QCR HOLDINGS INC
Form 10-Q
May 09, 2007

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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 AND EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer 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 May 1, 2007, the Registrant had outstanding 4,573,584 shares of common stock, $1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES
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QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
March 31, 2007 and December 31, 2006

	March 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 34,317,262	$ 42,502,770
Federal funds sold	7,315,000	2,320,000
Interest-bearing deposits at financial institutions	19,982,587	2,130,096
Securities held to maturity, at amortized cost	350,000	350,000
Securities available for sale, at fair value	179,657,017	194,423,893
	180,007,017	194,773,893
Loans receivable held for sale	7,850,085	6,186,632
Loans/leases receivable held for investment	983,015,235	954,560,692
	990,865,320	960,747,324
Less: Allowance for estimated losses on loans/leases	(11,074,612)	(10,612,082)
	979,790,708	950,135,242
Premises and equipment, net	32,091,285	32,524,840
Goodwill	3,222,688	3,222,688
Intangible asset	872,151	
Accrued interest receivable	7,120,132	7,160,298
Bank-owned life insurance	19,081,086	18,877,526
Other assets	20,022,903	18,027,603
Total assets	$ 1,303,822,819	$ 1,271,674,956
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 121,723,033	$ 124,184,486
Interest-bearing	756,116,164	751,262,781
Total deposits	877,839,197	875,447,267
Short-term borrowings	119,232,113	111,683,951
Federal Home Loan Bank advances	165,298,927	151,858,749
Other borrowings	12,239,486	3,761,636

Junior subordinated debentures	36,085,000	36,085,000
Other liabilities	19,309,112	20,592,953
Total liabilities	1,230,003,835	1,199,429,556
Minority interest in consolidated subsidiaries	1,451,926	1,362,820
STOCKHOLDERS EQUITY		
Preferred stock, $1 par value; shares authorized 250,000;	268	268
March 2007 - 268 shares issued and outstanding,		
December 2006 - 268 shares issued and outstanding,		
Common stock, $1 par value; shares authorized 10,000,000	4,565,158	4,560,629
March 2007 and December 2006 - 4,565,158 shares issued and outstanding,		
Additional paid-in capital	34,430,226	34,293,511
Retained earnings	32,994,899	32,000,213
Accumulated other comprehensive income	376,507	27,959
Total stockholders equity	72,367,058	70,882,580
Total liabilities and stockholders equity	$ 1,303,822,819	$ 1,271,674,956

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QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
Three Months Ended March 31

	2007	2006
Interest and dividend income:		
Loans/leases, including fees	$ 17,488,896	$ 12,813,995
Securities:		
Taxable	1,974,199	1,693,002
Nontaxable	276,832	169,397
Interest-bearing deposits at financial institutions	122,333	42,479
Federal funds sold	79,811	149,976
Total interest and dividend income	19,942,071	14,868,849
Interest expense:		
Deposits	7,960,901	5,286,505
Short-term borrowings	1,144,867	562,421
Federal Home Loan Bank advances	1,719,877	1,273,480
Other borrowings	131,950	109,370
Junior subordinated debentures	650,135	520,252
Total interest expense	11,607,730	7,752,028
Net interest income	8,334,341	7,116,821
Provision for loan/lease losses	406,457	543,844
Net interest income after provision for loan/lease losses	7,927,883	6,572,977
Noninterest income:		
Credit card fees, net of processing costs	381,983	495,793
Trust department fees	919,111	781,293
Deposit service fees	578,684	465,416
Gains on sales of loans, net	274,731	205,235
Securities (losses) gains, net	0	(142,586)
Gains on sales of foreclosed assets	2,430	5,440
Earnings on bank-owned life insurance	203,559	249,708
Investment advisory and management fees, gross	376,535	300,543
Other	390,796	435,207
Total noninterest income	3,127,829	2,796,049
Noninterest expenses:		
Salaries and employee benefits	5,554,746	4,919,278

Professional and data processing fees	928,648	790,838
Advertising and marketing	237,730	243,307
Occupancy and equipment expense	1,218,772	1,250,013
Stationery and supplies	154,722	169,369
Postage and telephone	253,856	225,130
Bank service charges	141,630	135,536
Insurance	166,277	133,076
Loss on disposals/sales of fixed assets	239,016	0
Other	306,121	326,966
Total noninterest expenses	9,201,518	8,193,513
Income before income taxes	1,854,194	1,175,513
Federal and state income taxes	500,566	288,958
Income before minority interest in net income of consolidated subsidiaries	1,353,628	886,555
Minority interest in income of consolidated subsidiaries	90,942	53,384
Net income	$ 1,262,686	$ 833,171
Net income	$ 1,262,686	$ 833,171
Less preferred stock dividends	268,000	0
Net income available to common stockholders	$ 994,686	$ 833,171
Earnings per common share:		
Basic	$ 0.22	$ 0.18
Diluted	$ 0.22	$ 0.18
Weighted average common shares outstanding	4,564,664	4,535,591
Weighted average common and common equivalent shares outstanding	4,589,866	4,585,871
Cash dividends declared per common share	$ 0.00	$ 0.00
Comprehensive income	$ 1,611,234	$ 827,596

See Notes to Consolidated Financial Statements

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QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)
Three Months Ended March 31, 2007

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance December 31, 2006	**$ 268**	**$ 4,560,629**	**$ 34,293,511**	**$ 32,000,213**	**$ 27,959**	**$ 70,882,580**
Comprehensive income:						
Net income				1,262,686		1,262,686
Other comprehensive income, net of tax					348,548	348,548
Comprehensive income						**1,611,234**
Preferred cash dividends declared				(268,000)		(268,000)
Additional costs from fourth quarter 2006 issuance of preferred stock			(10,671)			(10,671)
Proceeds from issuance of 3,879 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan		3,879	56,307			60,186
Proceeds from issuance of 650 shares of common stock as a result of stock options exercised		650	4,942			5,592
Tax benefit of nonqualified stock options exercised			1,032			1,032
Stock compensation expense			85,105			85,105
Balance March 31, 2007	**$ 268**	**$ 4,565,158**	**$ 34,430,226**	**$ 32,994,899**	**$ 376,507**	**$ 72,367,058**

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QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Three Months Ended March 31

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,262,686	$ 833,171
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	589,850	574,295
Provision for loan/lease losses	406,457	543,844
Amortization of offering costs on subordinated debentures	3,579	3,579
Stock-based compensation expense	(118,386)	77,443
Minority interest in income of consolidated subsidiaries	90,942	53,384
Gain on sale of foreclosed assets	(2,430)	0
Amortization of premiums on securities, net	18,637	90,676
Investment securities losses, net	0	142,586
Loans originated for sale	(24,642,440)	(17,839,797)
Proceeds on sales of loans	23,255,521	16,072,806
Net gains on sales of loans	(274,731)	(205,235)
Net losses on disposals/sales of premises and equipment	239,016	0
Decrease (increase) in accrued interest receivable	40,166	(504,692)
Increase in other assets	(2,704,080)	(399,172)
Decrease in other liabilities	(769,074)	(3,067,156)
Net cash used in operating activities	$ (2,604,287)	$ (3,624,268)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in federal funds sold	(4,995,000)	2,760,000
Net increase in interest-bearing deposits at financial institutions	(17,852,491)	(1,312,441)
Proceeds from sale of foreclosed assets	15,430	0
Activity in securities portfolio:		
Purchases	(6,699,925)	(13,154,015)
Calls, maturities and redemptions	21,880,000	10,850,000
Paydowns	133,779	184,465
Activity in bank-owned life insurance:		
Purchases	0	(260,807)
Increase in cash value	(203,560)	(249,708)
Net loans/leases originated and held for investment	(28,398,469)	(27,570,227)
Purchase of premises and equipment	(156,295)	(730,090)
Purchase of intangible asset	(872,151)	0
Net cash used in investing activities	$ (37,148,682)	$ (29,482,823)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	2,391,930	48,884,526
Net increase (decrease) in short-term borrowings	7,548,162	(31,502,577)
Activity in Federal Home Loan Bank advances:		

Advances	31,000,000	3,000,000
Payments	(17,559,822)	(3,556,966)
Net increase (decrease) in other borrowings	8,477,850	(1,388,563)
Proceeds from issuance of junior subordinated debentures	0	10,310,000
Tax benefit of nonqualified stock options exercised	1,032	8,130
Payment of cash dividends	(346,798)	(181,249)
Costs from issuance of preferred stock, net	(10,671)	0
Proceeds from issuance of common stock, net	65,778	78,904
Net cash provided by financing activities	$ 31,567,461	$ 25,652,205
Net decrease in cash and due from banks	(8,185,508)	(7,454,886)
Cash and due from banks, beginning	42,502,770	38,956,627
Cash and due from banks, ending	$ 34,317,262	$ 31,501,741
Supplemental disclosure of cash flow information, cash payments for:		
Interest	$ 12,011,025	$ 7,006,831
Income/franchise taxes	$ 241,467	$ 969,958
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale, net	$ 348,548	$ (5,575)
Transfers of loans to other real estate owned	$ 0	$ 0

See Notes to Consolidated Financial Statements

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QCR HOLDINGS, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission for interim financial information and with the instructions to Form 10-Q. They do not include all of the information or footnotes required by United States generally accepted accounting principles for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2006. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. Any differences appearing between numbers presented in financial statements and management s discussion and analysis are due to rounding. Results for the period ended March 31, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007.

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.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of QCR Holdings, Inc. (the Company), a Delaware corporation, and its wholly owned subsidiaries, Quad City Bank and Trust Company (Quad City Bank & Trust), Cedar Rapids Bank and Trust Company (Cedar Rapids Bank & Trust), Rockford Bank and Trust Company (Rockford Bank & Trust), First Wisconsin Bank and Trust Company (First Wisconsin Bank & Trust), Quad City Bancard, Inc. (Bancard), and Quad City Liquidation Corporation (QCLC). Quad City Bank & Trust owns 80% of the equity interests of M2 Lease Funds, LLC (M2 Lease Funds). The Company also owns an equity investment of 57% in Velie Plantation Holding Company, LLC (Velie Plantation Holding Company). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company also wholly owns QCR Holdings Statutory Trust II (Trust II), QCR Holdings Statutory Trust III (Trust III), QCR Holdings Statutory Trust IV (Trust IV), and QCR Holdings Statutory Trust V (Trust V). These four entities were established by the Company for the sole purpose of issuing trust preferred securities. As required by current accounting rules, the Company s equity investments in these entities are not consolidated, but are included in other assets on the consolidated balance sheet for $1.1 million in aggregate at March 31, 2007. In addition to these ten wholly owned subsidiaries and two majority owned subsidiaries, the Company has an aggregate investment of $87 thousand in two affiliated companies, Nobel Electronic Transfer, LLC (Nobel) and Nobel Real Estate Investors, LLC (Nobel Real Estate). The Company owns 20% equity positions in both Nobel and Nobel Real Estate. In June 2005, Cedar Rapids Bank & Trust entered into a joint venture as a 50% owner of Cedar Rapids Mortgage Company, LLC (Cedar Rapids Mortgage Company).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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, 2006, for information related to the Company s stock option and incentive plans, stock appreciation rights (SARs) and stock purchase plan.

The Company accounts for stock-based compensation in accordance with 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 ($118) thousand and $3 thousand for the three months ended March 31, 2007 and 2006, respectively. A key component in the calculation of stock-based compensation expense is the market price of the Company s stock. A decline in the Company s stock price during the first quarter of 2007 contributed significantly to the recording of negative stock-based compensation expense for the period.

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 March 31,	
	2007	2006
Net income available to common stockholders, basic and diluted earnings	$ 994,686	$ 833,171
Weighted average common shares Outstanding	4,564,664	4,535,591
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	25,202	50,280
Weighted average common and common equivalent shares oustanding	4,589,866	4,585,871

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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 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 Bancard. Bancard provides credit card processing for merchants and cardholders of the Company s four subsidiary banks and approximately seventy-five 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 Leasing Services segment represents the operations of M2 Lease Funds. M2 Lease Funds is engaged in the business of leasing machinery and equipment to commercial and industrial businesses under direct financing lease contracts.

The Company s Parent and 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, the real estate holding operations of Velie Plantation Holding Company and the operations of QCLC.

Selected financial information on the Company s business segments is presented as follows for the three months ended March 31, 2007 and 2006.

QCR HOLDINGS, INC. AND SUBSIDIARIES
SELECTED FINANCIAL DATA BUSINESS SEGMENTS
Three Months Ended March 31, 2007 and 2006

Bank ust	Cedar Rapids Bank & Trust	Rockford Bank & Trust	First Wisconsin Bank & Trust	Credit Card Processing	Trust Management	Leasing Services	Parent and Other	Intercompan Elimination
Commercial Banking								
66,186	$ 5,894,559	$ 1,601,111	$ 372,277	$ 381,983	$ 919,111	$ 1,155,368	$ 104,283	$ (824,97
58%	26%	7%	2%	2%	4%	5%	0%	-
71,813	$ 529,356	$ (239,334)	$ (276,961)	$ 11,243	$ 289,144	$ 261,698	$ (689,430)	$ (294,84
132%	42%	-19%	-22%	1%	23%	21%	-55%	-2
54,775	$ 339,544,763	$ 106,425,359	$ 24,627,730	$ 1,185,374	$	$ 60,917,286	$ 126,069,805	$ (178,302,27
63%	26%	8%	2%	0%	0%	5%	10%	-1
34,971	$ 146,576	$ 75,265	$ 13,433	$ 7,941	$	$ 9,202	$ 2,462	$
57%	25%	13%	2%	1%	0%	2%	0%	
67,044	$ 64,452	$ 1,048	$ 23,751	$	$	$	$	$
43%	41%	1%	15%	0%	0%	0%	0%	
	$	$	$ 872,151	$	$	$ 3,222,688	$	$
0%	0%	0%	21%	0%	0%	79%	0%	

21,279	$ 4,609,274	$ 660,058	$	$ 495,793	$ 781,293	$ 784,098	$ 119,483	$ (506,38
61%	26%	4%	0%	3%	4%	4%	1%	-
00,818	$ 396,200	$ (320,011)	$	$ 97,431	$ 199,720	$ 269,460	$ (740,987)	$ (269,46
144%	48%	-38%	0%	12%	24%	32%	-89%	-3
63,827	$ 292,555,448	$ 51,818,830	$	$ 1,215,578	$	$ 39,286,090	$ 101,610,829	$ (136,696,14
67%	27%	5%	0%	0%	0%	4%	10%	-1
58,137	$ 154,412	$ 34,490	$	$ 8,390	$	$ 8,241	$ 625	$
64%	27%	6%	0%	1%	0%	1%	0%	
35,561	$ 110,433	$ 314,330	$	$ 1,491	$	$ 12,026	$ 6,249	$
39%	15%	43%	0%	0%	0%	2%	1%	
	$	$	$	$	$	$ 3,222,688	$	$
0%	0%	0%	0%	0%	0%	100%	0%	

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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. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The subsidiary banks evaluate each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the banks upon extension of credit, is based upon management s credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, marketable securities, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The subsidiary banks hold collateral, as described above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the banks would be required to fund the commitments. The maximum potential amount of future payments the banks could be required to make is represented by the contractual amount. If the commitment is funded, the banks would be entitled to seek recovery from the customer. At March 31, 2007 and December 31, 2006, no amounts were recorded as liabilities for the banks potential obligations under these guarantees.

As of March 31, 2007 and December 31, 2006, commitments to extend credit aggregated were $540.2 million and $459.3 million, respectively. As of March 31, 2007 and December 31, 2006, standby, commercial and similar letters of credit aggregated were $16.4 million and $18.6 million, respectively. Management does not expect that all of these commitments will be funded.

The Company has also executed contracts for the sale of mortgage loans in the secondary market in the amounts of $7.9 million and $6.2 million, at March 31, 2007 and December 31, 2006, respectively. These amounts are included in loans held for sale at the respective balance sheet dates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Residential mortgage loans sold to investors in the secondary market are sold with varying recourse provisions. Essentially, all loan sales agreements require the repurchase of a mortgage loan by the seller in situations such as breach of representation, warranty, or covenant, untimely document delivery, false or misleading statements, failure to obtain certain certificates or insurance, unmarketability, etc. Certain loan sales agreements also contain repurchase requirements based on payment-related defects that are defined in terms of the number of days/months since the purchase, the sequence number of the payment, and/or the number of days of payment delinquency. Based on the specific terms stated in the agreements of investors purchasing residential mortgage loans from the Company s subsidiary banks, the Company had $40.6 million and $39.7 million of sold residential mortgage loans with recourse provisions still in effect at March 31, 2007 and December 31, 2006, respectively. The subsidiary banks did not repurchase any loans from secondary market investors under the terms of loans sales agreements during the three months ended March 31, 2007 or the year ended December 31, 2006. In the opinion of management, the risk of recourse to the subsidiary banks is not significant, and accordingly no liabilities have been established related to such.

During 2004, Quad City Bank & Trust joined the Federal Home Loan Bank s (FHLB) Mortgage Partnership Finance (MPF) Program, which offers a risk-sharing alternative to selling residential mortgage loans to investors in the secondary market. Lenders funding mortgages through the MPF Program manage the credit risk of the loans they originate. The loans are subsequently funded by the FHLB and held within their portfolio, thereby managing the liquidity, interest rate, and prepayment risks of the loans. Lenders participating in the MPF Program receive monthly credit enhancement fees for managing the credit risk of the loans they originate. Any credit losses incurred on those loans will be absorbed first by private mortgage insurance, second by an allowance established by the FHLB, and third by withholding monthly credit enhancements due to the participating lender. At both March 31, 2007 and December 31, 2006, Quad City Bank & Trust had funded $13.8 million of mortgages through the FHLB s MPF Program with an attached credit exposure of $279 thousand.

Bancard is subject to the risk of cardholder chargebacks and its merchants being incapable of refunding the amount charged back. Management attempts to mitigate such risk by regular monitoring of merchant activity and in appropriate cases, holding cash reserves deposited by the local merchant. Throughout 2006, provisions were made to the allowance for chargeback losses based on the dollar volumes of merchant credit card and related chargeback activity. For the year ended December 31, 2006, monthly provisions were made totaling $4 thousand. At March 31, 2007 and December 31, 2006, Bancard had a merchant chargeback reserve of $72 thousand and $81 thousand, respectively. For the three months ended March 31, 2007, reserve adjustments, which are based on a rolling twelve months of chargeback history, were made reducing the allowance $9 thousand. Management will continually monitor merchant credit card volumes, related chargeback activity, and Bancard s level of the allowance for chargeback losses.

The Company also has a limited guarantee to MasterCard International, Incorporated, which is backed by a $750 thousand letter of credit from The Northern Trust Company. As of March 31, 2007 and December 31, 2006, there were no significant pending liabilities pursuant to this guarantee.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

In an arrangement with Goldman, Sachs and Company, Cedar Rapids Bank & Trust offers a cash management program for select customers. Using this cash management tool, the customer s demand deposit account performs like an investment account. Based on a predetermined minimum balance, which must be maintained in the account, excess funds are automatically swept daily to an institutional money market fund distributed by Goldman Sachs. As with a traditional demand deposit account, customers retain complete check-writing and withdrawal privileges. If the demand deposit account balance drops below the predetermined threshold, funds are automatically swept back from the money market fund at Goldman Sachs to the account at Cedar Rapids Bank & Trust to maintain the required minimum balance. Balances swept into the money market funds are not bank deposits, are not insured by any U.S. government agency, and do not require cash reserves to be set against the balances. At March 31, 2007 and December 31, 2006, the Company had $7.4 million and $23.5 million, respectively, of customer funds invested in this cash management program.

NOTE 5 INCOME TAXES

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 (FIN 48). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company s financial statements. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements.

The initial adoption of FIN 48 had no impact on our financial statements, and as a result, there was no cumulative effect related to adopting FIN 48. As of January 1, 2007, the amount of unrecognized tax benefits was $636 thousand, including $105 thousand of related accrued interest. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management s judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next 12 months.

The Company s federal income tax returns are open and subject to examination from the 2003 tax return year and forward. Our various state franchise and income tax returns are generally open from the 2002 and later tax return years based on individual state statute of limitations.

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NOTE 6 JUNIOR SUBORDINATED DEBENTURES

Junior subordinated debentures are summarized as of March 31, 2007 as follows:

Note Payable to Trust II	$ 12,372,000
Note Payable to Trust III	8,248,000
Note Payable to Trust IV	5,155,000
Note Payable to Trust V	10,310,000
	$ 36,085,000

In February 2004, the Company issued, in a private transaction, $12.0 million of fixed/floating rate capital securities and $8.0 million of floating rate capital securities through two newly formed subsidiaries, Trust II and Trust III, respectively. The securities issued by Trust II and Trust III mature in thirty years. The fixed/floating rate capital securities are callable at par after seven years, and the floating rate capital securities are callable at par after five years. The fixed/floating rate capital securities have a fixed rate of 6.93%, payable quarterly, for seven years, at which time they have a variable rate based on the three-month LIBOR, reset quarterly, and the floating rate capital securities have a variable rate based on the three-month LIBOR, reset quarterly, with the rate currently set at 8.20%. Trust II and Trust III used the proceeds from the sale of the trust preferred securities, along with the funds from their equity, to purchase junior subordinated debentures of the Company in the amounts of $12.4 million and $8.2 million, respectively. Trust preferred securities associated with these debentures were $20.0 million in aggregate at March 31, 2007. On June 30, 2004, the Company redeemed $12.0 million of 9.2% cumulative trust preferred securities issued by Trust I in 1999. During 2004, the Company recognized a loss of $747 thousand on the redemption of these trust preferred securities at their earliest call date, which resulted from the one-time write-off of unamortized costs related to the original issuance of the securities in 1999.

In May 2005, the Company issued $5.0 million of floating rate capital securities of QCR Holdings Statutory Trust IV. The securities represent the undivided beneficial interest in Trust IV, which was established by the Company for the sole purpose of issuing the trust preferred securities. The securities issued by Trust IV mature in thirty years, but are callable at par after five years. The trust preferred securities have a variable rate based on the three-month LIBOR, reset quarterly, with the current rate set at 7.16%. Interest is payable quarterly. Trust IV used the $5.0 million of proceeds from the sale of the trust preferred securities, in combination with $155 thousand of proceeds from its own equity, to purchase $5.2 million of junior subordinated debentures of the Company.

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On February 24, 2006, the Company announced the issuance of $10.0 million of fixed/floating rate capital securities of QCR Holdings Statutory Trust V. The securities represent the undivided beneficial interest in Trust V, which was established by the Company for the sole purpose of issuing the trust preferred securities. The securities issued by Trust V mature in thirty years, but are callable at par after five years. The trust preferred securities have a fixed rate of 6.62%, payable quarterly, for five years, at which time they have a variable rate based on the three-month LIBOR plus 1.55%, reset and payable quarterly. Trust V used the $10.0 million of proceeds from the sale of the trust preferred securities, in combination with $310 thousand of proceeds from its own equity to purchase $10.3 million of junior subordinated debentures of the Company.

NOTE 7 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. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that SFAS No. 157 may have on its consolidated financial statements.

In September 2006, FASB ratified Emerging Issues Task Force Issue No. 06-4, (EITF 06-04), Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements . EITF 06-04 requires a company to recognize the corresponding liability and compensation costs for endorsement split- dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. EITF 06-4 will be effective for fiscal years beginning after December 15, 2007. The Company is in the process of evaluating the impact that EITF 06-04 may have on its consolidated financial statements.

In February of 2007, FASB issued Statement of Financial Accounting Standard No. 159 (SFAS 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 offers early adoption provisions that the Company has elected not to exercise. The Company is in the process of evaluating the impact that SFAS No. 159 may have on its consolidated financial statements.

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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.

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 original office located in downtown Rockford, and its branch facility located on Guilford Road at Alpine Road in 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 Pewaukee, 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.

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OVERVIEW

THREE MONTHS ENDED MARCH 31, 2007

Supported by solid growth in revenue, net income for the first quarter of 2007 increased significantly from first quarter net income of one year ago, due primarily to an increase in interest income. Net income for the first quarter of 2007 was $1.3 million as compared to net income of $833 thousand for the same period in 2006, an increase of $430 thousand, or 52%. Both basic and diluted earnings per share for the first quarter of 2007 were $0.22, compared to $0.18 basic and diluted earnings per share for the like quarter in 2006. For the three months ended March 31, 2007, total revenue experienced an improvement of $5.4 million when compared to the same period in 2006. Contributing to this 31% improvement in revenue were increases in interest income of $5.1 million, or 34%, and in noninterest income of $332 thousand, or 12%. In the first quarter of 2007, although both the Company s net interest spread and margin showed improvement for the first time in seven quarters, each fell short of their comparables from the first quarter of 2006. The year-to-year increase in noninterest income was largely the result of a security loss of $143 thousand that was recorded in the first quarter of 2006. For the first quarter of 2007, the Company s provision for loan/lease losses decreased by $137 thousand, or 25%, when compared to the same period in 2006. The first quarter of 2007 reflected a year-to-year increase in noninterest expense of $1.0 million, or 12%, when compared to the same period in 2006. The increase in noninterest expense was predominately due to a 13% increase in salaries and employee benefits expense, in combination with a $239 thousand fixed asset loss in connection with Quad City Bank & Trust s contribution of two vacant lots to allow a retail development to take place adjacent to its Five Points facility. During the fourth quarter of 2006, the Company issued 268 shares of non-cumulative perpetual preferred stock. Preferred stock dividends declared during the first quarter of 2007 were $268 thousand, resulting in net income available to common stockholders of $995 thousand. Net income available to stockholders was $833 thousand for the first quarter of 2006.

The Company s net income for the first quarter of 2007 was $1.3 million, which was an increase in excess of $1.0 million from the fourth quarter of 2006. The prior quarter s net income was significantly impacted by a large charge-off associated with a single commercial credit in the Milwaukee market, which increased the Company s provision expense by $992 thousand and reduced fourth quarter 2006 net income by $649 thousand. Quarter-to-quarter total revenue increased by $883 thousand, or 4%, while total expense decreased by $726 thousand, or 3%. In a further comparison of the first quarter of 2007 to the fourth quarter of 2006, an increase in net interest income of $492 thousand, or 6%, was enhanced by a significant decrease in the provision for loan/lease losses of $1.3 million. In the first quarter of 2007, the Company experienced increases over the previous quarter in total non-interest income of $280 thousand, or 10%, due primarily to increases in trust department fees and investment advisory and management fees. Included in an increase in non-interest expenses of $416 thousand, or 5%, was the $239 thousand fixed asset loss recorded at Quad City Bank & Trust as described in the previous paragraph.

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NET INTEREST INCOME

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 the 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.

Net interest income increased $1.3 million, or 17%, to $8.5 million for the quarter ended March 31, 2007, from $7.2 million for the first quarter of 2006. For the first quarter of 2007, average earning assets increased by $215.3 million, or 22%, and average interest-bearing liabilities increased by $194.3 million, or 22%, when compared with average balances for the first quarter of 2006. A comparison of yields, spread and margin from the first quarter of 2007 to the first quarter of 2006 is as follows:

- The average yield on interest-earning assets increased 60 basis points.
- The average cost of interest-bearing liabilities increased 80 basis points.
- The net interest spread declined 20 basis points from 2.66% to 2.46%.
- The net interest margin declined 11 basis points from 2.98% to 2.87%.

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:

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	For the three months ended March 31, 2007			2006		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
ASSETS						
Interest earning assets:						
Federal funds sold	$ 7,024	$ 80	4.56%	$ 14,507	$ 150	4.14%
Interest-bearing deposits at financial institutions	9,671	122	5.05%	3,964	42	4.24%
Investment securities (1)	188,966	2,385	5.05%	182,886	1,950	4.26%
Gross loans/leases receivable (2)	975,044	17,489	7.17%	764,038	12,814	6.71%
Total interest earning assets	1,180,705	20,076	6.80%	965,395	14,956	6.20%
Noninterest-earning assets:						
Cash and due from banks	$ 35,187			$ 35,015		
Premises and equipment	32,159			25,715		
Less allowance for estimated losses on loans/leases	(10,816)			(9,028)		
Other	48,915			39,513		
Total assets	$ 1,286,150			$ 1,056,610		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 299,226	2,701	3.61%	$ 255,414	1,805	2.83%
Savings deposits	30,802	162	2.10%	32,363	166	2.05%
Time deposits	415,756	5,098	4.90%	337,572	3,316	3.93%
Short-term borrowings	121,451	1,145	3.77%	82,414	562	2.73%
Federal Home Loan Bank advances	158,873	1,720	4.33%	129,310	1,274	3.94%
Junior subordinated debentures	36,085	650	7.21%	30,930	520	6.72%
Other borrowings	8,001	132	6.60%	7,911	109	5.51%

Total interest-bearing liabilities	$ 1,070,194	11,608	4.34%	$ 875,914	7,752	3.54%
Noninterest-bearing demand	$ 119,819			$ 113,416		
Other noninterest-bearing liabilities	24,403			12,354		
Total liabilities	1,214,416			1,001,684		
Stockholders equity	71,734			54,926		
Total liabilities and stockholders equity	$ 1,286,150			$ 1,056,610		
Net interest income		$ 8,468			$ 7,204	
Net interest spread			2.46%			2.66%
Net interest margin			2.87%			2.98%
Ratio of average interest earning assets to average interest- bearing liabilities	110.33%			110.22%		

(1) Interest earned and yields on nontaxable investment securities are determined on a tax equivalent basis using a 34% tax rate for each period presented.

(2) Loan fees are not material and are included in interest income from loans receivable.

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Analysis of Changes of Interest Income/Interest Expense
For the three months ended March 31, 2007

	Inc./(Dec.) from Prior Period	Components of Change (1) Rate	Volume
	2007 vs. 2006 (Dollars in Thousands)		
INTEREST INCOME			
Federal funds sold	$ (70)	$ 90	$ (160)
Interest-bearing deposits at financial institutions	80	9	71
Investment securities (2)	435	368	