

QCR HOLDINGS INC
Form 10-Q
August 05, 2016

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 ended June 30, 2016

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) 743-7724

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of August 1, 2016, the Registrant had outstanding 13,062,382 shares of common stock, \$1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page Number(s)
<u>Part I</u>	
FINANCIAL INFORMATION	
Item 1	
Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets As of June 30, 2016 and December 31, 2015	3
Consolidated Statements of Income (Loss) For the Three Months Ended June 30, 2016 and 2015	4
Consolidated Statements of Income For the Six Months Ended June 30, 2016 and 2015	5
Consolidated Statements of Comprehensive Income (Loss) For the Three and Six Months Ended June 30, 2016 and 2015	6
Consolidated Statements of Changes in Stockholders' Equity For the Three and Six Months Ended June 30, 2016 and 2015	7
Consolidated Statements of Cash Flows For the Six Months Ended June 30, 2016 and 2015	8
Notes to Consolidated Financial Statements	
Note 1. Summary of Significant Accounting Policies	10
Note 2. Investment Securities	12
Note 3. Loans/Leases Receivable	17
Note 4. Borrowings	27
Note 5. Earnings Per Share	27
Note 6. Fair Value	28
Note 7. Business Segment Information	31
Note 8. Regulatory Capital Requirements	33
Note 9. Acquisition of Community State Bank and Common Stock Offering	35
Item 2	
Management's Discussion and Analysis of Financial Condition and Results of Operations	

Introduction	36
General	36
Executive Overview	36
Long-Term Financial Goals	38
Strategic Developments	39
GAAP to Non-GAAP Reconciliations	41
Net Interest Income (Tax Equivalent Basis)	43
Critical Accounting Policies	48

Results of Operations	
Interest Income	49
Interest Expense	49
Provision for Loan/Lease Losses	50
Noninterest Income	51
Noninterest Expense	54
Income Taxes	56
Financial Condition	57
Investment Securities	57
Loans/Leases	59
Allowance for Estimated Losses on Loans/Leases	61
Nonperforming Assets	63
Deposits	64
Borrowings	64
Stockholders' Equity	66
Liquidity and Capital Resources	66
Special Note Concerning Forward-Looking Statements	69
Item 3 Quantitative and Qualitative Disclosures About Market Risk	70
Item 4 Controls and Procedures	72
<u>Part II</u> OTHER INFORMATION	
Item 1 Legal Proceedings	73
Item 1A Risk Factors	73
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	73
Item 3 Defaults upon Senior Securities	73
Item 4 Mine Safety Disclosures	73
Item 5 Other Information	73
Item 6 Exhibits	74
Signatures	75
Throughout the Notes to the Consolidated Financial	

**Statements and
Management's
Discussion and
Analysis of
Financial
Condition and
Results of
Operations, we
use certain
acronyms and
abbreviations,
as defined in
Note 1.**

2

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
As of June 30, 2016 and December 31, 2015

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$49,581,154	\$41,742,321
Federal funds sold	20,825,000	19,850,000
Interest-bearing deposits at financial institutions	47,607,304	36,313,965
Securities held to maturity, at amortized cost	280,345,532	253,674,159
Securities available for sale, at fair value	230,613,784	323,434,982
Total securities	510,959,316	577,109,141
Loans receivable held for sale	1,558,500	565,850
Loans/leases receivable held for investment	1,921,214,897	1,797,456,825
Gross loans/leases receivable	1,922,773,397	1,798,022,675
Less allowance for estimated losses on loans/leases	(28,097,490)	(26,140,906)
Net loans/leases receivable	1,894,675,907	1,771,881,769
Bank-owned life insurance	56,359,784	55,485,655
Premises and equipment, net	38,751,532	37,350,352
Restricted investment securities	16,693,125	14,835,925
Other real estate owned, net	6,179,102	7,150,658
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,371,653	1,471,409
Other assets	37,207,723	26,784,392
Total assets	\$2,683,434,288	\$2,593,198,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$615,764,311	\$615,292,211
Interest-bearing	1,357,829,473	1,265,373,973
Total deposits	1,973,593,784	1,880,666,184
Short-term borrowings	51,561,748	144,662,716
Federal Home Loan Bank advances	196,900,000	151,000,000
Other borrowings	100,000,000	110,000,000
Junior subordinated debentures	33,412,643	38,499,052
Other liabilities	52,848,722	42,484,573
Total liabilities	2,408,316,897	2,367,312,525
STOCKHOLDERS' EQUITY		

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Preferred stock, \$1 par value; shares authorized 250,000	-	-
June 2016 and December 2015 - No shares issued or outstanding		
Common stock, \$1 par value; shares authorized 20,000,000	13,057,368	11,761,083
June 2016 - 13,057,368 shares issued and outstanding		
December 2015 - 11,761,083 shares issued and outstanding		
Additional paid-in capital	155,453,781	123,282,851
Retained earnings	105,024,027	92,965,645
Accumulated other comprehensive income (loss):		
Securities available for sale	2,730,155	(1,324,408)
Interest rate cap derivatives	(1,147,940)	(799,421)
Total stockholders' equity	275,117,391	225,885,750
Total liabilities and stockholders' equity	\$2,683,434,288	\$2,593,198,275

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	\$20,238,179	\$18,245,724
Securities:		
Taxable	1,192,541	1,735,495
Nontaxable	2,276,203	1,890,320
Interest-bearing deposits at financial institutions	62,242	64,665
Restricted investment securities	133,546	108,161
Federal funds sold	10,573	6,247
Total interest and dividend income	23,913,284	22,050,612
Interest expense:		
Deposits	1,344,398	1,083,487
Short-term borrowings	18,065	53,244
Federal Home Loan Bank advances	415,933	1,001,646
Other borrowings	824,437	1,108,442
Junior subordinated debentures	301,638	312,957
Total interest expense	2,904,471	3,559,776
Net interest income	21,008,813	18,490,836
Provision for loan/lease losses	1,197,850	2,348,665
Net interest income after provision for loan/lease losses	19,810,963	16,142,171
Noninterest income:		
Trust department fees	1,512,083	1,511,176
Investment advisory and management fees	692,738	758,433
Deposit service fees	946,810	924,642
Gains on sales of residential real estate loans, net	84,413	95,535
Gains on sales of government guaranteed portions of loans, net	1,603,890	69,346
Swap fee income	167,582	393,723
Securities gains, net	18,030	-
Earnings on bank-owned life insurance	480,520	433,152
Debit card fees	343,748	255,000
Correspondent banking fees	244,939	285,379
Participation service fees on commercial loan participations	246,010	223,827
Fee income from early termination of leases	66,043	76,722
Credit card issuing fees	139,073	135,649
Other	216,522	298,650
Total noninterest income	6,762,401	5,461,234
Noninterest expense:		
Salaries and employee benefits	10,917,473	11,091,952

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Occupancy and equipment expense	1,884,556	1,865,552
Professional and data processing fees	1,542,322	1,470,695
Acquisition costs	354,969	-
FDIC insurance, other insurance and regulatory fees	649,604	730,563
Loan/lease expense	154,349	208,552
Net cost of operations of other real estate	277,911	(47,876)
Advertising and marketing	433,451	489,504
Postage and communications	256,567	214,142
Stationery and supplies	157,924	136,808
Bank service charges	415,350	358,996
Losses on debt extinguishment, net	-	6,894,185
Correspondent banking expense	181,776	165,091
Other	517,501	523,470
Total noninterest expense	17,743,753	24,101,634
Net income (loss) before income taxes	8,829,611	(2,498,229)
Federal and state income tax expense (benefit)	2,153,144	(1,974,411)
Net income (loss)	\$6,676,467	\$(523,818)
Basic earnings (loss) per common share	\$0.54	\$(0.05)
Diluted earnings (loss) per common share	\$0.53	\$(0.05)
Weighted average common shares outstanding	12,335,077	9,946,744
Weighted average common and common equivalent shares outstanding	12,516,474	9,946,744
Cash dividends declared per common share	\$0.04	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	\$39,938,549	\$36,250,243
Securities:		
Taxable	2,548,744	3,678,260
Nontaxable	4,518,218	3,620,888
Interest-bearing deposits at financial institutions	122,559	141,719
Restricted investment securities	264,110	250,479
Federal funds sold	23,163	10,753
Total interest and dividend income	47,415,343	43,952,342
Interest expense:		
Deposits	2,634,196	2,155,932
Short-term borrowings	61,131	117,269
Federal Home Loan Bank advances	857,637	2,445,361
Other borrowings	1,649,520	2,340,328
Junior subordinated debentures	606,524	620,399
Total interest expense	5,809,008	7,679,289
Net interest income	41,606,335	36,273,053
Provision for loan/lease losses	3,270,835	4,059,121
Net interest income after provision for loan/lease losses	38,335,500	32,213,932
Noninterest income:		
Trust department fees	3,087,990	3,144,571
Investment advisory and management fees	1,351,123	1,468,476
Deposit service fees	1,877,889	1,825,998
Gains on sales of residential real estate loans, net	144,799	181,675
Gains on sales of government guaranteed portions of loans, net	2,482,418	140,319
Swap fee income	1,024,540	1,119,930
Securities gains, net	376,510	416,933
Earnings on bank-owned life insurance	874,129	911,891
Debit card fees	651,399	493,000
Correspondent banking fees	547,069	605,000
Participation service fees on commercial loan participations	456,719	445,776
Fee income from early termination of leases	77,793	161,560
Credit card issuing fees	275,728	269,810
Other	356,768	498,073
Total noninterest income	13,584,874	11,683,012
Noninterest expense:		
Salaries and employee benefits	21,718,380	22,126,404

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Occupancy and equipment expense	3,711,544	3,659,723
Professional and data processing fees	2,989,735	2,941,212
Acquisition costs	354,969	-
FDIC insurance, other insurance and regulatory fees	1,283,969	1,449,620
Loan/lease expense	317,168	511,475
Net cost of operations of other real estate	380,094	28,975
Advertising and marketing	819,710	907,741
Postage and communications	473,657	463,098
Stationery and supplies	322,795	279,363
Bank service charges	831,281	696,454
Losses on debt extinguishment, net	83,197	6,894,185
Correspondent banking expense	358,765	340,794
Other	1,052,987	1,006,751
Total noninterest expense	34,698,251	41,305,795
Net income before income taxes	17,222,123	2,591,149
Federal and state income tax expense (benefit)	4,172,167	(1,062,922)
Net income	\$13,049,956	\$3,654,071
Basic earnings per common share	\$1.08	\$0.41
Diluted earnings per common share	\$1.07	\$0.40
Weighted average common shares outstanding	12,064,349	8,961,327
Weighted average common and common equivalent shares outstanding	12,235,212	9,098,697
Cash dividends declared per common share	\$0.08	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**
Three and Six Months Ended June 30, 2016 and 2015

	Three Months Ended June 30,	
	2016	2015
Net income (loss)	\$6,676,467	\$(523,818)
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	2,081,800	(3,954,857)
Less reclassification adjustment for gains included in net income before tax	18,030	-
	2,063,770	(3,954,857)
Unrealized gains (losses) on interest rate cap derivatives:		
Unrealized holding gains (losses) arising during the period before tax	(159,691)	119,433
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	20,154	9,561
	(179,845)	109,872
Other comprehensive income (loss), before tax	1,883,925	(3,844,985)
Tax expense (benefit)	703,292	(1,466,064)
Other comprehensive income (loss), net of tax	1,180,633	(2,378,921)
Comprehensive income (loss)	\$7,857,100	\$(2,902,739)

	Six Months Ended June 30,	
	2016	2015
Net income	\$13,049,956	\$3,654,071
Other comprehensive income (loss):		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period before tax	6,945,518	443,347
Less reclassification adjustment for gains included in net income before tax	376,510	416,933
	6,569,008	26,414
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(549,627)	(252,950)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	35,591	10,463
	(585,218)	(263,413)
Other comprehensive income (loss), before tax	5,983,790	(236,999)
Tax expense (benefit)	2,277,746	(78,943)
Other comprehensive income (loss), net of tax	3,706,044	(158,056)

Comprehensive income	\$16,756,000	\$3,496,015
----------------------	--------------	-------------

See Notes to Consolidated Financial Statements (Unaudited)

6

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
Three and Six Months Ended June 30, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2015	\$11,761,083	\$123,282,851	\$92,965,645	\$ (2,123,829)	\$ -	\$225,885,750
Net income	-	-	6,373,489	-	-	6,373,489
Other comprehensive income, net of tax	-	-	-	2,525,411	-	2,525,411
Common cash dividends declared, \$0.04 per share	-	-	(470,873)	-	-	(470,873)
Proceeds from issuance of 5,054 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,054	94,560	-	-	-	99,614
Proceeds from issuance of 30,331 shares of common stock as a result of stock options exercised	30,331	382,639	-	-	-	412,970
Stock compensation expense	-	382,761	-	-	-	382,761
Tax benefit of nonqualified stock options exercised	-	22,508	-	-	-	22,508
Restricted stock awards	22,382	(22,382)	-	-	-	-
Exchange of 3,939 shares of common stock in connection with restricted stock vested, net	(3,939)	(84,972)	-	-	-	(88,911)
Balance March 31, 2016	\$11,814,911	\$124,057,965	\$98,868,261	\$ 401,582	\$ -	\$235,142,719
Net income	-	-	6,676,467	-	-	6,676,467
Other comprehensive income, net of tax	-	-	-	1,180,633	-	1,180,633
Common cash dividends declared, \$0.04 per share	-	-	(520,701)	-	-	(520,701)
Proceeds from the issuance of 1,215,000 shares of common stock, net of issuance costs	1,215,000	28,613,916	-	-	-	29,828,916
Proceeds from issuance of 6,982 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	6,982	142,887	-	-	-	149,869

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Proceeds from issuance of 20,975 shares of common stock as a result of stock options exercised	20,975	230,671	-	-	-	251,646
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	-	2,132,415	-	-	-	2,132,415
Stock compensation expense	-	187,569	-	-	-	187,569
Tax benefit of nonqualified stock options exercised	-	87,858	-	-	-	87,858
Restricted stock awards	(500)	500	-	-	-	-
Balance June 30, 2016	\$13,057,368	\$155,453,781	\$105,024,027	\$1,582,215	\$-	\$275,117,391

	Common Stock	Paid-In Capital	Additional Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2014	\$8,074,443	\$61,668,968	\$77,876,824	\$ (1,935,216)	\$(1,606,510)	\$144,078,509
Net income	-	-	4,177,889	-	-	4,177,889
Other comprehensive income, net of tax	-	-	-	2,220,865	-	2,220,865
Proceeds from issuance of 5,679 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,679	82,641	-	-	-	88,320
Proceeds from issuance of 9,688 shares of common stock as a result of stock options exercised	9,688	94,728	-	-	-	104,416
Stock compensation expense	-	367,775	-	-	-	367,775
Tax benefit of nonqualified stock options exercised	-	15,651	-	-	-	15,651
Exchange of 3,272 shares of common stock in connection with restricted stock vested, net	(3,272)	(54,188)	-	-	-	(57,460)
Restricted stock awards	26,502	(26,502)	-	-	-	-
Balance March 31, 2015	\$8,113,040	\$62,149,073	\$82,054,713	\$ 285,649	\$(1,606,510)	\$150,995,965
Net loss	-	-	(523,818)	-	-	(523,818)
Other comprehensive loss, net of tax	-	-	-	(2,378,921)	-	(2,378,921)

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Common cash dividends declared, \$0.04 per share	-	-	(464,706)	-	-	(464,706)
Proceeds from issuance of 3,680,000 shares of common stock, net of issuance costs	3,680,000	59,804,123	-	-	-	63,484,123
Proceeds from issuance of 8,558 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	8,558	128,927	-	-	-	137,485
Proceeds from issuance of 17,240 shares of common stock as a result of stock options exercised	17,240	238,717	-	-	-	255,957
Tax benefit of nonqualified stock options exercised	-	15,827	-	-	-	15,827
Exchange of 630 shares of common stock in connection with stock options exercised	(630)	(10,616)	-	-	-	(11,246)
Stock compensation expense	-	186,751	-	-	-	186,751
Restricted stock awards	1,616	(1,616)	-	-	-	-
Balance June 30, 2015	\$11,819,824	\$122,511,186	\$81,066,189	\$ (2,093,272)	\$(1,606,510)	\$211,697,417

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Six Months Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 13,049,956	\$ 3,654,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,552,176	1,520,380
Provision for loan/lease losses	3,270,835	4,059,121
Stock-based compensation expense	570,330	554,526
Deferred compensation expense accrued	623,831	767,292
Losses (gains) on other real estate owned, net	157,739	(69,923)
Amortization of premiums on securities, net	611,900	485,085
Securities gains, net	(376,510)	(416,933)
Loans originated for sale	(43,526,263)	(15,205,967)
Proceeds on sales of loans	45,160,830	14,532,761
Gains on sales of residential real estate loans	(144,799)	(181,675)
Gains on sales of government guaranteed portions of loans	(2,482,418)	(140,319)
Losses on debt extinguishment, net	83,197	6,894,185
Amortization of core deposit intangible	99,756	99,756
Accretion of acquisition fair value adjustments, net	(61,065)	(267,414)
Increase in cash value of bank-owned life insurance	(874,129)	(911,891)
Increase in other assets	(4,330,548)	(4,767,394)
Increase (decrease) in other liabilities	1,386,323	(1,722,759)
Net cash provided by operating activities	\$ 14,771,141	\$ 8,882,902
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in federal funds sold	(975,000)	24,225,000
Net increase in interest-bearing deposits at financial institutions	(11,293,339)	(12,348,141)
Proceeds from sales of other real estate owned	864,817	1,723,317
Activity in securities portfolio:		
Purchases	(97,132,279)	(181,272,218)
Calls, maturities and redemptions	96,704,276	177,366,721
Paydowns	13,321,512	8,003,250
Sales	61,075,145	54,966,923
Activity in restricted investment securities:		
Purchases	(1,857,200)	(1,338,650)
Redemptions	-	3,431,700
Net increase in loans/leases originated and held for investment	(124,972,098)	(85,814,353)
Purchase of premises and equipment	(2,953,356)	(3,927,981)
Net cash used in investing activities	\$ (67,217,522)	\$ (14,984,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	92,920,820	157,102,985
Net decrease in short-term borrowings	(93,100,968)	(99,776,818)
Activity in Federal Home Loan Bank advances:		

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Term advances	-	5,000,000
Maturities	(9,000,000)	(22,000,000)
Net change in short-term and overnight advances	64,900,000	21,500,000
Prepayments	(10,524,197)	(81,192,185)
Activity in other borrowings:		
Maturities and scheduled principal payments	-	(7,350,000)
Prepayments	(10,759,000)	(29,177,000)
Retirement of junior subordinated debentures	(3,955,000)	-
Payment of cash dividends on common stock	(939,456)	(315,954)
Net proceeds from the common stock offering, 3,680,000 shares issued	-	63,484,123
Net proceeds from the common stock offering, 1,215,000 shares issued	29,828,916	-
Proceeds from issuance of common stock, net	914,099	586,178
Net cash provided by financing activities	\$60,285,214	\$7,861,329
Net increase in cash and due from banks	7,838,833	1,759,799
Cash and due from banks, beginning	41,742,321	38,235,019
Cash and due from banks, ending	\$49,581,154	\$39,994,818

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued
Six Months Ended June 30, 2016 and 2015

	2016	2015
Supplemental disclosure of cash flow information, cash payments for:		
Interest	\$5,852,789	\$7,903,945
Income/franchise taxes	\$4,869,300	\$1,940,275
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale and derivative instruments, net	\$3,706,044	\$(158,056)
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(88,911)	\$(68,706)
Tax benefit of nonqualified stock options exercised	\$110,366	\$31,478
Transfers of loans to other real estate owned	\$51,000	\$837,782
Due to broker for purchases of securities	\$(1,500,000)	\$-
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	\$2,132,415	\$-

See Notes to Consolidated Financial Statements (Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2016

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, 2015, included in the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2016. 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. GAAP for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results of the interim period ended June 30, 2016, are not necessarily indicative of the results expected for the year ending December 31, 2016, or for any other period.

The acronyms and abbreviations identified below are used throughout this Quarterly Report on Form 10-Q. It may be helpful to refer back to this page as you read this report.

Allowance: Allowance for estimated losses on loans/leases
AOCI: Accumulated other comprehensive income (loss)
AFS: Available for sale
ASU: Accounting Standards Update
BOLI: Bank-owned life insurance
Caps: Interest rate cap derivatives
Community National: Community National Bancorporation

GAAP: Generally Accepted Accounting Principles
HTM: Held to maturity
m2: m2 Lease Funds, LLC
MD&A: Management's Discussion & Analysis
NIM: Net interest margin
NPA: Nonperforming asset
NPL: Nonperforming loan

CNB: Community National Bank	OREO: Other real estate owned
CRBT: Cedar Rapids Bank & Trust Company	OTTI: Other-than-temporary impairment
CRE: Commercial real estate	Provision: Provision for loan/lease losses
CSB: Community State Bank	QCBT: Quad City Bank & Trust Company
C&I: Commercial and industrial	RB&T: Rockford Bank & Trust Company
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act	ROAA: Return on Average Assets
EPS: Earnings per share	SBA: U.S. Small Business Administration
Exchange Act: Securities Exchange Act of 1934, as amended	SEC: Securities and Exchange Commission
FASB: Financial Accounting Standards Board	TA: Tangible assets
FDIC: Federal Deposit Insurance Corporation	TCE: Tangible common equity
FHLB: Federal Home Loan Bank	TDRs: Troubled debt restructurings
FRB: Federal Reserve Bank of Chicago	The Company: QCR Holdings, Inc.
	USDA: U.S. Department of Agriculture

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include three commercial banks: QCBT, CRBT, and RB&T. All are state-chartered commercial banks. The Company also engages in direct financing lease contracts through m2 Lease Funds, a wholly-owned subsidiary of QCBT. All material intercompany transactions and balances have been eliminated in consolidation.

On May 23, 2016, the Company announced the signing of a definitive agreement to acquire CSB, headquartered in Ankeny, Iowa, from Van Diest Investment Company. The transaction is expected to close during the third quarter of 2016, subject to certain customary closing conditions. The financial results of CSB are not recognized in this Report. See Note 9 to the Consolidated Financial Statements for additional information about the planned acquisition.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Recent accounting developments: In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was originally effective for the Company on January 1, 2017, however, FASB issued ASU 2015-14 which defers the effective date in order to provide additional time for both public and private entities to evaluate the impact. ASU 2014-09 will now be effective for the Company on January 1, 2018 and it is not expected to have a significant impact on the Company's consolidated financial statements.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 makes targeted adjustments to GAAP by eliminating the AFS classification for equity securities and requiring equity investments to be measured at fair value with changes in fair value recognized in net income. The standard also requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. The standard clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. It also requires an entity to present separately (within other comprehensive income) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the standard eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is in the process of analyzing the impact of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under ASU 2016-02, lessees will be required to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases (with the exception of short-term leases). Lessor accounting is largely unchanged under ASU 2016-02. However, the definition of initial direct costs was updated to include only initial direct costs that are considered incremental. This change in definition will change the manner in which the Company recognizes the costs associated with originating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities. The Company is in the process of analyzing the impact of adoption on the Company's

consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation*. ASU 2016-09 aims to simplify the accounting for companies that issue share-based payment awards to their employees. Simplification includes the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows of share-based payment awards. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is in the process of analyzing the impact of adoption on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. Under the standard, assets measured at amortized costs (including loans, leases and AFS securities) will be presented at the net amount expected to be collected. Rather than the “incurred” model that is currently being utilized, the standard will require the use of a forward-looking approach to recognizing all expected credit losses at the beginning of an asset's life. For public companies, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may choose to early adopt for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of analyzing the impact of adoption 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's consolidated financial statements have been reclassified, with no effect on net income or stockholders' equity, to conform with the current period presentation.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of June 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2016:				
Securities HTM:				
Municipal securities	\$279,295,532	\$6,194,753	\$(731,170)	\$284,759,115
Other securities	1,050,000	-	-	1,050,000
	\$280,345,532	\$6,194,753	\$(731,170)	\$285,809,115
Securities AFS:				
U.S. govt. sponsored agency securities	\$87,068,743	\$1,332,981	\$(80,276)	\$88,321,448
Residential mortgage-backed and related securities	114,990,076	1,855,710	(80,276)	116,765,510
Municipal securities	22,463,188	945,994	(16,365)	23,392,817
Other securities	1,684,787	449,222	-	2,134,009
	\$226,206,794	\$4,583,907	\$(176,917)	\$230,613,784
December 31, 2015:				
Securities HTM:				
Municipal securities	\$252,624,159	\$3,190,558	\$(1,173,432)	\$254,641,285
Other securities	1,050,000	-	-	1,050,000
	\$253,674,159	\$3,190,558	\$(1,173,432)	\$255,691,285
Securities AFS:				
U.S. govt. sponsored agency securities	\$216,281,416	\$104,524	\$(2,848,561)	\$213,537,379

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Residential mortgage-backed and related securities	81,442,479	511,095	(1,283,439)	80,670,135
Municipal securities	26,764,981	872,985	(59,378)	27,578,588
Other securities	1,108,124	540,919	(163)	1,648,880
	\$325,597,000	\$2,029,523	\$(4,191,541)	\$323,434,982

12

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company's HTM municipal securities consist largely of private issues of municipal debt. The large majority of the municipalities are located within the Midwest. 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.

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2016 and December 31, 2015, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2016:						
Securities HTM:						
Municipal securities	\$5,805,354	\$(384,457)	\$14,508,402	\$(346,713)	\$20,313,756	\$(731,170)
Securities AFS:						
U.S. govt. sponsored agency securities						