QCR HOLDINGS INC
Form 10-Q
August 11, 2008

Table of Contents

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ending June 30, 2008

o **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	**42-1397595**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer ID Number)

3551 7th Street, Suite 204, Moline, Illinois 61265

(Address of principal executive offices)

(309) 736-3580

(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 past 90 days. Yes þ No o

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 definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

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, 2008, the Registrant had outstanding 4,625,014 shares of common stock, $1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

INDEX

	Page Number
Part I FINANCIAL INFORMATION	
Item 1 Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets, June 30, 2008 and December 31, 2007	2
Consolidated Statements of Income, For the Three Months Ended June 30, 2008 and 2007	3
Consolidated Statements of Income, For the Six Months Ended June 30, 2008 and 2007	4
Consolidated Statement of Changes in Stockholders Equity, For the Six Months Ended June 30, 2008	5
Consolidated Statements of Cash Flows, For the Six Months Ended June 30, 2008 and 2007	6
Notes to Consolidated Financial Statements	7-13
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	14-32
Item 3 Quantitative and Qualitative Disclosures About Market Risk	33-34
Item 4 Controls and Procedures	35
Part II OTHER INFORMATION	
Item 1 Legal Proceedings	36
Item 1.A. Risk Factors	36
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3 Defaults Upon Senior Securities	36
Item 4 Submission of Matters to a Vote of Security Holders	36
Item 5 Other Information	37
Item 6 Exhibits	37
Signatures	38

Exhibit 31.1

Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

Part I
Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
June 30, 2008 and December 31, 2007

	June 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 47,706,971	$ 41,195,890
Federal funds sold	5,889,509	6,620,000
Interest-bearing deposits at financial institutions	2,334,531	5,096,048
Securities held to maturity, at amortized cost	350,000	350,000
Securities available for sale, at fair value	245,446,338	235,554,653
	245,796,338	235,904,653
Loans receivable held for sale	4,615,399	6,507,583
Loans/leases receivable held for investment	1,195,064,031	1,100,392,324
	1,199,679,430	1,106,899,907
Less: Allowance for estimated losses on loans/leases	(14,197,540)	(12,023,637)
	1,185,481,890	1,094,876,270
Premises and equipment, net	32,323,922	32,268,686
Goodwill	3,222,688	3,222,688
Intangible asset	980,362	887,542
Accrued interest receivable	8,082,115	7,964,557
Bank-owned life insurance	29,491,059	28,888,938
Other assets	22,452,338	19,639,070
Total assets	$ 1,583,761,723	$ 1,476,564,342
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 146,751,466	$ 165,286,011
Interest-bearing	835,339,547	764,141,207
Total deposits	982,091,013	929,427,218
Short-term borrowings	202,995,130	183,195,840

Federal Home Loan Bank advances	190,695,000	168,815,006
Other borrowings	65,130,769	47,690,122
Junior subordinated debentures	36,085,000	36,085,000
Other liabilities	18,335,195	23,564,681
Total liabilities	1,495,332,107	1,388,777,867
Minority interest in consolidated subsidiaries	1,882,815	1,720,683
STOCKHOLDERS EQUITY		
Preferred stock, $1 par value; shares authorized 250,000;	568	568
June 2008 - 568 shares issued and outstanding, December 2007 - 568 shares issued and outstanding, Common stock, $1 par value; shares authorized 10,000,000	4,619,916	4,597,744
June 2008 - 4,619,916 shares issued and outstanding, December 2007 - 4,597,744 shares issued and outstanding, Additional paid-in capital	42,720,397	42,317,374
Retained earnings	37,720,464	36,338,566
Accumulated other comprehensive income	1,485,456	2,811,540
Total stockholders equity	86,546,801	86,065,792
Total liabilities and stockholders equity	$ 1,583,761,723	$ 1,476,564,342

See Notes to Consolidated Financial Statements

Table of Contents

Part I
Item 1

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

	2008	2007
Interest and dividend income:		
Loans/leases, including fees	$ 19,094,976	$ 18,436,853
Securities:		
Taxable	2,836,053	2,151,372
Nontaxable	239,738	262,446
Interest-bearing deposits at financial institutions	52,946	101,297
Federal funds sold	16,755	93,760
Total interest and dividend income	22,240,468	21,045,728
Interest expense:		
Deposits	6,280,811	8,041,845
Short-term borrowings	972,811	1,297,259
Federal Home Loan Bank advances	1,997,740	1,791,195
Other borrowings	598,814	447,291
Junior subordinated debentures	566,928	655,134
Total interest expense	10,417,104	12,232,724
Net interest income	11,823,364	8,813,004
Provision for loan/lease losses	1,582,343	824,535
Net interest income after provision for loan/lease losses	10,241,021	7,988,469
Noninterest income:		
Credit card fees, net of processing costs	518,497	424,291
Trust department fees	875,470	940,220
Deposit service fees	811,479	677,454
Gains on sales of loans, net	322,793	413,684
Gains (losses) on sales of foreclosed assets	4,584	(1,423)
Earnings on bank-owned life insurance	307,061	196,424
Investment advisory and management fees, gross	671,373	388,588
Other	506,700	559,505
Total noninterest income	4,017,957	3,598,743

Noninterest expenses:		
Salaries and employee benefits	7,335,434	5,917,342
Professional and data processing fees	1,285,993	964,569
Advertising and marketing	420,547	383,747
Occupancy and equipment expense	1,313,745	1,207,594
Stationery and supplies	154,725	139,605
Postage and telephone	250,771	252,913
Bank service charges	148,621	142,068
FDIC and other insurance	334,868	246,201
Other	399,362	334,572
Total noninterest expenses	11,644,066	9,588,611
Income before income taxes	2,614,912	1,998,601
Federal and state income taxes	714,188	545,049
Income before minority interest in net income of consolidated subsidiaries	1,900,724	1,453,552
Minority interest in income of consolidated subsidiaries	128,435	142,947
Net income	$ 1,772,289	$ 1,310,605
Net income	$ 1,772,289	$ 1,310,605
Less preferred stock dividends	446,125	268,000
Net income available to common stockholders	$ 1,326,164	$ 1,042,605
Earnings per common share:		
Basic	$ 0.29	$ 0.23
Diluted	$ 0.29	$ 0.23
Weighted average common shares outstanding	4,611,751	4,574,648
Weighted average common and common equivalent shares outstanding	4,634,705	4,600,955
Cash dividends declared per common share	$ 0.04	$ 0.04
Comprehensive income (loss)	$ (1,361,896)	$ 326,856

See Notes to Consolidated Financial Statements

Table of Contents

Part I
Item 1

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

	2008	2007
Interest and dividend income:		
Loans/leases, including fees	$ 38,220,849	$ 35,925,749
Securities:		
Taxable	5,682,240	4,125,571
Nontaxable	483,615	539,278
Interest-bearing deposits at financial institutions	147,211	223,630
Federal funds sold	41,948	173,571
Total interest and dividend income	44,575,863	40,987,799
Interest expense:		
Deposits	13,615,125	16,002,747
Short-term borrowings	2,228,518	2,442,126
Federal Home Loan Bank advances	3,939,540	3,511,072
Other borrowings	1,168,984	579,241
Junior subordinated debentures	1,197,906	1,305,269
Total interest expense	22,150,073	23,840,455
Net interest income	22,425,790	17,147,344
Provision for loan/lease losses	3,854,583	1,230,992
Net interest income after provision for loan/lease losses	18,571,207	15,916,352
Noninterest income:		
Credit card fees, net of processing costs	1,006,103	806,274
Trust department fees	1,845,293	1,859,331
Deposit service fees	1,566,162	1,256,138
Gains on sales of loans, net	662,647	688,415
Gains on sales of foreclosed assets	4,584	1,007
Earnings on bank-owned life insurance	602,121	399,983
Investment advisory and management fees, gross	1,086,017	765,123
Other	1,005,760	950,301
Total noninterest income	7,778,687	6,726,572
Noninterest expenses:		

Salaries and employee benefits	14,300,941	11,472,088
Professional and data processing fees	2,543,404	1,893,217
Advertising and marketing	739,999	621,477
Occupancy and equipment expense	2,664,144	2,426,366
Stationery and supplies	297,873	294,327
Postage and telephone	522,988	506,769
Bank service charges	286,477	283,698
FDIC and other insurance	666,591	412,478
Loss on disposals/sales of fixed assets		239,016
Other	793,295	640,693
Total noninterest expenses	22,815,712	18,790,129
Income before income taxes	3,534,182	3,852,795
Federal and state income taxes	806,622	1,045,615
Income before minority interest in net income of consolidated subsidiaries	2,727,560	2,807,180
Minority interest in income of consolidated subsidiaries	268,827	233,889
Net income	$ 2,458,733	$ 2,573,291
Net income	$ 2,458,733	$ 2,573,291
Less preferred stock dividends	892,250	536,000
Net income available to common stockholders	$ 1,566,483	$ 2,037,291
Earnings per common share:		
Basic	$ 0.34	$ 0.45
Diluted	$ 0.34	$ 0.45
Weighted average common shares outstanding	4,606,959	4,569,656
Weighted average common and common equivalent shares outstanding	4,642,629	4,577,420
Cash dividends declared per common share	$ 0.04	$ 0.04
Comprehensive income	$ 1,132,649	$ 1,938,090

See Notes to Consolidated Financial Statements

Table of Contents

Part I
Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)
Six Months Ended June 30, 2008

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance December 31, 2007	**$ 568**	**$ 4,597,744**	**$ 42,317,374**	**$ 36,338,566**	**$ 2,811,540**	**$ 86,065,792**
Comprehensive income:						
Net income				686,444		686,444
Other comprehensive income, net of tax					1,808,101	1,808,101
Comprehensive income						**2,494,545**
Preferred cash dividends declared				(446,125)		(446,125)
Proceeds from issuance of 4,373 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan		4,373	45,686			50,059
Proceeds from issuance of 1,732 shares of common stock as a result of stock options exercised		1,732	15,839			17,571
Tax benefit of nonqualified stock options exercised			717			717
Stock compensation expense			99,922			99,922
Balance March 31, 2008	**$ 568**	**$ 4,603,849**	**$ 42,479,538**	**$ 36,578,885**	**$ 4,619,641**	**$ 88,282,481**
Comprehensive income:						
Net income				1,772,289		1,772,289
Other comprehensive loss, net of tax					(3,134,185)	(3,134,185)
Comprehensive loss						**(1,361,896)**
				(184,585)		(184,585)

Common cash dividends declared $0.04 per share						
Preferred cash dividends declared				(446,125)		(446,125)
Proceeds from issuance of 7,501 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan		7,501	88,700			96,201
Proceeds from issuance of 5,499 shares of common stock as a result of stock options exercised		5,499	66,004			71,503
Exchange of 1,933 shares of common stock in connection with options exercised		(1,933)	(27,284)			(29,217)
Tax benefit of nonqualified stock options exercised			863			863
Stock compensation expense			117,576			117,576
Issuance of 5,000 shares of restricted stock		5,000	(5,000)			
Balance June 30, 2008	**$ 568**	**$ 4,619,916**	**$ 42,720,397**	**$ 37,720,464**	**$ 1,485,456**	**$ 86,546,801**

See Notes to Consolidated Financial Statements

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,458,733	$ 2,573,291
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,245,678	1,144,923
Provision for loan/lease losses	3,854,583	1,230,992
Amortization of offering costs on subordinated debentures	7,158	7,158
Amortization of intangible asset	3,570	
Stock-based compensation expense	141,531	7,428
Minority interest in income of consolidated subsidiaries	268,827	233,889
Gain on sale of foreclosed assets	(4,584)	(1,007)
Amortization of premiums on securities (accretion of discount), net	16,931	(160)
Loans originated for sale	(53,801,338)	(54,424,129)
Proceeds on sales of loans	56,359,175	55,313,324
Net gains on sales of loans	(662,647)	(688,415)
Net losses on disposals/sales of premises and equipment		239,016
Increase in accrued interest receivable	(117,558)	(509,091)
Decrease in other assets	(1,918,531)	(2,261,890)
Decrease in other liabilities	(5,337,286)	(2,391,104)
Net cash provided by operating activities	$ 2,514,242	$ 474,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in federal funds sold	730,491	(1,125,000)
Net decrease in interest-bearing deposits at financial institutions	2,761,517	487,684
Proceeds from sale of foreclosed assets	97,710	93,901
Activity in securities portfolio:		
Purchases	(69,084,882)	(48,694,571)
Calls, maturities and redemptions	56,599,881	37,510,000
Paydowns	435,480	287,777
Increase in cash value of bank-owned life insurance	(602,121)	(399,984)
Net loans/leases originated and held for investment	(96,637,321)	(55,390,213)
Purchase of premises and equipment	(1,300,914)	(1,110,866)
Purchase of intangible asset	(96,390)	(885,133)
Net cash used in investing activities	$ (107,096,549)	$ (69,226,405)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	52,663,795	(17,781,104)
Net increase in short-term borrowings	19,799,290	32,212,837
Activity in Federal Home Loan Bank advances:		
Advances	35,145,000	56,000,000
Payments	(13,265,006)	(47,620,381)
Net increase in other borrowings	17,440,647	38,975,514

Tax benefit of nonqualified stock options exercised	1,580	21,074
Payment of cash dividends	(898,035)	(614,798)
Costs from issuance of preferred stock, net		(10,671)
Proceeds from issuance of common stock, net	206,117	229,422
Net cash provided by financing activities	$ 111,093,388	$ 61,411,893
Net increase (decrease) in cash and due from banks	6,511,081	(7,340,287)
Cash and due from banks, beginning	41,195,890	42,502,770
Cash and due from banks, ending	$ 47,706,971	$ 35,162,483
Supplemental disclosure of cash flow information, cash payments for:		
Interest	$ 22,008,679	$ 24,012,819
Income/franchise taxes	$ 1,366,883	$ 755,332
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale, net	$ (1,326,084)	$ (635,201)
Transfers of loans to other real estate owned	$ 284,934	$

See Notes to Consolidated Financial Statements

Table of Contents

Part I
Item 1

QCR HOLDINGS, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2008

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, 2007, including QCR Holdings, Inc. s (the Company) Form 10-K filed with the Securities and Exchange Commission on March 5, 2008. Accordingly, footnote disclosures, which would substantially duplicate the disclosure 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 periods ended June 30, 2008, are not necessarily indicative of the results expected for the year ending December 31, 2008.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Certain amounts in the prior period financial statements have been reclassified, with no effect on net income or stockholders equity, to conform with the current period presentation.

Stock-based compensation plans: Please refer to Note 13 of our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007, for information related to the Company s stock option and incentive plans, stock appreciation rights (SARs) and stock purchase plan.

During the second quarter of 2008, the Company granted to directors and certain employees nonqualified stock options to purchase 46,795 shares of common stock, and 5,000 shares of restricted stock. The restricted stock will vest based on certain time-based restrictions.

The Company accounts for stock-based compensation in accordance with the Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) requires measurement of compensation cost for all stock-based awards at fair value on the grant date and recognition of compensation expense over the requisite service period for awards expected to vest. Stock-based compensation expense totaled $21 thousand and $126 thousand for the three months ended June 30, 2008 and 2007, and $142 thousand and $7 thousand for the six months ended June 30, 2008 and 2007, respectively. A key component in the calculation of stock-based compensation expense is the market price of the Company s stock.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) continued

NOTE 2 EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net income available to common stockholders, basic and diluted earnings	$ 1,326,164	$ 1,042,605	$ 1,566,483	$ 2,037,291
Weighted average common shares outstanding	4,611,751	4,574,641	4,606,959	4,569,656
Weighted average common shares issuable upon exercise of stock options, restricted stock awards, and under the employee stock purchase plan	22,954	26,314	35,670	7,764
Weighted average common and common equivalent shares oustanding	4,634,705	4,600,955	4,642,629	4,577,420

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) continued

NOTE 3 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 QCR Holdings, Inc. 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: Quad City Bank & Trust, Cedar Rapids Bank & Trust, Rockford Bank & Trust, and First Wisconsin Bank & Trust. Each of these secondary segments offer similar products and services, but are managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

The Company s Credit Card Processing segment represents the operations of Quad City Bancard, Inc. (Bancard). Bancard is a wholly-owned subsidiary of the Company that provides credit card processing for merchants and cardholders of the Company s four subsidiary banks and approximately one hundred agent banks.

The Company s Trust Management segment represents the trust and asset management 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 and for custodial services. No assets of the subsidiary banks have been allocated to the Trust Management segment.

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 and the real estate holding operations of Velie Plantation Holding Company.

Selected financial information on the Company s business segments is presented as follows for the three months and six months ended June 30, 2008 and 2007.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) continued

QCR HOLDINGS, INC. AND SUBSIDIARIES
SELECTED FINANCIAL DATA BUSINESS SEGMENTS
Three Months and Six Months Ended June 30, 2008 and 2007

	Commercial Banking								
	Quad City Bank & Trust	Cedar Rapids Bank & Trust	Rockford Bank & Trust	First Wisconsin Bank & Trust	**Credit Card Processing**	**Trust Management**	**All other**	**Intercompany Eliminations**	**Consol To**
	$ 14,213,461	$ 6,619,146	$ 2,902,937	$ 1,308,100	$ 518,497	$ 875,169	$ 2,974,274	$ (3,153,159)	$ 26,
est									
	$ 7,396,473	$ 3,248,215	$ 1,264,472	$ 600,790	$ 114,414	$	$ (1,491,714)	$ 690,714	$ 11,
me	$ 2,103,140	$ 895,363	$ (41,640)	$ (375,045)	$ 108,331	$ 220,453	$ 1,425,626	$ (2,563,939)	$ 1,
sets	$ 896,709,426	$ 412,285,925	$ 190,405,124	$ 96,198,046	$ 1,314,792	$	$ 140,252,947	$ (153,404,537)	$ 1,583,
n									
ase									
	$ 791,990	$ 250,558	$ 249,000	$ 227,000	$ 63,795	$	$	$	$ 1,
l									
e									
	$ 3,315,508	$	$	$ 887,542	$	$	$	$	$ 4,
	$ 14,152,416	$ 6,257,049	$ 1,882,261	$ 559,946	$ 424,291	$ 940,219	$ 6,529,809	$ (6,101,521)	$ 24,
est									
	$ 6,307,587	$ 2,419,890	$ 680,037	$ 262,353	$ 118,958	$	$ (856,864)	$ (118,957)	$ 8,
me	$ 1,629,135	$ 625,727	$ (268,615)	$ (303,334)	$ 7,756	$ 267,046	$ 5,082,162	$ (5,729,272)	$ 1,
sets	$ 836,546,980	$ 350,332,175	$ 118,454,321	$ 35,658,471	$ 1,016,376	$	$ 127,282,389	$ (136,404,427)	$ 1,332,
n									
ase									
	$ 274,225	$ 177,331	$ 196,000	$ 61,000	$ 115,979	$	$	$	$
l	$ 3,222,688	$	$	$ 885,133	$	$	$	$	$ 4,

e									
ths									
	$ 28,423,451	$ 13,159,208	$ 5,736,794	$ 2,460,614	$ 1,006,103	$ 1,844,542	$ 4,944,116	$ (5,220,279)	$ 52,
est									
	$ 14,305,426	$ 6,120,475	$ 2,356,848	$ 1,055,089	$ 235,747	$	$ (1,412,048)	$ (235,747)	$ 22,
me	$ 4,150,791	$ 1,519,968	$ (87,529)	$ (1,482,065)	$ 214,155	$ 491,686	$ 1,722,918	$ (4,071,192)	$ 2,
sets	$ 896,709,426	$ 412,285,925	$ 190,405,124	$ 96,198,046	$ 1,314,792	$	$ 140,252,947	$ (153,404,537)	$ 1,583,
n									
ase									
	$ 1,375,589	$ 443,268	$ 429,000	$ 1,515,000	$ 91,726	$	$	$	$ 3,
l									
e									
	$ 3,315,508	$	$	$ 887,542	$	$	$	$	$ 4,
ths									
	$ 28,773,970	$ 12,151,608	$ 3,483,372	$ 932,223	$ 806,274	$ 1,859,330	$ 4,418,293	$ (4,710,700)	$ 47,
est									
	$ 12,310,419	$ 4,756,512	$ 1,266,712	$ 418,079	$ 234,531	$	$ (1,604,378)	$ (234,531)	$ 17,
me	$ 3,562,646	$ 1,155,083	$ (507,949)	$ (580,295)	$ 18,999	$ 556,190	$ 2,176,933	$ (3,808,316)	$ 2,
sets	$ 836,546,980	$ 350,332,175	$ 118,454,321	$ 35,658,471	$ 1,016,376	$	$ 127,282,389	$ (136,404,427)	$ 1,332,
n									
ase									
	$ 359,011	$ 350,601	$ 246,000	$ 104,000	$ 171,380	$	$	$	$ 1,
l									
e									
	$ 3,222,688	$	$	$ 885,133	$	$	$	$	$ 4,

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) continued

NOTE 4 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company s subsidiary banks make various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, and standby letters of credit.

As of June 30, 2008 and December 31, 2007, commitments to extend credit aggregated were $494.3 million and $479.1 million, respectively. As of June 30, 2008 and December 31, 2007, standby, commercial and similar letters of credit aggregated were $12.1 million and $15.2 million, respectively. Management does not expect that all of these commitments will be funded.

Contractual obligations and other commitments were presented in the Company s 2007 Annual Report on Form 10-K. There have been no material changes in the Company s contractual obligations and other commitments since that report was filed.

NOTE 5 RECENT ACCOUNTING DEVELOPMENTS

In September 2006, FASB issued Statement of Financial Accounting Standard No. 157 (SFAS No. 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The Company adopted the provisions of SFAS No. 157 for the quarter ended March 31, 2008. See NOTE 6 for additional information regarding fair value measurements.

In February of 2007, FASB issued Statement of Financial Accounting Standard No. 159 (SFAS No. 159), The Fair Value Option for Financial Assets and Financial Liabilities , which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available for eligible items that exist on the date that a company adopts SFAS No. 159 or when an entity first recognizes a financial asset or financial liability. The decision to elect the fair value option for an eligible item is irrevocable. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company s first fiscal year after November 15, 2007. The statement offered early adoption provisions that the Company elected not to exercise. There was no impact on the consolidated financial statements of the Company as a result of the adoption of SFAS No. 159 during the first six months of 2008 since the Company has not elected the fair value option for any eligible items, as defined in SFAS No. 159.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) continued

In December 2007, FASB issued Statement No. 141 (revised 2007), Business Combinations. Statement No. 141R fundamentally changes the manner in which the entity will account for a business combination. This Statement is effective for business combinations for which the acquisition date is on or before fiscal years beginning on or after December 15, 2008 and is predominantly prospective. The Company is currently evaluating the impact of the adoption of Statement No. 141R.

In December 2007, FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Statement No. 160 changes the measurement, recognition and presentation of minority interests in consolidated subsidiaries (now referred to as noncontrolling interests). This Statement is effective for fiscal years beginning on or after December 15, 2008 and is prospective for the change related to measurement and recognition and retrospective for the changes related to presentation. The Company is currently evaluating the impact of the adoption of Statement No. 160.

In March 2008, the FASB issued Statement of Financial Accounting Standard No. 161 (SFAS No. 161), which provides for enhanced disclosures about how and why an entity uses derivatives and how and where those derivatives and related hedged items are reported in the entity s financial statements. SFAS No. 161 applies to all entities and all derivative instruments and related hedged items accounted for under SFAS No. 133, and is effective for the 2009 fiscal year. Among other things, SFAS No. 161 requires disclosures of an entity s objectives and strategies for using derivatives by primary underlying risk and certain disclosures about the potential future collateral or cash requirements as a result of contingent credit-related features. The Company is currently evaluating the impact of the adoption of SFAS No. 161.

NOTE 6 FAIR VALUE MEASURMENTS

As discussed in NOTE 5 above, on January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. There was no impact on the consolidated financial statements of the Company as a result of this adoption.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value. It also establishes a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

1. Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;
2. 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
3. Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) continued

Assets measured at fair value on a recurring basis comprise the following at June 30, 2008:

		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale	$ 245,446	$ 648	$ 244,798	$
Total	**$** 245,446	$ 648	$ 244,798	$

A small portion of the securities available for sale portfolio consists of common stocks issued by various unrelated bank holding companies. The fair values used by the Company are obtained from an independent pricing service, which represent quoted market prices for the identical securities (Level 1 inputs).

The large majority of the securities available for sale portfolio consist of U.S. government sponsored agency securities whereby the Company obtains fair values from an independent pricing service. The fair values are determined by pricing models that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2 inputs).

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis were not significant at June 30, 2008.

Table of Contents

Part I
Item 2

MANAGEMENT S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

QCR Holdings, Inc. is the parent company of Quad City Bank & Trust, Cedar Rapids Bank & Trust, Rockford Bank & Trust, First Wisconsin Bank & Trust, and Quad City Bancard, Inc.

Quad City Bank & Trust and Cedar Rapids Bank & Trust are Iowa-chartered commercial banks, Rockford Bank & Trust is an Illinois-chartered commercial bank, and First Wisconsin Bank & Trust is a Wisconsin-chartered bank. All are members of the Federal Reserve System with depository accounts insured to the maximum amount permitted by law by the Federal Deposit Insurance Corporation.

Quad City Bank & Trust commenced operations in 1994 and provides full-service commercial and consumer banking, and trust and asset management services to the Quad City area and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and Moline, Illinois. Quad City Bank & Trust also provides leasing services through its 80%-owned subsidiary, M2 Lease Funds, located in Brookfield, Wisconsin. During the first quarter of 2008, Quad City Bank & Trust acquired CMG Investment Advisors, LLC, which is an investment management and advisory company.

Cedar Rapids Bank & Trust commenced operations in 2001 and provides full-service commercial and consumer banking services to Cedar Rapids and adjacent communities through its main office located on First Avenue in downtown Cedar Rapids, Iowa and its branch facility located on Council Street in northern Cedar Rapids. Cedar Rapids Bank & Trust also provides residential real estate mortgage lending services through its 50%-owned joint venture, Cedar Rapids Mortgage Company.

Rockford Bank & Trust commenced operations in January 2005 and provides full-service commercial and consumer banking services to Rockford and adjacent communities through its main office located on Guilford Road at Alpine Road in Rockford, and its branch facility located in downtown Rockford.

On February 20, 2007, the Company completed a transaction that resulted in the acquisition of a Wisconsin bank charter, the transfer of the Wisconsin-based assets and liabilities of Rockford Bank & Trust into this charter, and the creation of First Wisconsin Bank & Trust. First Wisconsin Bank & Trust is a wholly owned subsidiary of the Company providing full-service commercial and consumer banking services in the Milwaukee area through its main office located in Brookfield, Wisconsin.

Bancard provides merchant and cardholder credit card processing services. Bancard currently provides credit card processing for its local merchants and agent banks and for cardholders of the Company s subsidiary banks and agent banks.

Table of Contents

Part I
Item 2

MANAGEMENT S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

OVERVIEW

The Company reported earnings for the second quarter ended June 30, 2008 of $1.8 million, which resulted in diluted earnings per share for common shareholders of $0.29. Earnings and diluted earnings per share for the second quarter of 2007 were $1.3 million and $0.23, respectively. This 39% improvement in earnings was the result of strong growth in net interest income and non-interest income which more than offset the increases in the provision for loan/leases losses and non-interest expense.

For the six months ended June 30, 2008, earnings totaled $2.5 million leading to diluted earnings per share of $0.34. By comparison, earnings and diluted earnings per share for the six months ended June 30, 2007 were $2.6 million and $0.45, respectively. During the first quarter of 2008, the Company experienced an increase in provision for loan/lease losses as a result of a $1.1 million charge-off and increases in the qualitative factors in the loan/lease reserve adequacy calculations across all of the bank subsidiaries and leasing company due to the uncertainty in the national and local economies. Earnings before the provision for loan/lease losses and taxes for the six months ended June 30, 2008 were $7.1 million which represents an increase of $2.3 million, or 47%, from $4.8 million for the six months ended June 30, 2007. Additionally, although the decrease in net income was modest, the decrease in diluted earnings per share was more significant as preferred stock dividends declared increased from $536 thousand to $892 thousand for the six months ended June 30, 2007 and 2008 resulting from the Company s issuance of $7.5 million of preferred stock in December 2007.

When compared to the first quarter of 2008, earnings increased from $686 thousand to $1.8 million, or 158%, for the second quarter of 2008. The primary reason for this increase in earnings was a sharp increase in the provision for loan/lease losses in first quarter as a result of a $1.1 million charge-off associated with a single lending relationship at First Wisconsin Bank & Trust.

The Company s operating results are derived largely from net interest income. Net interest income is the difference between interest income, principally from loans and investment securities, and interest expense, principally on borrowings and customer deposits. Changes in net interest income result from changes in volume, net interest spread and net interest margin. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

Table of Contents

Part I
Item 2

MANAGEMENT S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Net interest income increased $3.0 million, or 34%, to $11.8 million for the quarter ended June 30, 2008, from $8.8 million for the second quarter of 2007. For the second quarter of 2008, average earning assets increased by $204.0 million, or 17%, and average interest-bearing liabilities increased by $191.7 million, or 17%, when compared with average balances for the second quarter of 2007. A comparison of yields, spread and margin from the second quarter of 2008 to the second quarter of 2007 is as follows:

The average yield on interest-earning assets decreased 66 basis points.
The average cost of interest-bearing liabilities decreased 121 basis points.
The net interest spread improved 55 basis points from 2.53% to 3.08%.
The net interest margin improved 42 basis points from 2.94% to 3.36%.

Net interest income increased $5.3 million, or 31%, to $22.4 million for the six months ended June 30, 2008, from $17.1 million for the first six months of 2007. For the first six months of 2008, average earning assets increased by $197.5 million, or 17%, and average interest-bearing liabilities increased by $184.2 million, or 17%, when compared with average balances for the first two quarters of 2007. A comparison of yields, spread and margin from the first six months of 2008 to the first six months of 2007 is as follows:

The average yield on interest-earning assets decreased 46 basis points.
The average cost of interest-bearing liabilities decreased 90 basis points.
The net interest spread improved 44 basis points from 2.50% to 2.94%.
The net interest margin improved 34 basis points from 2.90% to 3.24%.

Table of Contents

Part I
Item 2

MANAGEMENT S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company s average balances, interest income/expense, and rates earned/paid on major balance sheet categories, as well as the components of change in net interest income, are presented in the following tables:

	For the three months ended June 30,					
	2008			2007		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
	(dollars in thousands)					
ASSETS						
Interest earning assets:						
Federal funds sold	$ 1,855	$ 17	3.67%	$ 7,627	$ 94	4.93%
Interest-bearing deposits at financial institutions	8,282	53	2.56%	6,470	101	6.24%
Investment securities (1)	243,827	3,192	5.24%	198,951	2,541	5.11%
Gross loans/leases receivable (2)	1,167,971	19,095	6.54%	1,004,869	18,437	7.34%
Total interest earning assets	$ 1,421,935	22,357	6.29%	$ 1,217,917	21,173	6.95%
Noninterest-earning assets:						
Cash and due from banks	$ 36,182			$ 37,050		
Premises and equipment	32,278			32,204		
Less allowance for estimated losses on loans/leases						