

	As of
	May 13, 2013
<b>ASSETS</b>	
Cash and due from banks	\$9,286,757
Federal funds sold	12,335,000
Interest-bearing deposits at financial institutions	2,024,539
Securities available for sale	45,853,826
Loans/leases receivable, net	195,658,486
Premises and equipment	8,132,021
Core deposit intangible	3,440,076
Bank-owned life insurance	4,595,529
Restricted investment securities	1,259,375
Other real estate owned	550,326
Other assets	5,178,583
Total assets acquired	\$288,314,518
<b>LIABILITIES</b>	
Deposits	\$255,045,071
Other borrowings	3,950,000
Junior subordinated debentures	4,125,175
Other liabilities	3,911,053
Total liabilities assumed	\$267,031,299
Net assets acquired	\$21,283,219
<b>CONSIDERATION PAID:</b>	
Cash	\$6,261,684
Issuance of 834,715 shares of common stock	13,180,150
Total consideration paid	\$19,441,834
Bargain purchase gain	\$1,841,385

In order to fund the cash portion of the consideration and pay off the \$3,950,000 of Community National term debt at acquisition, the Company borrowed \$4,400,000 on its 364-day revolving credit note. The outstanding balance on the 364-day revolving credit note totaled \$10,000,000 until maturity at June 26, 2013. Upon maturity, the credit facility was restructured whereby the \$10,000,000 of outstanding debt was restructured into a secured 3-year term note with principal due quarterly and interest due monthly where the interest is calculated at the effective LIBOR rate plus 3.00% per annum (3.30% at June 30, 2013). Additionally, as part of the restructure, the Company maintained a secured 364-day revolving credit note with availability of \$10,000,000 where the interest is calculated at the effective LIBOR rate plus 2.50% per annum. At June 30, 2013, the Company had not borrowed on this revolving credit note and had the full amount available.

The current note agreement contains certain covenants that place restrictions on additional debt and stipulate minimum capital and various asset quality and operating ratios.

The Company recorded a bargain purchase gain on the acquisition totaling \$1,841,385 as the market value of the net assets acquired from Community National exceeded the total consideration paid. The consideration paid approximated a slight premium to the book value of Community National's net assets at acquisition. The net impact of the market value adjustments resulted in a net increase to Community National's net assets. The more significant market value adjustments were the core deposit intangible (\$3,440,076) and the discount on the trust preferred securities (\$2,576,825), as previously discussed.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Unaudited combined pro forma operating results for the three and six months ended June 30, 2013 and 2012, giving effect to the Community National acquisition as if it had occurred as of January 1, 2012, are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Interest income	\$21,275,698	\$22,056,089	\$42,364,836	\$43,963,029
Noninterest income	\$5,511,338	\$4,885,073	\$11,339,794	\$9,472,182
Net income	\$1,945,117	\$3,610,172	\$5,476,700	\$7,153,770
Net income attributable to QCR Holdings, Inc. common stockholders	\$1,134,279	\$2,473,163	\$3,855,025	\$4,912,105
Earnings per common share attributable to QCR Holdings, Inc. common stockholders				
Basic	\$0.21	\$0.46	\$0.71	\$0.91
Diluted	\$0.21	\$0.45	\$0.70	\$0.89

The pro forma results exclude the impact of the bargain purchase gain of \$1,841,385. Additionally, the pro forma results do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on January 1, 2012 or of future results of operations of the consolidated entities.

On June 4, 2013, CNB signed a definitive agreement to sell certain assets and liabilities of the two Mason City branches of CNB. CNB will sell deposits of approximately \$62 million and loans of approximately \$26 million. The proposed transaction, which is subject to regulatory approval and customary closing conditions, is expected to be completed in the fourth quarter of 2013.

On July 8, 2013, CNB signed a definitive agreement to sell certain assets and liabilities of the two Austin, Minnesota branches of CNB. CNB will sell deposits of approximately \$37 million and loans of approximately \$31 million. The proposed transaction, which is subject to regulatory approval and customary closing conditions, is expected to be completed in the fourth quarter of 2013.

Based on the premiums the Company expects to receive at the closing of these two transactions, net of the core deposit intangible associated with the Austin and Mason City branches totaling approximately \$1.4 million, the Company anticipates recognizing a pre-tax gain of approximately \$1.5 million in the fourth quarter of 2013. The gain is a premium on the deposits; therefore, it is dependent upon the amount of deposits sold at closing.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of June 30, 2013 and December 31, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<b>June 30, 2013:</b>				
Securities held to maturity:				
Municipal securities	\$ 104,551,749	\$ 152,017	\$(5,853,172 )	\$ 98,850,594
Other securities	650,000	-	-	650,000
	\$ 105,201,749	\$ 152,017	\$(5,853,172 )	\$ 99,500,594
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 395,513,928	\$ 238,359	\$(14,836,396)	\$ 380,915,891
Residential mortgage-backed and related securities	179,822,160	1,807,687	(3,084,293 )	178,545,554
Municipal securities	36,478,946	1,102,715	(752,811 )	36,828,850
Trust preferred securities	86,200	130,000	-	216,200
Other securities	1,362,730	396,393	(218 )	1,758,905
	\$ 613,263,964	\$ 3,675,154	\$(18,673,718)	\$ 598,265,400
<b>December 31, 2012:</b>				
Securities held to maturity:				
Municipal securities	\$ 71,429,385	\$ 997,969	\$(71,648 )	\$ 72,355,706
Other securities	650,000	-	-	650,000
	\$ 72,079,385	\$ 997,969	\$(71,648 )	\$ 73,005,706
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 336,570,995	\$ 2,198,655	\$(160,279 )	\$ 338,609,371
Residential mortgage-backed and related securities	160,035,196	3,736,821	(170,914 )	163,601,103
Municipal securities	24,508,015	1,696,555	(18,834 )	26,185,736

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Trust preferred securities	86,200	53,200	-	139,400
Other securities	1,347,113	300,732	(23,469 )	1,624,376
	\$522,547,519	\$7,985,963	\$(373,496 )	\$530,159,986

The Company's held to maturity municipal securities consist largely of private issues of municipal debt. The municipalities are located within the Midwest with a portion in or adjacent to the communities of QCBT and CRBT. The municipal debt investments are underwritten using specific guidelines with ongoing monitoring.

The Company's residential mortgage-backed and related securities portfolio consists entirely of government sponsored or government guaranteed securities. The Company has not invested in commercial mortgage-backed securities or pooled trust preferred securities.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2013 and December 31, 2012, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
		Losses		Losses		Losses
<b>June 30, 2013:</b>						
Securities held to maturity:						
Municipal securities	\$88,263,477	\$(5,853,172 )	\$-	\$-	\$88,263,477	\$(5,853,172 )
Securities available for sale:						
U.S. govt. sponsored agency securities	\$351,380,421	\$(14,836,396 )	\$-	\$-	\$351,380,421	\$(14,836,396 )
Residential mortgage-backed and related securities	102,856,893	(3,054,077 )	2,065,109	(30,216 )	104,922,002	(3,084,293 )
Municipal securities	14,212,014	(752,811 )	-	-	14,212,014	(752,811 )
Other securities	-	-	241,345	(218 )	241,345	(218 )
	\$468,449,328	\$(18,643,284 )	\$2,306,454	\$(30,434 )	\$470,755,782	\$(18,673,718 )
<b>December 31, 2012:</b>						
Securities held to maturity:						
Municipal securities	\$4,282,352	\$(71,648 )	\$-	\$-	\$4,282,352	\$(71,648 )
Securities available for sale:						
U.S. govt. sponsored agency securities	\$55,621,718	\$(160,279 )	\$-	\$-	\$55,621,718	\$(160,279 )
Residential mortgage-backed and related securities	29,324,928	(170,914 )	-	-	29,324,928	(170,914 )
Municipal securities	1,039,625	(18,834 )	-	-	1,039,625	(18,834 )
Other securities	-	-	217,500	(23,469 )	217,500	(23,469 )
	\$85,986,271	\$(350,027 )	\$217,500	\$(23,469 )	\$86,203,771	\$(373,496 )



At June 30, 2013, the investment portfolio included 533 securities. Of this number, 350 securities had current unrealized losses with aggregate depreciation of less than 5% from the total amortized cost basis. Of these 350, only three had unrealized losses for twelve months or more and the amount of the unrealized losses was only \$30,434. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery. At June 30, 2013 and December 31, 2012, equity securities represented less than 1% of the total portfolio.

The Company did not recognize other-than-temporary impairment on any debt securities for the three and six months ended June 30, 2013 and 2012.

The Company did not recognize other-than-temporary impairment on any equity securities for the three and six months ended June 30, 2013. During the second quarter of 2012, the Company's evaluation determined that one privately held equity security experienced a decline in fair value that was other-than-temporary. As a result, the Company wrote down the value of this security and recognized a loss in the amount of \$62,400. The Company did not recognize other-than-temporary impairment on any equity securities during the first quarter of 2012.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and six months ended June 30, 2013 and 2012, respectively, were from securities identified as available-for-sale. Information on proceeds received, as well as pre-tax gross gains from sales on those securities is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Proceeds from sales of securities	\$6,167,531	\$19,215,075	\$6,167,531	\$19,215,075
Pre-tax gross gains from sales of securities	16,460	104,600	16,460	104,600

The amortized cost and fair value of securities as of June 30, 2013 by contractual maturity are shown below. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed and related securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" are excluded from the maturity categories as there is no fixed maturity date for those securities.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	\$1,785,269	\$1,784,577
Due after one year through five years	10,214,545	10,126,030
Due after one year through five years	93,201,935	87,589,987
	\$105,201,749	\$99,500,594
Securities available for sale:		
Due in one year or less	\$5,334,543	\$5,329,272
Due after one year through five years	33,501,636	33,339,485
Due after five years	393,242,895	379,292,184
	\$432,079,074	\$417,960,941
Residential mortgage-backed and related securities	179,822,160	178,545,554
Other securities	1,362,730	1,758,905

\$613,263,964 \$598,265,400

Portions of the U.S. government sponsored agency securities and municipal securities contain call options, at the discretion of the issuer, to terminate the security at predetermined dates prior to the stated maturity, summarized as follows:

	Amortized Cost	Fair Value
Securities held to maturity:		
Municipal securities	\$69,862,451	\$65,051,896
Securities available for sale:		
U.S. govt. sponsored agency securities	355,831,837	342,070,506
Municipal securities	22,786,922	22,750,101
	\$378,618,759	\$364,820,607

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of June 30, 2013 and December 31, 2012 is presented as follows:

	As of June 30, 2013	As of December 31, 2012
Commercial and industrial loans	\$470,416,356	\$394,244,252
Commercial real estate loans		
Owner-occupied commercial real estate	266,927,092	204,911,308
Commercial construction, land development, and other land	48,013,677	44,962,381
Other non owner-occupied commercial real estate	409,065,105	344,105,550
	724,005,874	593,979,239
Direct financing leases *	114,754,757	103,685,656
Residential real estate loans **	143,093,342	115,581,573
Installment and other consumer loans	74,568,755	76,720,514
	1,526,839,084	1,284,211,234
Plus deferred loan/lease origination costs, net of fees	3,887,018	3,176,405
	1,530,726,102	1,287,387,639
Less allowance for estimated losses on loans/leases	(21,156,379 )	(19,925,204 )
	\$1,509,569,723	\$1,267,462,435
* Direct financing leases:		
Net minimum lease payments to be received	\$129,915,909	\$117,719,380
Estimated unguaranteed residual values of leased assets	1,344,853	1,095,848
Unearned lease/residual income	(16,506,005 )	(15,129,572 )
	114,754,757	103,685,656
Plus deferred lease origination costs, net of fees	4,318,828	3,907,140
	119,073,585	107,592,796
Less allowance for estimated losses on leases	(2,187,605 )	(1,990,395 )

\$116,885,980    \$105,602,401

Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors and management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal. There were no losses related to residual values for the three and six months ended June 30, 2013 and 2012.

\*\*Includes residential real estate loans held for sale totaling \$2,083,075 and \$4,577,233 as of June 30, 2013, and December 31, 2012, respectively.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The aging of the loan/lease portfolio by classes of loans/leases as of June 30, 2013 and December 31, 2012 is presented as follows:

Classes of Loans/Leases	As of June 30, 2013					Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	
Commercial and Industrial	\$465,430,639	\$1,349,678	\$262,201	\$ -	\$3,373,838	\$470,416,356
Commercial Real Estate Owner-Occupied	259,065,675	193,040	77,828	-	7,590,549	266,927,092
Commercial Construction, Land Development, and Other Land	46,609,905	-	270,796	-	1,132,976	48,013,677
Other Non Owner-Occupied Commercial Real Estate	392,880,893	1,851,491	1,695,414	-	12,637,307	409,065,105
Direct Financing Leases	112,797,068	998,918	258,197	-	700,574	114,754,757
Residential Real Estate	141,298,113	369,329	149,816	-	1,276,084	143,093,342
Installment and Other Consumer	73,194,203	283,495	16,932	3,248	1,070,877	74,568,755
	\$1,491,276,496	\$5,045,951	\$2,731,184	\$3,248	\$27,782,205	\$1,526,839,084
As a percentage of total loan/lease portfolio	97.67	% 0.33	% 0.18	% 0.00	% 1.82	% 100.00

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Classes of Loans/Leases	As of December 31, 2012					Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	
Commercial and Industrial	\$388,825,307	\$3,724,506	\$9,940	\$120,000	\$1,564,499	\$394,244,252
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	204,141,070	142,993	-	-	627,245	204,911,308
Commercial Construction, Land Development, and Other Land	42,180,819	-	-	-	2,781,562	44,962,381
Other Non Owner-Occupied Commercial Real Estate	332,644,532	86,986	1,111,856	-	10,262,176	344,105,550
Direct Financing Leases	101,635,084	877,210	174,560	-	998,802	103,685,656
Residential Real Estate	111,993,859	2,254,730	283,466	-	1,049,518	115,581,573
Installment and Other Consumer	75,711,203	301,025	20,112	39,481	648,693	76,720,514
	\$1,257,131,874	\$7,387,450	\$1,599,934	\$159,481	\$17,932,495	\$1,284,211,234
As a percentage of total loan/lease portfolio	97.89	% 0.58	% 0.12	% 0.01	% 1.40	% 100.00

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Nonperforming loans/leases by classes of loans/leases as of June 30, 2013 and December 31, 2012 is presented as follows:

Classes of Loans/Leases	As of June 30, 2013					Percentage of Total Nonperforming Loans/Leases
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *	Troubled Debt Restructurings - Accruing	Total Nonperforming Loans/Leases		
Commercial and Industrial Commercial Real Estate	\$-	\$ 3,373,838	\$ 893,875	\$ 4,267,713	14.24	%
Owner-Occupied Commercial Real Estate	-	7,590,549	47,958	7,638,507	25.49	%
Commercial Construction, Land Development, and Other Land	-	1,132,976	300,000	1,432,976	4.78	%
Other Non Owner-Occupied Commercial Real Estate	-	12,637,307	269,327	12,906,634	43.08	%
Direct Financing Leases	-	700,574	-	700,574	2.34	%
Residential Real Estate	-	1,276,084	296,436	1,572,520	5.25	%
Installment and Other Consumer	3,248	1,070,877	370,000	1,444,125	4.82	%
	\$3,248	\$ 27,782,205	\$ 2,177,596	\$ 29,963,049	100.00	%

\*Nonaccrual loans/leases includes \$7,740,416 of troubled debt restructurings, including \$145,914 in commercial and industrial loans, \$6,934,208 in commercial real estate loans, \$379,769 in residential real estate loans, and \$280,525 in installment loans.

Classes of Loans/Leases	As of December 31, 2012					Percentage of Total Nonperforming Loans/Leases
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases **	Troubled Debt Restructurings - Accruing	Total Nonperforming Loans/Leases		



Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Commercial and Industrial Commercial Real Estate	\$ 120,000	\$ 1,564,499	\$ 184,084	\$ 1,868,583	7.36	%
Owner-Occupied Commercial Real Estate	-	627,245	-	627,245	2.47	%
Commercial Construction, Land Development, and Other Land	-	2,781,562	1,016,023	3,797,585	14.96	%
Other Non Owner-Occupied Commercial Real Estate	-	10,262,176	5,820,765	16,082,941	63.34	%
Direct Financing Leases	-	998,802	-	998,802	3.93	%
Residential Real Estate	-	1,049,518	167,739	1,217,257	4.79	%
Installment and Other Consumer	39,481	648,693	110,982	799,156	3.15	%
	\$ 159,481	\$ 17,932,495	\$ 7,299,593	\$ 25,391,569	100.00	%

\*\*Nonaccrual loans/leases includes \$5,658,781 of troubled debt restructurings, including \$99,804 in commercial and industrial loans, \$5,173,589 in commercial real estate loans, \$64,722 in residential real estate loans, and \$320,666 in installment loans.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance for estimated losses on loans/leases by portfolio segment for the three and six months ended June 30, 2013 and 2012, respectively, are presented as follows:

## Three Months Ended June 30, 2013

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,466,264	\$12,188,953	\$2,296,523	\$966,336	\$851,386	\$20,769,462
Provisions charged to expense	348,298	672,077	340,137	195,774	(36,149 )	1,520,137
Loans/leases charged off	(38,685 )	(820,725 )	(449,622 )	-	(23,875 )	(1,332,907 )
Recoveries on loans/leases previously charged off	14,951	150,192	567	3,231	30,746	199,687
Balance, ending	\$4,790,828	\$12,190,497	\$2,187,605	\$1,165,341	\$822,108	\$21,156,379

## Three Months Ended June 30, 2012

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,585,467	\$10,855,442	\$1,366,528	\$963,157	\$1,236,050	\$19,006,644
Provisions charged to expense	(683,718 )	1,275,510	258,469	23,557	174,651	1,048,469
Loans/leases charged off	(79,334 )	(1,427,987 )	(27,543 )	-	(199,935 )	(1,734,799 )
Recoveries on loans/leases previously charged off	358,377	7,026	13,545	-	25,273	404,221
Balance, ending	\$4,180,792	\$10,709,991	\$1,610,999	\$986,714	\$1,236,039	\$18,724,535

## Six Months Ended June 30, 2013

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
--	---------------------------------	---------------------------	-------------------------------	----------------------------	--------------------------------------	-------

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Balance, beginning	\$4,531,545	\$11,069,502	\$1,990,395	\$1,070,328	\$1,263,434	\$19,925,204
Provisions charged to expense	260,491	1,786,371	718,760	204,673	(392,376 )	2,577,919
Loans/leases charged off	(38,900 )	(820,725 )	(522,671 )	(112,891 )	(140,487 )	(1,635,674 )
Recoveries on loans/leases previously charged off	37,692	155,349	1,121	3,231	91,537	288,930
Balance, ending	\$4,790,828	\$12,190,497	\$2,187,605	\$1,165,341	\$822,108	\$21,156,379

Six Months Ended June 30, 2012

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,878,006	\$10,596,958	\$1,339,496	\$704,946	\$1,269,856	\$18,789,262
Provisions charged to expense	(774,618 )	1,533,374	573,915	286,525	209,719	1,828,915
Loans/leases charged off	(455,742 )	(1,427,987 )	(343,264 )	(4,757 )	(327,801 )	(2,559,551 )
Recoveries on loans/leases previously charged off	533,146	7,646	40,852	-	84,265	665,909
Balance, ending	\$4,180,792	\$10,709,991	\$1,610,999	\$986,714	\$1,236,039	\$18,724,535

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance for estimated losses on loans/leases by impairment evaluation and by portfolio segment as of June 30, 2013 and December 31, 2012 is presented as follows:

	As of June 30, 2013						
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	
Allowance for loans/leases individually evaluated for impairment	\$1,039,328	\$4,303,557	\$116,077	\$90,235	\$35,927	\$5,585,124	
Allowance for loans/leases collectively evaluated for impairment	3,751,500	7,886,940	2,071,528	1,075,106	786,181	15,571,255	
	\$4,790,828	\$12,190,497	\$2,187,605	\$1,165,341	\$822,108	\$21,156,379	
Loans/leases individually evaluated for impairment	\$2,907,420	\$18,873,036	\$700,574	\$1,572,520	\$1,440,877	\$25,494,427	
Loans/leases collectively evaluated for impairment	467,508,936	705,132,838	114,054,183	141,520,822	73,127,878	1,501,344,657	
	\$470,416,356	\$724,005,874	\$114,754,757	\$143,093,342	\$74,568,755	\$1,526,839,084	
Allowance as a percentage	35.75	% 22.80	% 16.57	% 5.74	% 2.49	% 21.91	%

of loans/leases individually evaluated for impairment Allowance as a percentage of	0.80	%	1.12	%	1.82	%	0.76	%	1.08	%	1.04	%
loans/leases collectively evaluated for impairment	1.02	%	1.68	%	1.91	%	0.81	%	1.10	%	1.38	%
As of December 31, 2012												
	Commercial and Industrial		Commercial Real Estate		Direct Financing Leases		Residential Real Estate		Installment and Other Consumer		Total	
Allowance for loans/leases individually evaluated for impairment	\$280,170		\$4,005,042		\$125,000		\$105,565		\$71,992		\$4,587,769	
Allowance for loans/leases collectively evaluated for impairment	4,251,375		7,064,460		1,865,395		964,763		1,191,442		15,337,435	
	\$4,531,545		\$11,069,502		\$1,990,395		\$1,070,328		\$1,263,434		\$19,925,204	
Loans/leases individually evaluated for impairment	\$1,006,952		\$20,383,846		\$998,802		\$1,217,256		\$687,355		\$24,294,211	
Loans/leases collectively evaluated for impairment	393,237,300		573,595,393		102,686,854		114,364,317		76,033,159		1,259,917,023	
	\$394,244,252		\$593,979,239		\$103,685,656		\$115,581,573		\$76,720,514		\$1,284,211,234	
Allowance as a percentage of loans/leases individually	27.82	%	19.65	%	12.51	%	8.67	%	10.47	%	18.88	%

evaluated for impairment Allowance as a percentage of loans/leases collectively evaluated for impairment	1.08	%	1.23	%	1.82	%	0.84	%	1.57	%	1.22	%
	1.15	%	1.86	%	1.92	%	0.93	%	1.65	%	1.55	%

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Information for impaired loans/leases is presented in the tables below. The recorded investment represents customer balances net of any partial charge-offs recognized on the loan/lease. The unpaid principal balance represents the recorded balance outstanding on the loan/lease prior to any partial charge-offs.

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the six months ended June 30, 2013 is presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$678,239	\$1,149,252	\$-	\$690,717	\$ 3,861	\$ 3,861
Owner-Occupied Commercial Real Estate	3,554,904	4,934,815	-	1,318,703	-	-
Commercial Construction, Land Development, and Other Land	300,000	300,000	-	331,250	-	-
Other Non Owner-Occupied Commercial Real Estate	224,719	224,719	-	1,782,488	40,773	40,773
Direct Financing Leases	542,497	542,497	-	845,413	-	-
Residential Real Estate	1,271,905	1,538,919	-	934,120	-	-
Installment and Other Consumer	1,019,980	1,032,521	-	792,024	5,112	5,112
	\$7,592,244	\$9,722,723	\$-	\$6,694,715	\$ 49,746	\$ 49,746
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$2,229,181	\$2,238,999	\$1,039,328	\$722,935	\$ 15,307	\$ 15,307
	980,236	980,236	400,000	326,908	-	-

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Owner-Occupied Commercial Real Estate						
Commercial Construction, Land Development, and Other Land	3,652,434	3,652,434	1,428,466	3,626,128	5,419	5,419
Other Non Owner-Occupied Commercial Real Estate	10,160,743	10,413,703	2,475,091	10,088,904	4,501	4,501
Direct Financing Leases	158,077	158,077	116,077	124,691	-	-
Residential Real Estate	300,615	300,615	90,235	305,587	-	-
Installment and Other Consumer	420,897	420,897	35,927	289,628	-	-
	\$ 17,902,183	\$ 18,164,961	\$ 5,585,124	\$ 15,484,781	\$ 25,199	\$ 25,199
Total Impaired Loans/Leases:						
Commercial and Industrial Commercial Real Estate	\$ 2,907,420	\$ 3,388,251	\$ 1,039,328	\$ 1,413,652	\$ 19,168	\$ 19,168
Owner-Occupied Commercial Real Estate	4,535,140	5,915,051	400,000	1,645,611	-	-
Commercial Construction, Land Development, and Other Land	3,952,434	3,952,434	1,428,466	3,957,378	5,419	5,419
Other Non Owner-Occupied Commercial Real Estate	10,385,462	10,638,422	2,475,091	11,871,392	45,274	45,274
Direct Financing Leases	700,574	700,574	116,077	970,104	-	-
Residential Real Estate	1,572,520	1,839,534	90,235	1,239,707	-	-
Installment and Other Consumer	1,440,877	1,453,418	35,927	1,081,652	5,112	5,112
	\$ 25,494,427	\$ 27,887,684	\$ 5,585,124	\$ 22,179,496	\$ 74,973	\$ 74,973

Impaired loans/leases for which no allowance has been provided have adequate collateral, based on management's current estimates.



## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended June 30, 2013 and 2012, respectively, is presented as follows:

Classes of Loans/Leases	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$ 613,506	\$ 1,937	\$ 1,937	\$ 870,085	\$ -	\$ -
Owner-Occupied Commercial Real Estate	3,107,106	-	-	668,313	-	-
Commercial Construction, Land Development, and Other Land	325,000	-	-	4,773,032	1,683	1,683
Other Non Owner-Occupied Commercial Real Estate	353,972	657	657	6,997,797	-	-
Direct Financing Leases	822,718	-	-	585,845	-	-
Residential Real Estate	1,057,657	-	-	734,485	1,673	1,673
Installment and Other Consumer	915,478	2,686	2,686	974,591	101	101
	\$ 7,195,437	\$ 5,280	\$ 5,280	\$ 15,604,148	\$ 3,457	\$ 3,457
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$ 1,229,737	\$ 15,307	\$ 15,307	\$ 314,872	\$ 1,971	\$ 1,971
Owner-Occupied Commercial Real Estate	653,815	-	-	66,660	-	-
Commercial Construction, Land Development, and Other Land	3,656,226	2,716	2,716	2,348,194	-	-
Other Non Owner-Occupied Commercial Real Estate	10,143,708	-	-	8,354,604	83,113	83,113

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Direct Financing Leases	133,038	-	-	118,275	-	-
Residential Real Estate	302,334	-	-	462,406	-	-
Installment and Other Consumer	430,427	-	-	1,998	-	-
	\$ 16,549,285	\$ 18,023	\$ 18,023	\$ 11,667,009	\$ 85,084	\$ 85,084
Total Impaired Loans/Leases:						
Commercial and Industrial	\$ 1,843,243	\$ 17,244	\$ 17,244	\$ 1,184,957	\$ 1,971	\$ 1,971
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	3,760,921	-	-	734,973	-	-
Commercial Construction, Land Development, and Other Land	3,981,226	2,716	2,716	7,121,226	1,683	1,683
Other Non Owner-Occupied Commercial Real Estate	10,497,680	657	657	15,352,401	83,113	83,113
Direct Financing Leases	955,756	-	-	704,120	-	-
Residential Real Estate	1,359,991	-	-	1,196,891	1,673	1,673
Installment and Other Consumer	1,345,905	2,686	2,686	976,589	101	101
	\$ 23,744,722	\$ 23,303	\$ 23,303	\$ 27,271,157	\$ 88,541	\$ 88,541

Impaired loans/leases for which no allowance has been provided have adequate collateral, based on management's current estimates.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2012 is presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
Commercial and Industrial Commercial Real Estate	\$438,355	\$1,203,710	\$-
Owner-Occupied Commercial Real Estate	503,321	503,321	-
Commercial Construction, Land Development, and Other Land	678,523	678,523	-
Other Non Owner-Occupied Commercial Real Estate	495,702	495,702	-
Direct Financing Leases	777,645	777,645	-
Residential Real Estate	944,211	1,127,242	-
Installment and Other Consumer	534,368	534,368	-
	\$4,372,125	\$5,320,511	\$-
Impaired Loans/Leases with Specific Allowance Recorded:			
Commercial and Industrial Commercial Real Estate	\$568,597	\$590,849	\$280,170
Owner-Occupied Commercial Real Estate	-	-	-
Commercial Construction, Land Development, and Other Land	3,967,583	3,967,583	1,105,795
Other Non Owner-Occupied Commercial Real Estate	14,738,717	14,991,676	2,899,247
Direct Financing Leases	221,157	221,157	125,000
Residential Real Estate	273,045	273,045	105,565
Installment and Other Consumer	152,987	152,987	71,992
	\$19,922,086	\$20,197,297	\$4,587,769
Total Impaired Loans/Leases:			
Commercial and Industrial Commercial Real Estate	\$1,006,952	\$1,794,559	\$280,170
Owner-Occupied Commercial Real Estate	503,321	503,321	-
Commercial Construction, Land Development, and Other Land	4,646,106	4,646,106	1,105,795
Other Non Owner-Occupied Commercial Real Estate	15,234,419	15,487,378	2,899,247
Direct Financing Leases	998,802	998,802	125,000

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Residential Real Estate	1,217,256	1,400,287	105,565
Installment and Other Consumer	687,355	687,355	71,992
	\$24,294,211	\$25,517,808	\$4,587,769

Impaired loans/leases for which no allowance has been provided have adequate collateral, based on management's current estimates.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

For commercial and industrial and commercial real estate loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial loan is assigned a risk rating upon origination. The risk rating is reviewed every 15 months, at a minimum, and on an as needed basis depending on the specific circumstances of the loan.

For direct financing leases, residential real estate loans, and installment and other consumer loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2013 and December 31, 2012:

Internally Assigned Risk Rating	As of June 30, 2013				Total
	Commercial and Industrial	Owner-Occupied Commercial Real Estate	Commercial Real Estate Non Owner-Occupied Construction, Land Development, and Other Land	Other Commercial Real Estate	
Pass (Ratings 1 through 5)	\$ 444,731,963	\$ 254,134,556	\$ 34,521,499	\$ 374,410,742	\$ 1,107,798,760
Special Mention (Rating 6)	10,507,646	3,349,849	6,843,887	8,026,958	28,728,340
Substandard (Rating 7)	15,176,747	9,442,687	6,648,291	26,627,405	57,895,130
Doubtful (Rating 8)	-	-	-	-	-
	\$ 470,416,356	\$ 266,927,092	\$ 48,013,677	\$ 409,065,105	\$ 1,194,422,230

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Delinquency Status *	As of June 30, 2013			
	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Performing	\$ 114,054,183	\$ 141,520,822	\$ 73,124,630	\$ 328,699,635
Nonperforming	700,574	1,572,520	1,444,125	3,717,219
	\$ 114,754,757	\$ 143,093,342	\$ 74,568,755	\$ 332,416,854

Internally Assigned Risk Rating	As of December 31, 2012				
	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Non Owner-Occupied Construction, Land Development, and Other Land	Other Commercial Real Estate	Total
Pass (Ratings 1 through 5)	\$371,856,380	\$195,567,523	\$38,125,793	\$312,370,393	\$917,920,089
Special Mention (Rating 6)	8,008,866	5,488,602	1,238,152	7,319,902	22,055,522
Substandard (Rating 7)	14,379,006	3,855,183	5,598,436	24,415,255	48,247,880
Doubtful (Rating 8)	-	-	-	-	-
	\$394,244,252	\$204,911,308	\$44,962,381	\$344,105,550	\$988,223,491

Delinquency Status *	As of December 31, 2012			
	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Performing	\$102,686,854	\$114,364,316	\$75,921,358	\$292,972,528
Nonperforming	998,802	1,217,257	799,156	3,015,215
	\$103,685,656	\$115,581,573	\$76,720,514	\$295,987,743

\*Performing = loans/leases accruing and less than 90 days past due. Nonperforming = loans/leases on nonaccrual, accruing loans/leases that are greater than or equal to 90 days past due, and accruing troubled debt restructurings.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of June 30, 2013 and December 31, 2012, troubled debt restructurings totaled \$9,918,012 and \$12,958,374, respectively.

For each class of financing receivable, the following presents the number and recorded investment of troubled debt restructurings, by type of concession, that were restructured during the three and six months ended June 30, 2013 and 2012. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring.

Classes of Loans/Leases	For the three months ended June 30, 2013			For the three months ended June 30, 2012			
	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
<b>CONCESSION - Significant payment delay</b>							
Residential Real Estate	1	\$ 91,581	\$ 91,581	-	\$ -	\$ -	\$ -
Installment and Other Consumer	1	370,000	370,000	-	-	-	-
	2	\$ 461,581	\$ 461,581	-	\$ -	\$ -	\$ -
<b>CONCESSION - Interest rate adjusted below market</b>							
Commercial Construction, Land Development, and Other Land	1	\$ 337,500	\$ 337,500	-	\$ -	\$ -	\$ -
Residential Real Estate	1	160,627	160,627	-	-	-	-
	2	\$ 498,127	\$ 498,127	-	\$ -	\$ -	\$ -
<b>TOTAL</b>	<b>4</b>	<b>\$ 959,708</b>	<b>\$ 959,708</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Classes of Loans/Leases	For the six months ended June 30, 2013			For the six months ended June 30, 2012				
	Number of Loans/Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans/Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
<b>CONCESSION -</b>								
Extension of maturity								
Commercial and Industrial	3	\$ 809,494	\$ 809,494	\$ 188,700	-	\$ -	\$ -	\$ -
	3	\$ 809,494	\$ 809,494	\$ 188,700	-	\$ -	\$ -	\$ -
<b>CONCESSION -</b>								
Significant payment delay								
Owner-Occupied Commercial Real Estate	1	\$ 47,958	\$ 47,958	\$ -	-	\$ -	\$ -	\$ -
Residential Real Estate	1	91,581	91,581	-	-	-	-	-
Installment and Other Consumer	1	370,000	370,000	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	2	200,000	200,000	144,000
	3	\$ 509,539	\$ 509,539	\$ -	2	\$ 200,000	\$ 200,000	\$ 144,000
<b>CONCESSION -</b>								
Interest rate adjusted below market								
Commercial Construction, Land Development, and Other Land	1	\$ 337,500	\$ 337,500	\$ -	1	\$ 337,500	\$ 337,500	\$ -
Residential Real Estate	1	160,627	160,627	-	1	167,739	167,739	-
Installment and Other Consumer	-	-	-	-	1	16,043	16,043	-
	2	\$ 498,127	\$ 498,127	\$ -	3	\$ 521,282	\$ 521,282	\$ -
<b>TOTAL</b>	<b>8</b>	<b>\$ 1,817,160</b>	<b>\$ 1,817,160</b>	<b>\$ 188,700</b>	<b>5</b>	<b>\$ 721,282</b>	<b>\$ 721,282</b>	<b>\$ 144,000</b>

Of the troubled debt restructurings reported above, three with post-modification recorded investments totaling \$178,007 were on nonaccrual as of June 30, 2013, and two with post-modification recorded investments totaling \$200,000 were on nonaccrual as of June 30, 2012.

For the three and six months ended June 30, 2013 and 2012, none of the Company's troubled debt restructurings had redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.





## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 5 – JUNIOR SUBORDINATED DEBENTURES

As part of the acquisition of Community National, the Company assumed two junior subordinated debentures detailed as follows:

The first debenture assumed was issued in September 2004 in the amount of \$3,093,000, and provides that interest is payable quarterly with the interest rate adjusted to equal three-month LIBOR plus 2.17% (2.45% at June 30, 2013). Principal is due September 20, 2034, but is callable at any time. The second debenture assumed was issued in March 2007 in the amount of \$3,609,000, and provides that interest is payable quarterly with the interest rate adjusted to equal three-month LIBOR plus 1.75% (2.03% at June 30, 2013). Principal is due March 15, 2037, but is callable at any time.

Junior subordinated debentures are summarized as of June 30, 2013 and December 31, 2012 as follows:

	2013	2012
Note Payable to QCR Holdings Capital Trust II	\$12,372,000	\$12,372,000
Note Payable to QCR Holdings Capital Trust III	8,248,000	8,248,000
Note Payable to QCR Holdings Capital Trust IV	5,155,000	5,155,000
Note Payable to QCR Holdings Capital Trust V	10,310,000	10,310,000
Note Payable to Community National Trust II	3,093,000	-
Note Payable to Community National Trust III	3,609,000	-
Market Value Discount per ASC 805	(2,576,825 )	-
	\$40,210,175	\$36,085,000

The fair value of Community National's junior subordinated debentures totaled \$4,125,175 at the acquisition date which resulted in a discount of \$2,576,825. The discount will be accreted as interest expense on a level yield basis over the expected remaining term of the junior subordinated debentures.

A schedule of the Company's non-consolidated subsidiaries formed for the issuance of trust preferred securities including the amounts outstanding as of June 30, 2013 and December 31, 2012, is as follows:

Name	Date Issued	Amount Issued	Interest Rate	Interest Rate as of 6/30/2013	Interest Rate as of 12/31/2012
QCR Holdings Statutory Trust II	February 2004	\$12,372,000	2.85% over 3-month LIBOR	3.13 %	3.21 %
QCR Holdings Statutory Trust III	February 2004	8,248,000	2.85% over 3-month LIBOR	3.13 %	3.21 %
QCR Holdings Statutory Trust IV	May 2005	5,155,000	1.80% over 3-month LIBOR	2.08 %	2.14 %
QCR Holdings Statutory Trust V	February 2006	10,310,000	1.55% over 3-month LIBOR	1.83 %	1.89 %
Community National Statutory Trust II	September 2004	3,093,000	2.17% over 3-month LIBOR	2.45 %	N/A
Community National Statutory Trust III	March 2007	3,609,000	1.75% over 3-month LIBOR	2.03 %	N/A
		\$42,787,000	Weighted Average Rate	2.55 %	2.68 %

Securities issued by all of the trusts listed above mature 30 years from the date of issuance, but all are currently callable at par at any time.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 - EARNINGS PER SHARE

The following information was used in the computation of earnings per share on a basic and diluted basis:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$4,045,231	\$3,273,379	\$7,310,375	\$6,676,228
Less: Net income attributable to noncontrolling interests	-	201,223	-	367,254
Net income attributable to QCR Holdings, Inc.	\$4,045,231	\$3,072,156	\$7,310,375	\$6,308,974
Less: Preferred stock dividends	810,838	935,786	1,621,675	1,874,411
Net income attributable to QCR Holdings, Inc. common stockholders	\$3,234,393	\$2,136,370	\$5,688,700	\$4,434,563
Earnings per common share attributable to QCR Holdings, Inc. common stockholders				
Basic	\$0.60	\$0.44	\$1.10	\$0.92
Diluted	\$0.59	\$0.44	\$1.08	\$0.91
Weighted average common shares outstanding	5,393,062	4,835,773	5,160,327	4,818,090
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	104,213	66,080	105,482	49,538
Weighted average common and common equivalent shares outstanding	5,497,275	4,901,853	5,265,809	4,867,628

NOTE 7 – BUSINESS SEGMENT INFORMATION

Selected financial and descriptive information is required to be disclosed for reportable operating segments, applying a “management perspective” as the basis for identifying reportable segments. The management perspective is determined by the view that management takes of the segments within the Company when making operating decisions, allocating resources, and measuring performance. The segments of the Company have been defined by the structure of the Company’s internal organization, focusing on the financial information that the Company’s operating decision-makers routinely use to make decisions about operating matters.

The Company’s primary segment, Commercial Banking, is geographically divided by markets into the secondary segments which are the four subsidiary banks wholly-owned by the Company: QCBT, CRBT, RB&T, and CNB (which was acquired on May 13, 2013). Each of these secondary segments offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

The Company’s Wealth Management segment represents the trust and asset management and investment management and advisory services offered at the Company’s four subsidiary banks in aggregate. This segment generates income primarily from fees charged based on assets under administration for corporate and personal trusts, custodial services, and investments managed. No assets of the subsidiary banks have been allocated to the Wealth Management segment.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company's All Other segment includes the operations of all other consolidated subsidiaries and/or defined operating segments that fall below the segment reporting thresholds. This segment includes the corporate operations of the parent company.

Selected financial information on the Company's business segments is presented as follows for the three and six months ended June 30, 2013 and 2012.

	<b>Commercial Banking</b>			Community National Bank	<b>Wealth Management</b>	<b>All Other</b>	<b>Intercompany Eliminations</b>	<b>Corporate Eliminations</b>
	Quad City Bank & Trust	Cedar Rapids Bank & Trust	Rockford Bank & Trust					
<b>Three Months Ended June 30, 2013</b>								
Total revenue	\$11,810,586	\$6,468,480	\$3,649,811	\$1,672,243	\$1,728,074	\$6,439,309	\$(4,680,346)	\$2,837,037
Net interest income	\$8,485,092	\$3,951,787	\$2,434,391	\$1,225,612	\$-	\$(388,830)	\$-	\$1,271,260
Net income attributable to QCR Holdings, Inc.	\$1,951,271	\$1,624,472	\$719,480	\$239,902	\$232,035	\$4,045,231	\$(4,767,160)	\$4,519,469
Total assets	\$1,226,928,751	\$619,443,210	\$333,996,843	\$277,425,832	\$-	\$211,484,709	\$(222,507,868)	\$2,036,620,467
Provision for loan/lease losses	\$1,020,123	\$100,000	\$400,000	\$14	\$-	\$-	\$-	\$1,520,123
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core deposit	\$-	\$-	\$-	\$3,440,076	\$-	\$-	\$-	\$3,440,076

intangible

**Three  
Months  
Ended  
June 30,  
2012**

Total revenue	\$ 11,936,569	\$ 6,536,887	\$ 3,648,057	\$-	\$ 1,531,560	\$ 4,379,005	\$(4,430,041)	) \$2
Net interest income	\$ 8,532,585	\$ 3,896,184	\$ 2,458,333	\$-	\$-	\$(371,609)	) \$-	\$
Net income attributable to QCR Holdings, Inc.	\$ 2,327,046	\$ 1,413,869	\$ 402,494	\$-	\$ 156,523	\$ 3,110,821	\$(4,338,597)	) \$3
Total assets	\$ 1,157,927,167	\$ 581,059,340	\$ 301,189,716	\$-	\$-	\$ 194,399,498	\$(191,149,975)	) \$2
Provision for loan/lease losses	\$ 392,469	\$ 225,000	\$ 431,000	\$-	\$-	\$-	\$-	) \$
Goodwill	\$ 3,222,688	\$-	\$-	\$-	\$-	\$-	\$-	) \$3

**Six Months  
Ended  
June 30,  
2013**

Total revenue	\$ 23,866,247	\$ 13,396,831	\$ 6,833,870	\$ 1,672,243	\$ 3,377,085	\$ 11,171,879	\$(9,488,487)	) \$3
Net interest income	\$ 16,876,630	\$ 7,796,669	\$ 4,739,468	\$ 1,225,612	\$-	\$(739,010)	) \$-	\$2
Net income attributable to QCR Holdings, Inc.	\$ 4,448,296	\$ 3,345,283	\$ 815,722	\$ 239,902	\$ 445,042	\$ 7,310,375	\$(9,294,245)	) \$7
Total assets	\$ 1,226,928,751	\$ 619,443,210	\$ 333,996,843	\$ 277,425,832	\$-	\$ 211,484,709	\$(222,507,868)	) \$2
Provision for loan/lease losses	\$ 1,377,905	\$ 400,000	\$ 800,000	\$ 14	\$-	\$-	\$-	) \$2
Goodwill	\$ 3,222,688	\$-	\$-	\$-	\$-	\$-	\$-	) \$3
Core deposit intangible	\$-	\$-	\$-	\$ 3,440,076	\$-	\$-	\$-	) \$3

**Six Months  
Ended  
June 30,  
2012**

	\$ 24,201,602	\$ 13,123,036	\$ 6,768,852	\$-	\$ 2,936,754	\$ 8,990,997	\$(9,088,522)	) \$4
--	---------------	---------------	--------------	-----	--------------	--------------	---------------	-------

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Total revenue									
Net interest income	\$ 16,921,627	\$ 7,664,183	\$ 4,891,039	\$ -	\$ -	\$ (757,903	) \$ -		\$ -
Net income attributable to QCR Holdings, Inc.	\$ 5,016,730	\$ 2,681,135	\$ 795,969	\$ -	\$ 316,406	\$ 6,407,185	\$ (8,908,451	) \$ -	\$ -
Total assets	\$ 1,157,927,167	\$ 581,059,340	\$ 301,189,716	\$ -	\$ -	\$ 194,399,498	\$ (191,149,975)		\$ -
Provision for loan/lease losses	\$ 787,915	\$ 575,000	\$ 466,000	\$ -	\$ -	\$ -	\$ -		\$ -
Goodwill	\$ 3,222,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -

28

---



Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 8 – FAIR VALUE

Accounting guidance on fair value measurement uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets measured at fair value on a recurring basis comprise the following at June 30, 2013 and December 31, 2012:

	<b>Fair Value Measurements at Reporting Date Using Quoted Prices</b>	
	in <b>Significant</b>	
	Active Other	<b>Significant</b>
	Markets for	Unobservable
<b>Fair Value</b>	Observable	Inputs
	Inputs	(Level 3)
	Identical Assets (Level 2)	
	(Level 1)	

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

June 30, 2013:

Securities available for sale:

U.S. govt. sponsored agency securities	\$380,915,891	\$-	\$380,915,891	\$	-
Residential mortgage-backed and related securities	178,545,554	-	178,545,554		-
Municipal securities					