

QCR HOLDINGS INC
Form 10-Q
November 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 September 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 7th 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 November 1, 2013, the Registrant had outstanding 5,816,660 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 September 30, 2013 and December 31, 2012	2
Consolidated Statements of Income For the Three Months Ended September 30, 2013 and 2012	3
Consolidated Statements of Income For the Nine Months Ended September 30, 2013 and 2012	4
Consolidated Statements of Comprehensive Income For the Three and Nine Months Ended September 30, 2013 and 2012	5
Consolidated Statement of Changes in Stockholders' Equity For the Nine Months Ended September 30, 2013 and 2012	6-7
Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2013 and 2012	8-9
Notes to the Consolidated Financial Statements	10-33
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	34-67
Item 3 Quantitative and Qualitative Disclosures About Market Risk	68-69
Item 4 Controls and Procedures	70
<u>Part II</u> OTHER INFORMATION	
Item 1 Legal Proceedings	71
Risk Factors	71
	3

Item 1A	
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	71
Item 3 Defaults upon Senior Securities	71
Item 4 Mine Safety Disclosures	71
Item 5 Other Information	71
Item 6 Exhibits	72
Signatures	73

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

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$58,724,270	\$61,568,446
Federal funds sold	48,192,000	26,560,000
Interest-bearing deposits at financial institutions	15,862,796	22,359,490
Securities held to maturity, at amortized cost	131,361,845	72,079,385
Securities available for sale, at fair value	572,337,329	530,159,986
Total securities	703,699,174	602,239,371
Loans receivable held for sale	1,445,900	4,577,233
Loans/leases receivable held for investment	1,537,937,925	1,282,810,406
Gross loans/leases receivable	1,539,383,825	1,287,387,639
Less allowance for estimated losses on loans/leases	(22,062,389)	(19,925,204)
Net loans/leases receivable	1,517,321,436	1,267,462,435
Premises and equipment, net	38,996,016	31,262,390
Goodwill	3,222,688	3,222,688
Core deposit intangible	3,311,073	-
Bank-owned life insurance	51,544,616	45,620,489
Restricted investment securities	15,948,075	15,747,850
Other real estate owned, net	8,495,799	3,954,538
Other assets	20,396,495	13,732,795
Total assets	\$2,485,714,438	\$2,093,730,492
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$515,364,516	\$450,659,723
Interest-bearing	1,226,467,459	923,454,377
Total deposits	1,741,831,975	1,374,114,100
Short-term borrowings	169,259,562	171,082,961
Federal Home Loan Bank advances	205,350,000	202,350,000
Other borrowings	142,646,212	138,239,762
Junior subordinated debentures	40,257,438	36,085,000
Other liabilities	38,415,774	31,424,848

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Total liabilities	2,337,760,961	1,953,296,671
STOCKHOLDERS' EQUITY		
Preferred stock, \$1 par value; shares authorized 250,000 September 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 September 2013 - 5,931,848 shares issued and 5,810,602 outstanding December 2012 - 5,039,448 shares issued and 4,918,202 outstanding	5,931,848	5,039,448
Additional paid-in capital	91,825,249	78,912,791
Retained earnings	61,787,378	53,326,542
Accumulated other comprehensive income (loss)	(10,039,355)	4,706,683
Less treasury stock, September 30, 2013 and December 2012 - 121,246 common shares, at cost	(1,606,510)	(1,606,510)
Total stockholders' equity	\$ 147,953,477	140,433,821
Total liabilities and stockholders' equity	\$ 2,485,714,438	\$ 2,093,730,492

See Notes to Consolidated Financial Statements (Unaudited)

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

	2013	2012
Interest and dividend income:		
Loans/leases, including fees	\$ 18,262,579	\$ 15,804,330
Securities:		
Taxable	2,417,515	2,781,889
Nontaxable	1,090,880	690,466
Interest-bearing deposits at financial institutions	72,808	75,818
Restricted investment securities	143,640	131,967
Federal funds sold	8,821	3,055
Total interest and dividend income	21,996,243	19,487,525
Interest expense:		
Deposits	1,393,745	1,488,749
Short-term borrowings	57,277	60,500
Federal Home Loan Bank advances	1,704,824	1,809,888
Other borrowings	1,201,498	1,238,254
Junior subordinated debentures	328,563	260,616
Total interest expense	4,685,907	4,858,007
Net interest income	17,310,336	14,629,518
Provision for loan/lease losses	1,366,984	1,496,194
Net interest income after provision for loan/lease losses	15,943,352	13,133,324
Noninterest income:		
Trust department fees	1,312,349	914,586
Investment advisory and management fees	634,446	575,711
Deposit service fees	1,228,685	847,343
Gains on sales of residential real estate loans	184,596	424,255
Gains on sales government guaranteed portions of loans	338,338	260,291
Securities gains	416,936	-
Earnings on bank-owned life insurance	466,028	399,925
Credit card issuing fees, net of processing costs	57,538	140,542
Losses on other real estate owned, net	(36,745)	(745,799)
Other	1,332,482	1,300,328
Total noninterest income	5,934,653	4,117,182
Noninterest expense:		
Salaries and employee benefits	9,802,712	8,201,323
Occupancy and equipment expense	1,914,996	1,459,901
Professional and data processing fees	1,902,799	1,065,780

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

FDIC and other insurance	712,954	599,422
Loan/lease expense	396,477	273,166
Advertising and marketing	406,085	437,130
Postage and telephone	276,580	190,868
Stationery and supplies	143,226	139,592
Bank service charges	306,539	211,378
Acquisition and data conversion costs	388,663	-
Other	776,237	452,957
Total noninterest expense	17,027,268	13,031,517
Net income before income taxes	4,850,737	4,218,989
Federal and state income tax expense	1,038,793	1,034,479
Net income	\$3,811,944	\$3,184,510
Less: Net income attributable to noncontrolling interests	-	127,177
Net income attributable to QCR Holdings, Inc.	\$3,811,944	\$3,057,333
Less: Preferred stock dividends	810,837	810,837
Net income attributable to QCR Holdings, Inc. common stockholders	\$3,001,107	\$2,246,496
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$0.52	\$0.45
Diluted	\$0.51	\$0.44
Weighted average common shares outstanding	5,806,019	4,978,699
Weighted average common and common equivalent shares outstanding	5,915,279	5,080,288
Cash dividends declared per common share	\$-	\$-

See Notes to Consolidated Financial Statements (Unaudited)

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

	2013	2012
Interest and dividend income:		
Loans/leases, including fees	\$49,721,011	\$47,748,276
Securities:		
Taxable	7,507,796	8,353,482
Nontaxable	2,837,453	1,624,577
Interest-bearing deposits at financial institutions	194,286	288,400
Restricted investment securities	399,896	378,067
Federal funds sold	12,684	3,055
Total interest and dividend income	60,673,126	58,395,857
Interest expense:		
Deposits	3,687,391	4,834,006
Short-term borrowings	224,979	202,731
Federal Home Loan Bank advances	5,164,258	5,503,329
Other borrowings	3,555,146	3,719,730
Junior subordinated debentures	831,647	787,597
Total interest expense	13,463,421	15,047,393
Net interest income	47,209,705	43,348,464
Provision for loan/lease losses	3,944,903	3,325,109
Net interest income after provision for loan/lease losses	43,264,802	40,023,355
Noninterest income:		
Trust department fees	3,549,200	2,650,552
Investment advisory and management fees	1,938,881	1,776,499
Deposit service fees	3,190,731	2,626,822
Gains on sales of residential real estate loans	722,368	987,021
Gains on sales government guaranteed portions of loans	1,949,300	978,936
Securities gains	433,396	104,600
Earnings on bank-owned life insurance	1,328,598	1,196,987
Bargain purchase gain on Community National Acquisition	1,841,385	-
Credit card issuing fees, net of processing costs	192,509	409,730
Losses on other real estate owned, net	(566,714)	(1,324,468)
Other	3,507,784	2,734,890
Total noninterest income	18,087,438	12,141,569
Noninterest expense:		
Salaries and employee benefits	27,731,628	24,581,642
Occupancy and equipment expense	4,930,707	4,177,076

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Professional and data processing fees	4,481,613	3,342,847
FDIC and other insurance	1,896,255	1,756,493
Loan/lease expense	893,436	755,066
Advertising and marketing	1,082,694	1,057,246
Postage and telephone	752,882	716,050
Stationery and supplies	404,614	417,769
Bank service charges	866,379	609,599
Acquisition and data conversion costs	1,177,567	-
Other-than-temporary impairment losses on securities	-	62,400
Other	2,002,342	1,402,492
Total noninterest expense	46,220,117	38,878,680
Net income before income taxes	15,132,123	13,286,244
Federal and state income tax expense	4,009,804	3,425,506
Net income	\$ 11,122,319	\$ 9,860,738
Less: Net income attributable to noncontrolling interests	-	494,431
Net income attributable to QCR Holdings, Inc.	\$ 11,122,319	\$ 9,366,307
Less: Preferred stock dividends	2,432,512	2,685,248
Net income attributable to QCR Holdings, Inc. common stockholders	\$ 8,689,807	\$ 6,681,059
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$ 1.62	\$ 1.37
Diluted	\$ 1.59	\$ 1.35
Weighted average common shares outstanding	5,375,557	4,871,626
Weighted average common and common equivalent shares outstanding	5,482,298	4,938,514
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 Nine Months Ended September 30,**

	Three Months Ended September 30,	
	2013	2012
Net income	\$3,811,944	\$3,184,510
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(800,796)	2,660,251
Less reclassification adjustment for gains included in net income before tax	416,936	-
	(1,217,732)	2,660,251
Tax expense (benefit)	(399,541)	1,016,673
Other comprehensive income (loss), net of tax	(818,191)	1,643,578
Comprehensive income attributable to QCR Holdings, Inc.	\$2,993,753	\$4,828,088

	Nine Months Ended September 30,	
	2013	2012
Net income	\$11,122,319	\$9,860,738
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	(23,395,367)	2,313,706
Less reclassification adjustment for gains included in net income before tax	433,396	104,600
	(23,828,763)	2,209,106
Tax expense (benefit)	(9,082,725)	841,718
Other comprehensive income (loss), net of tax	(14,746,038)	1,367,388
Comprehensive income (loss) attributable to QCR Holdings, Inc.	\$(3,623,719)	\$11,228,126

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)****Nine Months Ended September 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
Balance December 31, 2012	\$54,867	\$5,039,448	\$78,912,791	\$53,326,542	\$4,706,683	\$-	\$(1,606,510)	\$140,433,822
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 options exercised	-	(7,048)	(111,628)	-	-	-	-	(118,676)
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 19,547 shares of common stock in connection with restricted stock vested,	-	(16,798)	(289,113)	-	-	-	-	(305,911)

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

net

Balance March 31, 2013	\$54,867	\$5,057,562	\$79,041,338	\$55,780,849	\$3,870,325	\$-	\$(1,606,510)	\$142,198,430
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 Plan	-	9,560	104,221	-	-	-	-	113,781
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)	-	-	-	-	-
Balance June 30, 2013	\$54,867	\$5,918,313	\$91,514,136	\$58,786,271	\$(9,221,164)	\$-	\$(1,606,510)	\$145,445,910
Net income	-	-	-	3,811,944	-	-	-	3,811,944
Other comprehensive loss, net of tax	-	-	-	-	(818,191)	-	-	(818,191)
Preferred cash dividends declared	-	-	-	(810,837)	-	-	-	(810,837)
Proceeds from issuance of 5,973 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	5,973	65,116	-	-	-	-	71,089
Proceeds from issuance of 7,230 shares of common stock as a result of stock options	-	7,230	76,718	-	-	-	-	83,948

exercised

Tax benefit of

nonqualified stock

6,026

6,026

options exercised

Stock compensation

-

-

163,585

163,585

expense

Restricted stock awards

-

332

(332) -

-

-

-

-

**Balance September 30,
2013**

\$54,867

\$5,931,848

\$91,825,249

\$61,787,378

\$(10,039,355)

\$-

\$(1,606,510)

\$147,953,47

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED) -
Continued****Nine Months Ended September 30, 2013 and 2012**

	Preferred Stock	Common Stock	Additional	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Treasury Stock	Total
Balance								
December 31, 2011	\$65,090	\$4,879,435	\$89,702,533	\$44,585,902	\$4,754,714	\$2,051,538	\$(1,606,510)	\$144,432,702
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
Proceeds from issuance of 276 shares of common stock as a result of stock options exercised	-	276	2,374	-	-	-	-	2,650
Exchange of 576 shares of common stock	-	(576)	(2,103)	-	-	-	-	(2,679)

in connection with payroll taxes for restricted stock								
Tax benefit of nonqualified stock options exercised			-					-
Stock compensation expense	-	-	326,245					326,245
Restricted stock awards	-	57,770	(57,770)	-	-	-	-	-
Other adjustments to noncontrolling interests	-	-	-	-	-	(2,066)	-	(2,066
Balance								
March 31, 2012	\$65,090	\$4,944,672	\$90,026,845	\$46,884,095	\$3,237,479	\$2,215,503	\$(1,606,510)	\$145,767,1
Net income	-	-	-	3,072,156	-	201,223	-	3,273,379
Other comprehensive loss, net of tax	-	-	-	-	1,241,045	-	-	1,241,045
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 as a result of stock purchased under the Employee Stock Purchase Plan	-	10,856	78,055	-	-	-	-	88,911
Proceeds from issuance of 9,090 shares of	-	9,090	79,902	-	-	-	-	88,992

common stock 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
Balance June 30, 2012	\$54,867	\$4,968,307	\$80,180,869	\$48,831,374	\$4,478,524	\$2,414,661	\$(1,606,510)	\$139,322,0
Net income	-	-	-	3,057,333	-	127,177	-	3,184,510
Other comprehensive income, net of tax	-	-	-	-	1,643,578	-	-	1,643,578
Preferred cash dividends declared	-	-	-	(810,837)	-	-	-	(810,837
Purchase of noncontrolling interest	-	-	(2,133,417)	-	-	(2,393,802)	-	(4,527,219
Proceeds from issuance of 7,642 shares of common stock as a result of stock purchased under the Employee	-	7,642	58,326	-	-	-	-	65,968

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Stock Purchase Plan								
Proceeds from issuance of 7,075 shares of common stock as a result of stock options exercised	-	7,075	58,996	-	-	-	-	66,071
Proceeds from exercise of warrants to purchase 1,000 shares of common stock issued in conjunction with the Series A Subordinated Notes	-	1,000	9,000	-	-	-	-	10,000
Stock compensation expense	-	-	169,189					169,189
Other adjustments to noncontrolling interests	-	-	-	-	-	(2,066) -	(2,066
Balance								
September 30, 2012	\$54,867	\$4,984,024	\$78,342,963	\$51,077,870	\$6,122,102	\$145,970	\$(1,606,510)	\$139,121,2

See Notes to Consolidated Financial Statements (Unaudited)

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 11,122,319	\$ 9,860,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,995,829	1,740,621
Provision for loan/lease losses	3,944,903	3,325,109
Stock-based compensation expense	619,506	672,703
Losses on other real estate owned, net	566,714	1,324,468
Amortization of premiums on securities, net	2,862,396	2,950,609
Securities gains	(433,396)	(104,600)
Other-than-temporary impairment losses on securities	-	62,400
Loans originated for sale	(70,569,738)	(90,563,711)
Proceeds on sales of loans	76,372,739	90,077,297
Gains on sales of residential real estate loans, net	(722,368)	(987,021)
Gains on sales of government guaranteed portions of loans, net	(1,949,300)	(978,936)
Increase in cash value of bank-owned life insurance	(1,328,598)	(1,196,987)
Bargain purchase gain on Community National acquisition	(1,841,385)	-
Amortization of core deposit intangible	129,003	-
Accretion of acquisition fair value adjustments, net	(592,620)	-
Decrease in other assets	7,319,681	3,101,454
Increase in other liabilities	3,177,088	1,473,626
Net cash provided by operating activities	\$ 30,672,773	\$ 20,757,770
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in federal funds sold	(9,297,000)	15,060,000
Net (increase) decrease in interest-bearing deposits at financial institutions	8,521,233	(22,686,336)
Proceeds from sales of other real estate owned	662,586	4,201,516
Activity in securities portfolio:		
Purchases	(297,033,410)	(363,501,993)
Calls, maturities and redemptions	138,661,369	292,291,109
Paydowns	38,967,219	25,174,348
Sales	37,393,047	19,215,075
Activity in restricted investment securities:		
Purchases	(6,184,250)	(3,466,800)
Redemptions	7,243,400	3,939,600
Net increase in loans/leases originated and held for investment	(65,747,455)	(45,934,981)
Purchase of premises and equipment	(1,597,434)	(1,589,217)
Net cash received from Community National acquisition	3,025,073	-
Net cash used in investing activities	\$ (145,385,621)	\$ (77,297,679)

(Continued)

8

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

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	112,711,191	137,777,646
Net decrease in short-term borrowings	(1,823,399)	(72,647,752)
Activity in Federal Home Loan Bank advances:		
Advances	163,000,000	14,000,000
Calls and maturities	(160,000,000)	(22,400,000)
Proceeds from other borrowings term note	10,000,000	-
Advance (payment) on 364-day revolving note	(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	(2,853,434)	(3,278,112)
Redemption of 10,223 shares of Series F Noncumulative Perpetual Preferred Stock	-	(10,223,000)
Proceeds from issuance of common stock, net	384,315	418,510
Purchase of noncontrolling interests	-	(1,679,532)
Net cash provided by financing activities	\$111,868,673	\$43,967,760
Net decrease in cash and due from banks	(2,844,176)	(12,572,149)
Cash and due from banks, beginning	61,568,446	53,136,710
Cash and due from banks, ending	\$58,724,270	\$40,564,561

Supplemental disclosure of cash flow information, cash payments for:

Interest	\$13,546,215	\$15,225,564
Income/franchise taxes	\$1,371,120	\$916,000

Supplemental schedule of noncash investing activities:

Change in accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale, net	\$(14,746,038)	\$1,367,388
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	\$5,220,235	\$2,143,017
Liability established for purchase of noncontrolling interest	\$-	\$2,847,687

Supplemental disclosure of cash flow information for Community National Acquisition:**Fair value of assets acquired:**

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	\$-

Fair value of liabilities assumed:

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	-

Consideration paid:

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)

September 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 September 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 its banking subsidiary 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.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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 and Cedar Falls, Iowa. As a de novo bank, CNB commenced its operations in 1997. Previously, CNB also served Mason City, Iowa and Austin, Minnesota. On October 4, 2013, the Company sold certain assets and liabilities of the two Mason City branches of CNB. And, on October 11, 2013, the Company sold certain assets and liabilities of the two Austin branches of CNB. See Note 9 for additional discussion of these sales. The Company operated CNB as a separate banking charter since the acquisition until October 26, 2013, when CNB's charter was merged with and into CRBT. CNB's merged branch offices will operate as a division of CRBT under the name "Community Bank & Trust."

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 (10 years).

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.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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 is 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.

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
ASSETS	
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
LIABILITIES	
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
---------------------	--------------

CONSIDERATION PAID:

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 borrowings 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 (3.18% at September 30, 2013). Additionally, as part of the restructuring, 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 September 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.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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.

Unaudited pro forma combined operating results for the three and nine months ended September 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		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest income	\$21,394,747	\$22,106,037	\$63,759,583	\$66,069,066
Noninterest income	\$5,934,653	\$4,816,132	\$17,274,447	\$14,288,314
Net income	\$3,348,327	\$3,538,764	\$8,825,027	\$10,692,534
Net income attributable to QCR Holdings, Inc. common stockholders	\$2,537,490	\$2,600,750	\$6,392,515	\$7,512,855
Earnings per common share attributable to QCR Holdings, Inc. common stockholders				
Basic	\$0.44	\$0.45	\$1.10	\$1.29
Diluted	\$0.43	\$0.44	\$1.08	\$1.27

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.

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 September 30, 2013 and December 31, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2013:				
Securities held to maturity:				
Municipal securities	\$ 130,311,845	\$ 456,156	\$ (6,520,899)	\$ 124,247,102
Other securities	1,050,000	-	(4,740)	1,045,260
	\$ 131,361,845	\$ 456,156	\$ (6,525,639)	\$ 125,292,362
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 383,193,241	\$ 75,797	\$ (15,744,151)	\$ 367,524,887
Residential mortgage-backed and related securities	167,759,290	1,318,307	(2,533,127)	166,544,470
Municipal securities	36,242,570	978,391	(761,791)	36,459,170
Other securities	1,358,524	450,278	-	1,808,802
	\$ 588,553,625	\$ 2,822,773	\$ (19,039,069)	\$ 572,337,329
December 31, 2012:				
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
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 September 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
September 30, 2013:						
Securities held to maturity:						
Municipal securities	\$92,786,083	\$(6,520,899)	\$-	\$-	\$92,786,083	\$(6,520,899)
Other securities	495,260	(4,740)	-	-	495,260	(4,740)
	\$93,281,343	\$(6,525,639)	\$-	\$-	\$93,281,343	\$(6,525,639)
Securities available for sale:						
U.S. govt. sponsored agency securities	\$351,006,164	\$(15,744,151)	\$-	\$-	\$351,006,164	\$(15,744,151)
Residential mortgage-backed and related securities	106,889,560	(2,517,649)	1,279,117	(15,478)	108,168,677	(2,533,127)
Municipal securities	16,263,130	(761,791)	-	-	16,263,130	(761,791)
	\$474,158,854	\$(19,023,591)	\$1,279,117	\$(15,478)	\$475,437,971	\$(19,039,069)
December 31, 2012:						
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 September 30, 2013, the investment portfolio included 545 securities. Of this number, 341 securities had current unrealized losses with aggregate depreciation of less than 5% from the total amortized cost basis. Of these 341, only one had an unrealized loss for twelve months or more and the amount of the unrealized loss was only \$15,478. 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 September 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 nine months ended September 30, 2013 and 2012.

The Company did not recognize other-than-temporary impairment on any equity securities for the three and nine months ended September 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 or the third quarter of 2012.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and nine months ended September 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		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012
Proceeds from sales of securities	\$31,225,516	\$ -	\$37,393,047	\$19,215,075
Pre-tax gross gains from sales of securities	506,611	-	523,071	104,600
Pre-tax gross losses from sales of securities	(89,675)	-	(89,675)	-

The amortized cost and fair value of securities as of September 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" available for sale 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	\$2,066,615	\$2,066,245
Due after one year through five years	9,982,269	9,827,587
Due after one year through five years	119,312,961	113,398,530
	\$131,361,845	\$125,292,362
Securities available for sale:		
Due in one year or less	\$5,220,265	\$5,231,685
Due after one year through five years	42,271,445	42,124,141

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Due after five years	371,944,101	356,628,231
	\$419,435,811	\$403,984,057
Residential mortgage-backed and related securities	167,759,290	166,544,470
Other securities	1,358,524	1,808,802
	\$588,553,625	\$572,337,329

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 par and at predetermined dates prior to the stated maturity, summarized as follows:

	Amortized Cost	Fair Value
Securities held to maturity:		
Municipal securities	\$94,833,231	\$89,637,985
Securities available for sale:		
U.S. govt. sponsored agency securities	349,624,386	334,694,737
Municipal securities	23,163,866	22,996,424
	\$372,788,252	\$357,691,161

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 September 30, 2013 and December 31, 2012 is presented as follows:

	As of September 30, 2013	As of December 31, 2012
Commercial and industrial loans	\$471,256,974	\$394,244,252
Commercial real estate loans		
Owner-occupied commercial real estate	259,500,453	204,911,308
Commercial construction, land development, and other land	49,585,072	44,962,381
Other non owner-occupied commercial real estate	405,615,528	344,105,550
	714,701,053	593,979,239
Direct financing leases *	121,267,997	103,685,656
Residential real estate loans **	150,825,156	115,581,573
Installment and other consumer loans	77,226,363	76,720,514
	1,535,277,543	1,284,211,234
Plus deferred loan/lease origination costs, net of fees	4,106,282	3,176,405
	1,539,383,825	1,287,387,639
Less allowance for estimated losses on loans/leases	(22,062,389)	(19,925,204)
	\$1,517,321,436	\$1,267,462,435
* Direct financing leases:		
Net minimum lease payments to be received	\$136,848,442	\$117,719,380
Estimated unguaranteed residual values of leased assets	1,775,830	1,095,848
Unearned lease/residual income	(17,356,275)	(15,129,572)
	121,267,997	103,685,656
Plus deferred lease origination costs, net of fees	4,514,946	3,907,140
	125,782,943	107,592,796
Less allowance for estimated losses on leases	(2,323,509)	(1,990,395)

\$ 123,459,434 \$ 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 nine months ended September 30, 2013 and 2012.

**Includes residential real estate loans held for sale totaling \$1,445,900 and \$4,577,233 as of September 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 September 30, 2013 and December 31, 2012 is presented as follows:

Classes of Loans/Leases	As of September 30, 2013				Nonaccrual Loans/Leases	Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More		
Commercial and Industrial	\$466,597,618	\$1,493,016	\$208,603	\$-	\$2,957,737	\$471,256,974
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	257,258,899	41,296	58,933	-	2,141,325	259,500,453
Commercial Construction, Land Development, and Other Land	46,919,007	1,506,409	509,601	59,975	590,080	49,585,072
Other Non Owner-Occupied Commercial Real Estate	391,773,134	515,680	346,985	-	12,979,729	405,615,528
Direct Financing Leases	118,820,384	1,429,405	319,620	-	698,588	121,267,997
Residential Real Estate	148,740,223	346,108	52,029	-	1,686,796	150,825,156
Installment and Other Consumer	76,029,956	100,410	22,876	939	1,072,182	77,226,363
	\$1,506,139,221	\$5,432,324	\$1,518,647	\$60,914	\$22,126,437	\$1,535,277,543
As a percentage of total loan/lease	98.10	% 0.35	% 0.10	% 0.00	% 1.44	% 100.00

portfolio

Classes of Loans/Leases	As of December 31, 2012											
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total						
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 September 30, 2013 and December 31, 2012 are presented as follows:

Classes of Loans/Leases	As of September 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	\$-	\$ 2,957,737	\$ 886,165	\$ 3,843,902	15.42	%
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	-	2,141,325	-	2,141,325	8.59	%
Commercial Construction, Land Development, and Other Land	59,975	590,080	300,000	950,055	3.81	%
Other Non Owner-Occupied Commercial Real Estate	-	12,979,729	809,162	13,788,891	55.32	%
Direct Financing Leases	-	698,588	-	698,588	2.80	%
Residential Real Estate	-	1,686,796	373,922	2,060,718	8.27	%
Installment and Other Consumer	939	1,072,182	370,000	1,443,121	5.79	%
	\$60,914	\$ 22,126,437	\$ 2,739,249	\$ 24,926,600	100.00	%

*Nonaccrual loans/leases includes \$13,712,367 of troubled debt restructurings, including \$130,655 in commercial and industrial loans, \$12,935,422 in commercial real estate loans, \$374,102 in residential real estate loans, and \$272,188 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		
Commercial and Industrial	\$ 120,000	\$ 1,564,499	\$ 184,084	\$ 1,868,583	7.36	%

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Commercial Real Estate						
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 nine months ended September 30, 2013 and 2012, respectively, are presented as follows:

Three Months Ended September 30, 2013

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,790,828	\$12,190,497	\$2,187,605	\$1,165,341	\$822,108	\$21,156,379
Provisions charged to expense	765,582	88,761	338,984	102,523	71,134	1,366,984
Loans/leases charged off	(214,920)	(443,721)	(203,724)	(13,599)	(51,673)	(927,637)
Recoveries on loans/leases previously charged off	26,034	375,325	644	13,240	51,420	466,663
Balance, ending	\$5,367,524	\$12,210,862	\$2,323,509	\$1,267,505	\$892,989	\$22,062,389

Three Months Ended September 30, 2012

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,180,792	\$10,709,991	\$1,610,999	\$986,714	\$1,236,039	\$18,724,535
Provisions charged to expense	136,766	721,358	350,194	233,226	54,650	1,496,194
Loans/leases charged off	(214,036)	(552,959)	(111,326)	(183,031)	(88,378)	(1,149,730)
Recoveries on loans/leases previously charged off	69,959	175,467	35,118	-	65,205	345,749
Balance, ending	\$4,173,481	\$11,053,857	\$1,884,985	\$		