QCR HOLDINGS INC
Form 10-Q
November 09, 2007

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2007**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to __________**
**Commission file number 0-22208**
**QCR HOLDINGS, INC.**
(Exact name of Registrant as specified in its charter)

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

**3551 7th Street, Suite 204, Moline, Illinois 61265**
(Address of principal executive offices)
**(309) 736-3580**
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: As of November 1, 2007, the Registrant had outstanding 4,597,492 shares of common stock, $1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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**QCR HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**
**September 30, 2007 and December 31, 2006**

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 40,506,946 | $ 42,502,770 |
| Federal funds sold | 7,150,000 | 2,320,000 |
| Interest-bearing deposits at financial institutions | 2,607,078 | 2,130,096 |
| Securities held to maturity, at amortized cost | 350,000 | 350,000 |
| Securities available for sale, at fair value | 228,575,788 | 194,423,893 |
| | 228,925,788 | 194,773,893 |
| Loans receivable held for sale | 4,438,113 | 6,186,632 |
| Loans/leases receivable held for investment | 1,048,511,032 | 954,560,692 |
| | 1,052,949,145 | 960,747,324 |
| Less: Allowance for estimated losses on loans/leases | (11,895,767) | (10,612,082) |
| | 1,041,053,378 | 950,135,242 |
| Premises and equipment, net | 32,359,507 | 32,524,840 |
| Goodwill | 3,222,688 | 3,222,688 |
| Intangible asset | 887,542 | |
| Accrued interest receivable | 8,502,697 | 7,160,298 |
| Bank-owned life insurance | 28,660,370 | 18,877,526 |
| Other assets | 20,391,610 | 18,027,603 |
| Total assets | $ 1,414,267,604 | $ 1,271,674,956 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **LIABILITIES** | | |
| Deposits: | | |
| Noninterest-bearing | $ 128,412,664 | $ 124,184,486 |
| Interest-bearing | 767,077,204 | 751,262,781 |
| Total deposits | 895,489,868 | 875,447,267 |
| Short-term borrowings | 175,923,055 | 111,683,951 |
| Federal Home Loan Bank advances | 159,877,064 | 151,858,749 |
| Other borrowings | 47,717,395 | 3,761,636 |

| | | |
|---|---|---|
| Junior subordinated debentures | 36,085,000 | 36,085,000 |
| Other liabilities | 21,769,688 | 20,592,953 |
| Total liabilities | 1,336,862,070 | 1,199,429,556 |
| Minority interest in consolidated subsidiaries | 1,626,017 | 1,362,820 |
| **STOCKHOLDERS EQUITY** | | |
| Preferred stock, $1 par value; shares authorized 250,000; | | |
| September 2007 and December 2006 - 268 shares issued and outstanding, | 268 | 268 |
| Common stock, $1 par value; shares authorized 10,000,000 | | |
| September 2007 - 4,592,148 shares issued and outstanding, | | |
| December 2006 - 4,560,629 shares issued and outstanding, | 4,592,148 | 4,560,629 |
| Additional paid-in capital | 34,883,577 | 34,293,511 |
| Retained earnings | 35,180,098 | 32,000,213 |
| Accumulated other comprehensive income | 1,123,426 | 27,959 |
| Total stockholders equity | 75,779,517 | 70,882,580 |
| Total liabilities and stockholders equity | $ 1,414,267,604 | $ 1,271,674,956 |

See Notes to Consolidated Financial Statements

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

| | 2007 | 2006 |
|---|---|---|
| Interest and dividend income: | | |
| Loans/leases, including fees | $ 19,253,493 | $ 16,132,528 |
| Securities: | | |
| Taxable | 2,485,746 | 1,763,217 |
| Nontaxable | 251,526 | 270,205 |
| Interest-bearing deposits at financial institutions | 70,931 | 86,125 |
| Federal funds sold | 40,758 | 121,128 |
| Total interest and dividend income | 22,102,454 | 18,373,203 |
| Interest expense: | | |
| Deposits | 8,149,734 | 7,610,255 |
| Short-term borrowings | 1,529,680 | 771,359 |
| Federal Home Loan Bank advances | 1,859,131 | 1,464,357 |
| Other borrowings | 591,458 | 178,126 |
| Junior subordinated debentures | 660,690 | 665,115 |
| Total interest expense | 12,790,693 | 10,689,212 |
| Net interest income | 9,311,761 | 7,683,991 |
| Provision for loan/lease losses | 1,037,351 | 728,678 |
| Net interest income after provision for loan/lease losses | 8,274,410 | 6,955,313 |
| Noninterest income: | | |
| Credit card fees, net of processing costs | 442,643 | 476,783 |
| Trust department fees | 924,464 | 787,796 |
| Deposit service fees | 706,271 | 478,299 |
| Gains on sales of loans, net | 277,265 | 218,854 |
| Securities gains, net | 0 | 71,013 |
| Gains (losses) on sales of foreclosed assets | 0 | (100,000) |
| Gains on sales of other assets | 435,791 | 0 |
| Earnings on bank-owned life insurance | 261,372 | 152,308 |
| Investment advisory and management fees | 369,239 | 285,635 |
| Other | 441,445 | 371,634 |
| Total noninterest income | 3,858,490 | 2,742,322 |
| Noninterest expenses: | | |

| | | |
|---|---|---|
| Salaries and employee benefits | 6,154,660 | 5,510,926 |
| Professional and data processing fees | 888,753 | 879,938 |
| Advertising and marketing | 322,632 | 389,812 |
| Occupancy and equipment expense | 1,297,634 | 1,304,567 |
| Stationery and supplies | 158,709 | 159,758 |
| Postage and telephone | 262,664 | 241,867 |
| Bank service charges | 145,364 | 151,369 |
| FDIC and other insurance | 295,138 | 161,381 |
| Other | 350,210 | 207,960 |
| Total noninterest expenses | 9,875,764 | 9,007,578 |
| Income before income taxes | 2,257,136 | 690,057 |
| Federal and state income taxes | 646,281 | 125,094 |
| Income before minority interest in net income of consolidated subsidiaries | 1,610,855 | 564,963 |
| Minority interest in income of consolidated subsidiary | 17,046 | 45,410 |
| Net income | $ 1,593,809 | $ 519,553 |
| Net income | $ 1,593,809 | $ 519,553 |
| Less preferred stock dividends | 268,000 | 0 |
| Net income available to common stockholders | $ 1,325,809 | $ 519,553 |
| Earnings per common share: | | |
| Basic | $ 0.29 | $ 0.11 |
| Diluted | $ 0.29 | $ 0.11 |
| Weighted average common shares outstanding | 4,591,576 | 4,553,589 |
| Weighted average common and common equivalent shares outstanding | 4,599,406 | 4,590,829 |
| Cash dividends declared per common share | $ 0.00 | $ 0.00 |
| Comprehensive income | $ 3,324,477 | $ 1,308,129 |

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

| | 2007 | 2006 |
|---|---|---|
| Interest and dividend income: | | |
| Loans/leases, including fees | $ 55,179,242 | $ 43,119,928 |
| Securities: | | |
| Taxable | 6,611,317 | 5,169,400 |
| Nontaxable | 790,804 | 627,301 |
| Interest-bearing deposits at financial institutions | 294,561 | 222,135 |
| Federal funds sold | 214,329 | 325,514 |
| Total interest and dividend income | 63,090,253 | 49,464,278 |
| Interest expense: | | |
| Deposits | 24,152,481 | 18,891,305 |
| Short-term borrowings | 3,971,806 | 2,211,653 |
| Federal Home Loan Bank advances | 5,370,203 | 4,047,472 |
| Other borrowings | 1,170,699 | 432,371 |
| Junior subordinated debentures | 1,965,959 | 1,828,567 |
| Total interest expense | 36,631,148 | 27,411,368 |
| Net interest income | 26,459,105 | 22,052,910 |
| Provision for loan/lease losses | 2,268,343 | 1,624,258 |
| Net interest income after provision for loan/lease losses | 24,190,762 | 20,428,652 |
| Noninterest income: | | |
| Credit card fees, net of processing costs | 1,248,917 | 1,464,233 |
| Trust department fees | 2,783,795 | 2,310,737 |
| Deposit service fees | 1,962,409 | 1,422,379 |
| Gains on sales of loans, net | 965,680 | 711,857 |
| Securities gains (losses), net | 0 | (142,866) |
| Gains on sales of foreclosed assets | 1,007 | 650,134 |
| Gains on sales of other assets | 435,791 | 0 |
| Earnings on bank-owned life insurance | 661,355 | 565,316 |
| Investment advisory and management fees, gross | 1,134,362 | 949,573 |
| Other | 1,391,746 | 1,203,774 |
| Total noninterest income | 10,585,062 | 9,135,137 |
| Noninterest expenses: | | |

| | | |
|---|---|---|
| Salaries and employee benefits | 17,626,748 | 16,253,426 |
| Professional and data processing fees | 2,781,970 | 2,439,191 |
| Advertising and marketing | 944,109 | 1,016,661 |
| Occupancy and equipment expense | 3,724,000 | 3,829,228 |
| Stationery and supplies | 453,036 | 497,127 |
| Postage and telephone | 769,433 | 715,108 |
| Bank service charges | 429,062 | 429,844 |
| FDIC and other insurance | 707,616 | 447,870 |
| Loss on disposals/sales of fixed assets | 239,016 | 0 |
| Other | 990,903 | 254,776 |
| Total noninterest expenses | 28,665,893 | 25,883,231 |
| Income before income taxes | 6,109,931 | 3,680,558 |
| Federal and state income taxes | 1,691,896 | 977,802 |
| Income before minority interest in net income of consolidated subsidiaries | 4,418,035 | 2,702,756 |
| Minority interest in income of consolidated subsidiaries | 250,935 | 146,551 |
| Net income | $ 4,167,100 | $ 2,556,205 |
| Net income | $ 4,167,100 | $ 2,556,205 |
| Less preferred stock dividends | 804,000 | 0 |
| Net income available to common stockholders | $ 3,363,100 | $ 2,556,205 |
| Earnings per common share: | | |
| Basic | $ 0.73 | $ 0.55 |
| Diluted | $ 0.73 | $ 0.55 |
| Weighted average common shares outstanding | 4,576,963 | 4,605,776 |
| Weighted average common and common equivalent shares outstanding | 4,596,791 | 4,649,988 |
| Cash dividends declared per common share | $ 0.04 | $ 0.04 |
| Comprehensive income | $ 5,262,567 | $ 2,839,810 |

See Notes to Consolidated Financial Statements

**QCR HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)**
**Nine Months Ended September 30, 2007**

| | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| **Balance December 31, 2006** | **$ 268** | **$ 4,560,629** | **$ 34,293,511** | **$ 32,000,213** | **$ 27,959** | **$ 70,882,580** |
| Comprehensive income: | | | | | | |
| Net income | | | | 1,262,686 | | 1,262,686 |
| Other comprehensive income, net of tax | | | | | 348,548 | 348,548 |
| **Comprehensive income** | | | | | | **1,611,234** |
| Preferred cash dividends declared | | | | (268,000) | | (268,000) |
| Additional costs from fourth quarter 2006 issuance of preferred stock | | | (10,671) | | | (10,671) |
| Proceeds from issuance of 3,879 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | | 3,879 | 56,307 | | | 60,186 |
| Proceeds from issuance of 650 shares of common stock as a result of stock options exercised | | 650 | 4,942 | | | 5,592 |
| Tax benefit of nonqualified stock options exercised | | | 1,032 | | | 1,032 |
| Stock compensation expense | | | 85,105 | | | 85,105 |
| **Balance March 31, 2007** | **$ 268** | **$ 4,565,158** | **$ 34,430,226** | **$ 32,994,899** | **$ 376,507** | **$ 72,367,058** |
| Comprehensive income: | | | | | | |
| Net income | | | | 1,310,605 | | 1,310,605 |
| Other comprehensive income, net of tax | | | | | (983,749) | (983,749) |
| **Comprehensive income** | | | | | | **326,856** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Common cash dividends declared $0.04 per share | | | | (183,215) | | (183,215) |
| Preferred cash dividends declared | | | | (268,000) | | (268,000) |
| Proceeds from issuance of 5,994 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | | 5,994 | 77,407 | | | 83,401 |
| Proceeds from issuance of 11,814 shares of common stock as a result of stock options exercised | | 11,814 | 95,775 | | | 107,589 |
| Exchange of 1,590 shares of common stock in connection with options exercised | | (1,590) | (25,756) | | | (27,346) |
| Tax benefit of nonqualified stock options exercised | | | 20,042 | | | 20,042 |
| Stock compensation expense | | | 87,342 | | | 87,342 |
| **Balance June 30, 2007** | **$ 268** | **$ 4,581,376** | **$ 34,685,036** | **$ 33,854,289** | **$ (607,242)** | **$ 72,513,727** |
| Comprehensive income: | | | | | | |
| Net income | | | | 1,593,809 | | 1,593,809 |
| Other comprehensive income, net of tax | | | | | 1,730,668 | 1,730,668 |
| **Comprehensive income** | | | | | | **3,324,477** |
| Preferred cash dividends declared | | | | (268,000) | | (268,000) |
| Proceeds from issuance of 4,639 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan | | 4,639 | 61,578 | | | 66,217 |
| Proceeds from issuance of 6,133 shares of common stock as a result of stock options exercised | | 6,133 | 50,440 | | | 56,573 |
| Tax benefit of nonqualified stock options exercised | | | 401 | | | 401 |
| | | | 86,122 | | | 86,122 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Stock compensation expense | | | | | | |
| **Balance September 30, 2007** | **$ 268** | **$ 4,592,148** | **$ 34,883,577** | **$ 35,180,098** | **$ 1,123,426** | **$ 75,779,517** |

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

| | 2007 | 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 4,167,100 | $ 2,556,205 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,708,848 | 1,742,286 |
| Provision for loan/lease losses | 2,268,343 | 1,624,258 |
| Amortization of offering costs on subordinated debentures | 10,738 | 10,738 |
| Stock-based compensation expense | (30,538) | 78,299 |
| Minority interest in income of consolidated subsidiaries | 250,935 | 146,553 |
| Gains on sale of foreclosed assets | (1,007) | (650,134) |
| Gains on sale of other assets | (435,791) | 0 |
| (Accretion of discounts) amortization of premiums on securities, net | (48,767) | 208,905 |
| Investment securities losses, net | 0 | 142,866 |
| Loans originated for sale | (81,123,640) | (63,795,689) |
| Proceeds on sales of loans | 83,837,553 | 61,875,883 |
| Net gains on sales of loans | (965,680) | (711,857) |
| Net losses on disposals/sales of premises and equipment | 239,016 | 0 |
| Increase in accrued interest receivable | (1,342,399) | (1,897,901) |
| Increase in other assets | (3,202,295) | (1,727,746) |
| Decrease in other liabilities | 1,542,807 | 1,287,986 |
| Net cash provided by operating activities | $ 6,875,223 | $ 890,652 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net increase in federal funds sold | (4,830,000) | (3,630,000) |
| Net increase in interest-bearing deposits at financial institutions | (476,982) | (5,192,169) |
| Proceeds from sale of foreclosed assets | 93,901 | 913,852 |
| Proceeds from sale of other assets | 500,000 | 0 |
| Activity in securities portfolio: | | |
| Purchases | (94,049,814) | (50,854,245) |
| Calls, maturities and redemptions | 61,291,150 | 39,575,000 |
| Paydowns | 435,831 | 549,107 |
| Sales | 0 | 4,857,134 |
| Activity in bank-owned life insurance: | | |
| Purchases | (9,121,488) | (750,765) |
| Increase in cash value | (661,356) | (565,316) |
| Net loans/leases originated and held for investment | (94,934,998) | (184,209,540) |
| Purchase of premises and equipment | (1,782,531) | (3,898,529) |
| Purchase of intangible asset | (887,542) | 0 |
| Net cash used in investing activities | $ (144,423,829) | $ (203,205,471) |

| | | |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase in deposit accounts | 20,042,601 | 174,749,305 |
| Net increase (decrease) in short-term borrowings | 64,239,104 | (11,024,910) |
| Activity in Federal Home Loan Bank advances: | | |
| Advances | 58,400,000 | 46,500,000 |
| Payments | (50,381,685) | (30,673,010) |
| Net increase in other borrowings | 43,955,759 | 4,514,818 |
| Proceeds from issuance of junior subordinated debentures | 0 | 10,310,000 |
| Tax benefit of nonqualified stock options exercised | 21,475 | 36,301 |
| Payment of cash dividends | (1,066,013) | (363,142) |
| Costs from issuance of preferred stock, net | (10,671) | 0 |
| Proceeds from issuance of common stock, net | 352,212 | 249,971 |
| Net cash provided by financing activities | $ 135,552,782 | $ 194,299,333 |
| Net decrease in cash and due from banks | (1,995,824) | (8,015,486) |
| Cash and due from banks, beginning | 42,502,770 | 38,956,627 |
| Cash and due from banks, ending | $ 40,506,946 | $ 30,941,141 |
| **Supplemental disclosure of cash flow information, cash payments for:** | | |
| Interest | $ 36,499,392 | $ 25,613,367 |
| Income/franchise taxes | $ 767,932 | $ 1,001,808 |
| **Supplemental schedule of noncash investing activities:** | | |
| Change in accumulated other comprehensive income (loss), unrealized losses on securities available for sale, net | $ 1,095,467 | $ 283,605 |
| Transfers of loans to other real estate owned | $ 0 | $ 50,001 |

See Notes to Consolidated Financial Statements

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Part I
Item 1

QCR HOLDINGS, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission for interim financial information and with the instructions to Form 10-Q. They do not include all of the information or footnotes required by United States generally accepted accounting principles for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2006. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. Any differences appearing between numbers presented in financial statements and management s discussion and analysis are due to rounding. Results for the period ended September 30, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007.

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

Principles of consolidation: The accompanying consolidated financial statements include the accounts of QCR Holdings, Inc. (the Company ), a Delaware corporation, and its wholly owned subsidiaries, Quad City Bank and Trust Company ( Quad City Bank & Trust ), Cedar Rapids Bank and Trust Company ( Cedar Rapids Bank & Trust ), Rockford Bank and Trust Company ( Rockford Bank & Trust ), First Wisconsin Bank and Trust Company ( First Wisconsin Bank & Trust ), Quad City Bancard, Inc. ( Bancard ), and Quad City Liquidation Corporation ( QCLC ). Quad City Bank & Trust owns 80% of the equity interests of M2 Lease Funds, LLC ( M2 Lease Funds ). The Company also owns an equity investment of 57% in Velie Plantation Holding Company, LLC ( Velie Plantation Holding Company ). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company also wholly owns QCR Holdings Statutory Trust II ( Trust II ), QCR Holdings Statutory Trust III ( Trust III ), QCR Holdings Statutory Trust IV ( Trust IV ), and QCR Holdings Statutory Trust V ( Trust V ). These four entities were established by the Company for the sole purpose of issuing trust preferred securities. As required by current accounting rules, the Company s equity investments in these entities are not consolidated, but are included in other assets on the consolidated balance sheet for $1.1 million in aggregate at September 30, 2007. In addition to these ten wholly owned subsidiaries and two majority owned subsidiaries, at September 30, 2007, the Company had an aggregate investment of $23 thousand in an affiliated company, Nobel Real Estate Investors, LLC ( Nobel Real Estate ). The Company owns a 20% equity position in Nobel Real Estate at September 30, 2007. In July 2007, the Company sold its interest in Nobel Electronic Transfer, LLC ( Nobel ) to TriSource Solutions, LLC. The Company previously owned a 20% equity position in this affiliated company. In September 2005, Cedar Rapids Bank & Trust entered into a joint venture as a 50% owner of Cedar Rapids Mortgage Company, LLC ( Cedar Rapids Mortgage Company ).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Stock-based compensation plans: Please refer to Note 13 of our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006, for information related to the Company s stock option and incentive plans, stock appreciation rights ( SARs ) and stock purchase plan.

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ( SFAS No. 123(R) ). SFAS No. 123(R) requires measurement of compensation cost for all stock-based awards at fair value on the grant date and recognition of compensation expense over the requisite service period for awards expected to vest. Stock-based compensation expense totaled ($38) thousand and $53 thousand for the three months ended September 30, 2007 and 2006, and ($31) thousand and $78 thousand for the nine months ended September 30, 2007 and 2006, respectively. A key component in the calculation of stock-based compensation expense is the market price of the Company s stock. A decline in the Company s stock price during the third quarter of 2007 contributed significantly to the recording of negative stock-based compensation expense for the period.

NOTE 2 EARNINGS PER SHARE

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net income available to common stockholders, basic and diluted earnings | $ 1,325,809 | $ 519,553 | $ 3,363,100 | $ 2,556,205 |
| Weighted average common shares outstanding | 4,591,576 | 4,553,589 | 4,576,963 | 4,605,776 |
| Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan | 7,830 | 37,240 | 19,828 | 44,212 |
| Weighted average common and common equivalent shares oustanding | 4,599,406 | 4,590,829 | 4,596,791 | 4,649,988 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 BUSINESS SEGMENT INFORMATION

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

The Company s primary segment, Commercial Banking, is geographically divided by markets into the secondary segments Quad City Bank & Trust, Cedar Rapids Bank & Trust, Rockford Bank & Trust, and First Wisconsin Bank & Trust. Each of these secondary segments offer similar products and services, but are managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

The Company s Credit Card Processing segment represents the operations of Bancard. Bancard provides credit card processing for merchants and cardholders of the Company s four subsidiary banks and approximately seventy-five agent banks.

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

The Company s Leasing Services segment represents the operations of M2 Lease Funds. M2 Lease Funds is engaged in the business of leasing machinery and equipment to commercial and industrial businesses under direct financing lease contracts.

The Company s Parent and Other segment includes the operations of all other consolidated subsidiaries and/or defined operating segments that fall below the segment reporting thresholds. This segment includes the corporate operations of the parent, the real estate holding operations of Velie Plantation Holding Company and the operations of QCLC.

Selected financial information on the Company s business segments is presented as follows for the three months and nine months ended September 30, 2007 and 2006.

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**QCR HOLDINGS, INC. AND SUBSIDIARIES**
**SELECTED FINANCIAL DATA BUSINESS SEGMENTS**
**Three Months and Nine Months Ended September 30, 2007 and 2006**

| **Commercial Banking** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Bank rust | Cedar Rapids Bank & Trust | Rockford Bank & Trust | First Wisconsin Bank & Trust | **Credit Card Processing** | **Trust Management** | **Leasing Services** | **Parent and Other** | **Intercompa Eliminatio** |
| 68,121 | $ 6,412,503 | $ 2,334,069 | $ 735,549 | $ 442,643 | $ 937,556 | $ 1,376,792 | $ 490,949 | $ (1,037,2 |
| 55% | 25% | 9% | 3% | 2% | 4% | 5% | 2% | |
| 95,138 | $ 602,486 | $ (258,591) | $ (233,797) | $ 57,874 | $ 259,959 | $ 99,718 | $ (626,055) | $ (102,9 |
| 113% | 38% | -16% | -15% | 4% | 16% | 6% | -39% | |
| 68,760 | $ 367,714,176 | $ 138,899,065 | $ 47,553,642 | $ 980,836 | $ | $ 69,545,917 | $ 130,083,814 | $ (195,878,6 |
| 60% | 26% | 10% | 3% | 0% | 0% | 5% | 9% | |
| 03,007 | $ 144,822 | $ 76,410 | $ 19,301 | $ 8,672 | $ | $ 8,857 | $ 2,855 | $ |
| 54% | 26% | 14% | 3% | 2% | 0% | 2% | 1% | |
| 28,155 | $ 87,139 | $ 35,551 | $ 154,225 | $ 29,058 | $ | $ 3,480 | $ | $ |
| 51% | 14% | 6% | 24% | 5% | 0% | 1% | 0% | |
| | $ | $ | $ 887,542 | $ | $ | $ 3,222,688 | $ | $ |
| 0% | 0% | 0% | 22% | 0% | 0% | 78% | 0% | |
| 15,754 | $ 5,326,623 | $ 1,570,705 | $ | $ 476,783 | $ 787,795 | $ 917,329 | $ 104,625 | $ (784,0 |
| 60% | 25% | 7% | 0% | 2% | 4% | 4% | 0% | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 30,192 | $ 415,967 | $ (471,093) | $ | $ 66,548 | $ 201,146 | $ 257,561 | $ (773,205) | $ (257,5 |
| 208% | 80% | -91% | 0% | 13% | 39% | 50% | -149% | |
| )4,765 | $ 326,543,993 | $ 109,326,145 | $ | $ 1,194,632 | $ | $ 51,065,796 | $ 109,943,861 | $ (171,920,7 |
| 66% | 26% | 9% | 0% | 0% | 0% | 4% | 9% | |
| 58,014 | $ 158,348 | $ 44,231 | $ | $ 8,443 | $ | $ 14,408 | $ 625 | $ |
| 61% | 27% | 8% | 0% | 1% | 0% | 2% | 0% | |
| 73,747 | $ 23,496 | $ 1,492,992 | $ | $ | $ | $ 1,123 | $ | $ |
| 10% | 1% | 88% | 0% | 0% | 0% | 0% | 0% | |
| | $ | $ | $ | $ | $ | $ 3,222,688 | $ | $ |
| 0% | 0% | 0% | 0% | 0% | 0% | 100% | 0% | |
| 17,857 | $ 18,564,112 | $ 5,817,441 | $ 1,667,771 | $ 1,248,917 | $ 2,796,886 | $ 3,817,240 | $ 670,812 | $ (3,325,7 |
| 58% | 25% | 8% | 2% | 2% | 4% | 5% | 1% | |
| 57,784 | $ 1,757,569 | $ (766,540) | $ (814,092) | $ 76,873 | $ 816,149 | $ 800,737 | $ (2,151,552) | $ (909,8 |
| 129% | 42% | -18% | -20% | 2% | 20% | 19% | -52% | |
| 58,760 | $ 367,714,176 | $ 138,899,065 | $ 47,553,642 | $ 980,836 | $ | $ 69,545,917 | $ 130,083,814 | $ (195,878,6 |
| 60% | 26% | 10% | 3% | 0% | 0% | 5% | 9% | |
| 39,686 | $ 433,792 | $ 227,625 | $ 48,401 | $ 24,454 | $ | $ 26,915 | $ 7,974 | $ |
| 55% | 25% | 13% | 3% | 1% | 0% | 2% | 0% | |
| 35,086 | $ 858,987 | $ 53,088 | $ 230,791 | $ 31,571 | $ | $ 3,480 | $ 19,528 | $ |
| 33% | 48% | 3% | 13% | 2% | 0% | 0% | 1% | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ 887,542 | $ | $ | $ 3,222,688 | $ | $ |
| 0% | 0% | 0% | 22% | 0% | 0% | 78% | 0% | |
| 58,919 | $ 14,931,484 | $ 3,226,467 | $ | $ 1,464,233 | $ 2,310,737 | $ 2,500,117 | $ 310,350 | $ (1,902,8 |
| 61% | 25% | 6% | 0% | 2% | 4% | 4% | 1% | |
| 97,241 | $ 1,173,815 | $ (1,347,436) | $ | $ 244,649 | $ 561,493 | $ 849,693 | $ (2,273,555) | $ (849,6 |
| 164% | 46% | -53% | 0% | 10% | 22% | 33% | -89% | |
| 04,765 | $ 326,543,993 | $ 109,326,145 | $ | $ 1,194,632 | $ | $ 51,065,796 | $ 109,943,861 | $ (171,920, |
| 66% | 26% | 9% | 0% | 0% | 0% | 4% | 9% | |
| 95,515 | $ 468,463 | $ 119,860 | $ | $ 25,198 | $ | $ 31,375 | $ 1,875 | $ |
| 63% | 27% | 7% | 0% | 1% | 0% | 2% | 0% | |
| 03,114 | $ 215,483 | $ 3,050,105 | $ | $ 5,228 | $ | $ 24,599 | $ | $ |
| 15% | 6% | 78% | 0% | 0% | 0% | 1% | 0% | |
| | $ | $ | $ | $ | $ | $ 3,222,688 | $ | $ |
| 0% | 0% | 0% | 0% | 0% | 0% | 100% | 0% | |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 COMMITMENTS AND CONTINGENCIES

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

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

Standby letters of credit are conditional commitments issued by the banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The subsidiary banks hold collateral, as described above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the banks would be required to fund the commitments. The maximum potential amount of future payments the banks could be required to make is represented by the contractual amount. If the commitment is funded, the banks would be entitled to seek recovery from the customer. At September 30, 2007 and December 31, 2006, no amounts were recorded as liabilities for the banks potential obligations under these guarantees.

As of September 30, 2007 and December 31, 2006, commitments to extend credit aggregated were $491.9 million and $459.3 million, respectively. As of September 30, 2007 and December 31, 2006, standby, commercial and similar letters of credit aggregated were $20.6 million and $18.6 million, respectively. Management does not expect that all of these commitments will be funded.

The Company has also executed contracts for the sale of mortgage loans in the secondary market in the amounts of $4.4 million and $6.2 million, at September 30, 2007 and December 31, 2006, respectively. These amounts are included in loans held for sale at the respective balance sheet dates.

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Residential mortgage loans sold to investors in the secondary market are sold with varying recourse provisions. Essentially, all loan sales agreements require the repurchase of a mortgage loan by the seller in situations such as breach of representation, warranty, or covenant, untimely document delivery, false or misleading statements, failure to obtain certain certificates or insurance, unmarketability, etc. Certain loan sales agreements also contain repurchase requirements based on payment-related defects that are defined in terms of the number of days/months since the purchase, the sequence number of the payment, and/or the number of days of payment delinquency. Based on the specific terms stated in the agreements of investors purchasing residential mortgage loans from the Company s subsidiary banks, the Company had $48.5 million and $39.7 million of sold residential mortgage loans with recourse provisions still in effect at September 30, 2007 and December 31, 2006, respectively. The subsidiary banks did not repurchase any loans from secondary market investors under the terms of loans sales agreements during the nine months ended September 30, 2007 or the year ended December 31, 2006. In the opinion of management, the risk of recourse to the subsidiary banks is not significant, and accordingly no liabilities have been established related to such.

During 2004, Quad City Bank & Trust joined the Federal Home Loan Bank s (FHLB) Mortgage Partnership Finance (MPF) Program, which offers a risk-sharing alternative to selling residential mortgage loans to investors in the secondary market. Lenders funding mortgages through the MPF Program manage the credit risk of the loans they originate. The loans are subsequently funded by the FHLB and held within their portfolio, thereby managing the liquidity, interest rate, and prepayment risks of the loans. Lenders participating in the MPF Program receive monthly credit enhancement fees for managing the credit risk of the loans they originate. Any credit losses incurred on those loans will be absorbed first by private mortgage insurance, second by an allowance established by the FHLB, and third by withholding monthly credit enhancements due to the participating lender. At both September 30, 2007 and December 31, 2006, Quad City Bank & Trust had funded $13.8 million of mortgages through the FHLB s MPF Program with an attached credit exposure of $279 thousand.

Bancard is subject to the risk of cardholder chargebacks and its merchants being incapable of refunding the amount charged back. Management attempts to mitigate such risk by regular monitoring of merchant activity and in appropriate cases, holding cash reserves deposited by the local merchant. Throughout 2006, provisions were made to the allowance for chargeback losses based on the dollar volumes of merchant credit card and related chargeback activity. For the year ended December 31, 2006, monthly provisions were made totaling $4 thousand. At September 30, 2007 and December 31, 2006, Bancard had a merchant chargeback reserve of $68 thousand and $81 thousand, respectively. For the nine months ended September 30, 2007, reserve adjustments, which are based on a rolling twelve months of chargeback history, were made reducing the allowance $13 thousand. Management will continually monitor merchant credit card volumes, related chargeback activity, and Bancard s level of the allowance for chargeback losses.

The Company also has a limited guarantee to MasterCard International, Incorporated, which is backed by a $750 thousand letter of credit from The Northern Trust Company. As of September 30, 2007 and December 31, 2006, there were no significant pending liabilities pursuant to this guarantee.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

In an arrangement with Goldman, Sachs and Company, Cedar Rapids Bank & Trust offers a cash management program for select customers. Using this cash management tool, the customer s demand deposit account performs like an investment account. Based on a predetermined minimum balance, which must be maintained in the account, excess funds are automatically swept daily to an institutional money market fund distributed by Goldman Sachs. As with a traditional demand deposit account, customers retain complete check-writing and withdrawal privileges. If the demand deposit account balance drops below the predetermined threshold, funds are automatically swept back from the money market fund at Goldman Sachs to the account at Cedar Rapids Bank & Trust to maintain the required minimum balance. Balances swept into the money market funds are not bank deposits, are not insured by any U.S. government agency, and do not require cash reserves to be set against the balances. At September 30, 2007 and December 31, 2006, the Company had $13.9 million and $23.5 million, respectively, of customer funds invested in this cash management program.

NOTE 5 INCOME TAXES

In September 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ( FIN 48 ). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company s financial statements. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The initial adoption of FIN 48 had no impact on our financial statements, and as a result, there was no cumulative effect related to adopting FIN 48. As of January 1, 2007, the amount of unrecognized tax benefits was $636 thousand, including $105 thousand of related accrued interest. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management s judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. The Company does not expect that the amounts of unrecognized tax benefits will change significantly within the next 12 months.

The Company s federal income tax returns are open and subject to examination from the 2004 tax return year and forward. Our various state franchise and income tax returns are generally open from the 2003 and later tax return years based on individual state statute of limitations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 JUNIOR SUBORDINATED DEBENTURES

Junior subordinated debentures are summarized as of September 30, 2007 as follows:

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

In February 2004, the Company issued, in a private transaction, $12.0 million of fixed/floating rate capital securities and $8.0 million of floating rate capital securities through two newly formed subsidiaries, Trust II and Trust III, respectively. The securities issued by Trust II and Trust III mature in thirty years. The fixed/floating rate capital securities are callable at par after seven years, and the floating rate capital securities are callable at par after five years. The fixed/floating rate capital securities have a fixed rate of 6.93%, payable quarterly, for seven years, at which time they have a variable rate based on the three-month LIBOR, reset quarterly, and the floating rate capital securities have a variable rate based on the three-month LIBOR, reset quarterly, with the rate currently set at 8.21%. Trust II and Trust III used the proceeds from the sale of the trust preferred securities, along with the funds from their equity, to purchase junior subordinated debentures of the Company in the amounts of $12.4 million and $8.2 million, respectively. Trust preferred securities associated with these debentures were $20.0 million in aggregate at September 30, 2007.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 7 RECENT ACCOUNTING DEVELOPMENTS

In September 2006, FASB issued Statement of Financial Accounting Standard No. 157 ( SFAS No. 157 ), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact that SFAS No. 157 may have on its consolidated financial statements.

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

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

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

GENERAL

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

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

Quad City Bank & Trust commenced operations in 1994 and provides full-service commercial and consumer banking, and trust and asset management services to the Quad City area and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and Moline, Illinois. Quad City Bank & Trust also provides leasing services through its 80%-owned subsidiary, M2 Lease Funds, located in Brookfield, Wisconsin.

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

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

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

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

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

OVERVIEW

THREE MONTHS ENDED SEPTEMBER 30, 2007

Net income for the third quarter of 2007 was $1.6 million as compared to net income of $520 thousand for the same period in 2006, an increase of $1.1 million, or 212%. Diluted earnings per common share for the third quarter of 2007 were $0.29, compared to $0.11 for the like quarter in 2006. For the three month period ended September 30, total revenue in 2007 experienced an improvement of $4.9 million when compared to 2006. This 23% improvement in total revenue was driven by an increase in interest income of $3.7 million, or 20%; and an increase in noninterest income of $1.2 million, or 44%. In the third quarter of 2007, the Company recorded a one-time gain on the sale of its equity interest in Nobel in the amount of $436 thousand. Disregarding this one-time gain, core noninterest income grew 23% from the third quarter of 2006 to the third quarter of 2007. In the third quarter of 2007, both the Company s net interest spread and margin showed improvement for the third consecutive quarter, and net interest margin reflected an improvement of 16 basis points from the third quarter of 2006. For the third quarter of 2007, the Company s provision for loan/lease losses increased by $308 thousand when compared to the same period in 2006, as a result of a charge-off on a lease receivable M2 Lease Funds, and the establishment of specific reserves for 2 commercial loan relationships at Rockford Bank & Trust which are experiencing loan quality issues. The third quarter of 2007 reflected a year-to-year increase in noninterest expenses of $868 thousand, or 10%, when compared to the same period in 2006. The increase in noninterest expenses was predominately due to a 12% increase in salaries and employee benefits expense, in combination with an 83% increase in insurance expense which is a direct result of recent modifications by the FDIC to the FDIC s assessment methodology.

During the fourth quarter of 2006, the Company issued 268 shares of non-cumulative perpetual preferred stock. Preferred stock dividends declared during the third quarter of 2007 were $268 thousand, resulting in net income available to common stockholders of $1.3 million. Net income available to common stockholders was $520 thousand for the third quarter of 2006.

When compared to the second quarter of 2007, net interest income for the third quarter increased by $499 thousand, or 6%, and noninterest income increased $260 thousand, or 7%. A large portion of the improved revenue results was offset by increases in the provision for loan losses of $213 thousand and in noninterest expenses of $287 thousand. The quarter-to-quarter increase in provision for loan losses was the result of a charge-off on a lease receivable at M2 Lease Funds, and the establishment of specific reserves for 2 commercial loan relationships at Rockford Bank & Trust which are experiencing loan quality issues. A 3% increase in noninterest expenses from quarter-to-quarter was primarily due to increases in salaries and employee benefits.

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

NINE MONTHS ENDED SEPTEMBER 30, 2007

Net income for the nine months ended September 30, 2007 was $4.2 million as compared to net income of $2.6 million for the same period in 2006, an increase of $1.6 million, or 62%. Diluted earnings per common share for the first nine months of 2007 were $0.73, compared to $0.55 for the like period in 2006. For the nine month period ended September 30, total revenue in 2007 experienced an improvement of $15.1 million when compared to 2006. Primarily contributing to this 26% improvement in total revenue was an increase in interest income of $13.6 million, or 27%. Noninterest income for the first nine months of 2007 increased by $1.5 million, or 16% when compared to the like period of 2006. Exclusive of gains or losses on sales of securities, foreclosed assets, and other assets, core noninterest income grew 17% from the first nine months of 2006 to the like period in 2007. For the nine months ended September 30, 2007, the Company s net interest spread remained flat; while the net interest margin increased 4 basis points when compared to the like period of 2006. This coupled with significant volume growth from year-to-year increased net interest income by $4.4 million. For the nine months ended September 30, 2007, the Company s provision for loan/lease losses increased by $644 thousand when compared to the same period in 2006, as the result of the growth in the loan portfolio as well as the establishment of specific reserves for several commercial loan relationships at Quad City Bank & Trust and Rockford Bank & Trust, which are experiencing loan quality issues. The first nine months of 2007 reflected a year-to-year increase in noninterest expenses of $2.8 million, or 11%, when compared to the same period in 2006. The increase in noninterest expenses was predominately due to a 8% increase in salaries and employee benefits expense, in combination with a 14% increase in professional and data processing fees. Also contributing significantly to the increase in noninterest expenses was a $239 thousand write off of fixed assets during the first quarter of 2007 in connection with Quad City Bank & Trust s contribution of two vacant lots to allow a retail development to take place adjacent to its Five Points facility.

During the fourth quarter of 2006, the Company issued 268 shares of non-cumulative perpetual preferred stock. Preferred stock dividends declared during the first nine months of 2007 were $804 thousand, resulting in net income available to common stockholders of $3.4 million. Net income available to common stockholders was also $2.6 million for the comparable period in 2006.

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

NET INTEREST INCOME

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

Net interest income on a tax equivalent basis increased $1.6 million, or 21%, to $9.4 million for the quarter ended September 30, 2007, from $7.8 million for the third quarter of 2006. For the third quarter of 2007, average earning assets increased by $155.4 million, or 14%, and average interest-bearing liabilities increased by $145.4 million, or 14%, when compared with average balances for the third quarter of 2006. A comparison of yields, spread and margin from the third quarter of 2007 to the third quarter of 2006 is as follows:

The average yield on interest-earning assets increased 36 basis points.

The average cost of interest-bearing liabilities increased 19 basis points.

The net interest spread increased 17 basis points from 2.45% to 2.62%.

The net interest margin increased 16 basis points from 2.84% to 3.00%.

Net interest income on a tax equivalent basis increased $4.4 million, or 20%, to $26.8 million for the nine months ended September 30, 2007, from $22.4 million for the comparable period in 2006. For the first nine months of 2007, average earning assets increased by $191.9 million, or 19%, and average interest-bearing liabilities increased by $175.7 million, or 19%, when compared with average balances for the first nine months of 2006. A comparison of yields, spread and margin from the first nine months of 2007 to the like period of 2006 is as follows:

The average yield on interest-earning assets increased 48 basis points.

The average cost of interest-bearing liabilities increased 49 basis points.

The net interest spread declined 1 basis point from 2.55% to 2.54%.

The net interest margin increase 4 basis points from 2.90% to 2.94%.

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

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

**Consolidated Average Balance Sheets and Analysis of Net Interest Earnings**

| | for 3 months ended September 30, 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Earned or Paid | Average Yield or Cost | Average Balance | Interest Earned or Paid | Average Yield or Cost |
| **ASSETS** | | | | | | |
| Interest earnings assets: | | | | | | |
| Federal funds sold | $ 3,837 | 41 | 4.27% | $ 9,661 | 121 | 5.01% |
| Interest-bearing deposits at financial institutions | 4,783 | 71 | 5.94% | 6,686 | 86 | 5.15% |
| Investment securities (1) | 217,327 | 2,860 | 5.26% | 186,839 | 2,172 | 4.65% |
| Gross loans/leases receivable (2) | 1,032,302 | 19,253 | 7.46% | 899,621 | 16,133 | 7.17% |
| Total interest earning assets | 1,258,249 | 22,225 | 7.07% | 1,102,807 | 18,512 | 6.71% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 39,481 | | | 35,741 | | |
| Premises and equipment | 32,012 | | | 27,204 | | |
| Less allowance for estimated losses on loans/leases | (11,712) | | | (10,023) | | |
| Other | 54,423 | | | 42,177 | | |
| Total assets | $ 1,372,453 | | | $ 1,197,906 | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing demand deposits | $ 318,819 | 2,907 | 3.65% | $ 285,650 | 2,560 | 3.58% |
| Savings deposits | 31,688 | 170 | 2.15% | 31,307 | 177 | 2.26% |
| Time deposits | 402,955 | 5,073 | 5.04% | 407,015 | 4,873 | 4.79% |
| Short-term borrowings | 164,965 | 1,530 | 3.71% | 95,253 | 772 | 3.24% |
| Federal Home Loan Bank advances | 161,344 | 1,859 | 4.61% | 137,806 | 1,464 | 4.25% |
| Junior subordinated debentures | 36,085 | 661 | 7.33% | 36,085 | 665 | 7.37% |
| Other borrowings | 33,931 | 591 | 6.97% | 11,293 | 178 | 6.30% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total interest-bearing liabilities | 1,149,787 | 12,791 | 4.45% | 1,004,409 | 10,689 | 4.26% |
| Noninterest-bearing demand | 127,383 | | | 124,233 | | |
| Other noninterest-bearing liabilities | 18,785 | | | 11,699 | | |
| Total liabilities | 1,295,955 | | | 1,140,341 | | |
| Minority interest in consolidated subsidiaries | 1,619 | | | 775 | | |
| Stockholders equity | 74,880 | | | 56,790 | | |
| Total liabilities and stockholders equity | $ 1,372,453 | | | $ 1,197,906 | | |
| Net interest income | | $ 9,434 | | | $ 7,823 | |
| Net interest spread | | | 2.62% | | | 2.45% |
| Net interest margin | | | 3.00% | | | 2.84% |
| Ratio of average interest earning assets to average interest-bearing liabilities | 109.43% | | | 109.80% | | |

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

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

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

**Analysis of Changes of Interest Income/Interest Expense**
**For the three months ended September 30, 2007**

| | Inc./(Dec.) from Prior Period | Components of Change (1) Rate | Volume |
|---|---|---|---|
| | **2007 vs. 2006** (Dollars in Thousands) | | |
| **INTEREST INCOME** | | | |
| Federal funds sold | $ (80) | $ (16) | $ (64) |
| Interest-bearing deposits at financial institutions | (15) | 64 | (79) |
| Investment securities (2) | 688 | 308 | 380 |
| Gross loans/leases receivable (3) | 3,120 | 666 | 2,454 |
| Total change in interest income | $ 3,713 | $ 1,022 | $ 2,691 |
| **INTEREST EXPENSE** | | | |
| Interest-bearing demand deposits | $ 347 | $ 45 | $ 302 |
| Savings deposits | (7) | (20) | 13 |
| Time deposits | 200 | 493 | (293) |
| Short-term borrowings | 758 | 125 | 633 |
| Federal Home Loan Bank advances | 395 | 131 | 264 |
| Junior subordinated debentures | (4) | (4) | |
| Other borrowings | 413 | 21 | 392 |
| Total change in interest expense | $ 2,102 | $ 791 | $ 1,311 |
| Total change in net interest income | $ 1,611 | $ 231 | $ 1,380 |

(1) The column increase/decrease from prior period is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

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

(3) Loan/lease fees are not material and are included in interest income from loans/leases receivable.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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**Consolidated Average Balance Sheets and Analysis of Net Interest Earnings**

| | for 9 months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | **2006** | | |
| | Average Balance | Interest Earned or Paid | Average Yield or Cost | Average Balance | Interest Earned or Paid | Average Yield or Cost |
| **ASSETS** | | | | | | |
| Interest earnings assets: | | | | | | |
| Federal funds sold | $ 6,163 | 215 | 4.65% | $ 9,927 | 325 | 4.37% |
| Interest-bearing deposits at financial institutions | 6,975 | 294 | 5.62% | 6,134 | 222 | 4.83% |
| Investment securities (1) | 201,748 | 7,786 | 5.15% | 183,952 | 6,120 | 4.44% |
| Gross loans/leases receivable (2) | 1,004,073 | 55,178 | 7.33% | 827,091 | 43,120 | 6.95% |
| Total interest earning assets | 1,218,957 | 63,473 | 6.94% | 1,027,104 | 49,787 | 6.46% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 37,239 | | | 34,669 | | |
| Premises and equipment | 32,125 | | | 26,343 | | |
| Less allowance for estimated losses on loans/leases | (11,257) | | | (9,527) | | |
| Other | 49,551 | | | 41,458 | | |
| Total assets | $ 1,326,616 | | | $ 1,120,047 | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing demand deposits | $ 307,527 | 8,380 | 3.63% | $ 265,258 | 6,370 | 3.20% |
| Savings deposits | 31,255 | 496 | 2.12% | 32,730 | 539 | 2.20% |
| Time deposits | 409,962 | 15,278 | 4.97% | 365,263 | 11,982 | 4.37% |
| Short-term borrowings | 139,667 | 3,972 | 3.79% | 94,291 | 2,212 | 3.13% |
| Federal Home Loan Bank advances | 160,054 | 5,369 | 4.47% | 132,264 | 4,047 | 4.08% |
| Junior subordinated debentures | 36,085 | 1,967 | 7.27% | 34,367 | 1,829 | 7.10% |
| Other borrowings | 24,836 | 1,170 | 6.28% | 9,518 | 432 | 6.05% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total interest-bearing liabilities | 1,109,386 | 36,632 | 4.40% | 933,691 | 27,411 | 3.91% |
| Noninterest-bearing demand | 122,883 | | | 119,015 | | |
| Other noninterest-bearing liabilities | 19,498 | | | 10,721 | | |
| Total liabilities | 1,251,767 | | | 1,063,427 | | |
| Minority interest in consolidated subsidiaries | 1,519 | | | 724 | | |
| Stockholders equity | 73,329 | | | 55,896 | | |
| Total liabilities and stockholders equity | $ 1,326,616 | | | $ 1,120,047 | | |
| Net interest income | | $ 26,841 | | | $ 22,376 | |
| Net interest spread | | | 2.54% | | | 2.55% |
| Net interest margin | | | 2.94% | | | 2.90% |
| Ratio of average interest earning assets to average interest-bearing liabilities | 109.88% | | | 110.00% | | |

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

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

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**Analysis of Changes of Interest Income/Interest Expense**
**For the nine months ended September 30, 2007**

| | Inc./(Dec.) from Prior Period | Components of Change (1) Rate | Volume |
|---|---|---|---|
| | **2007 vs. 2006** (Dollars in Thousands) | | |
| **INTEREST INCOME** | | | |
| Federal funds sold | $ (110) | $ 32 | $ (142) |
| Interest-bearing deposits at financial institutions | 72 | 39 | 33 |
| Investment securities (2) | 1,666 | 1,039 | 627 |
| Gross loans/leases receivable (3) | 12,058 | 2,433 | 9,625 |
| Total change in interest income | $ 13,686 | $ 3,543 | $ 10,143 |
| **INTEREST EXPENSE** | | | |
| Interest-bearing demand deposits | $ 2,010 | $ 921 | $ 1,089 |
| Savings deposits | (43) | (19) | (24) |
| Time deposits | 3,296 | 1,735 | 1,561 |
| Short-term borrowings | 1,760 | 539 | 1,221 |
| Federal Home Loan Bank advances | 1,322 | 416 | 906 |
| Junior subordinated debentures | 138 | 45 | 93 |
| Other borrowings | 738 | 17 | 721 |
| Total change in interest expense | $ 9,221 | $ 3,654 | $ 5,567 |
| Total change in net interest income | $ 4,465 | $ (111) | $ 4,576 |

(1) The column increase/decrease from prior period is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

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

(3) Loan/lease fees are not material and are included in interest income from loans/leases receivable.

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

CRITICAL ACCOUNTING POLICY

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan/lease losses. The Company s allowance for loan/lease loss methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for loan/lease loss that management believes is appropriate at each reporting date. Quantitative factors include the Company s historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans/lease, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company s markets, including economic conditions throughout the Midwest, and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. Management may report a materially different amount for the provision for loan/lease losses in the statement of operations to change the allowance for loan/lease losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company s financial statements and the accompanying notes presented elsewhere herein, as well as the portion in the section entitled Financial Condition of this Management s Discussion and Analysis that discusses the allowance for loan/lease losses. Although management believes the levels of the allowance as of both September 30, 2007 and December 31, 2006 were adequate to absorb losses inherent in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Interest income increased by $3.7 million to $22.1 million for the three-month period ended September 30, 2007 when compared to $18.4 million for the quarter ended September 30, 2006. The 20% increase in interest income was attributable to greater average outstanding balances in interest earning assets, principally with respect to loans/leases receivable, in combination with an improved aggregate asset yield. The Company s average yield on interest earning assets was 7.07%, an increase of 36 basis points for the three months ended September 30, 2007 when compared to the same period in 2006.

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Interest expense increased by $2.1 million from $10.7 million for the three-month period ended September 30, 2006, to $12.8 million for the three-month period ended September 30, 2007. The 20% increase in interest expense was due to greater average outstanding balances in interest-bearing liabilities, in combination with increased aggregate interest rates on interest-bearing liabilities, principally with respect to short-term borrowings in the subsidiary banks. The Company s average cost of interest bearing liabilities was 4.45% for the three months ended September 30, 2007, which was an increase of 19 basis points when compared to the second quarter of 2006.

At September 30, 2007 and December 31, 2006, the Company had an allowance for estimated losses on loans/leases of 1.13% and 1.10% of gross loans/leases receivable, respectively. At September 30, 2006, the Company had an allowance for estimated losses on loans/leases of 1.11%. The provision for loan/lease losses increased by $308 thousand from $729 thousand for the three-month period ended September 30, 2006 to $1.0 million for the three-month period ended September 30, 2007. Management determined the appropriate monthly provision for loan/lease losses based upon a number of factors, including the increase in loans/leases and a detailed analysis of the loan/lease portfolio. During the third quarter of 2007, net growth in the loan/lease portfolio of $37.2 million warranted a $420 thousand provision to the allowance for loan/lease losses, which was increased significantly by additional provisions of $580 thousand resulting from the establishment of specific reserves for a few commercial downgrades within the portfolios of the subsidiary banks totaling $275 thousand, and increased reserves of $305 thousand for a significant charge off at M2 Lease Funds. During the third quarter of 2006, net growth in the loan/lease portfolio of $75.9 million warranted a $840 thousand provision to the allowance for loan/lease losses, which was partially offset by provision reversals of $111 thousand resulting from upgrades within the portfolio. For the three months ended September 30, 2007, there were $793 thousand of commercial loan/lease charge-offs, and there were commercial recoveries of $53 thousand. The majority of the commercial loan/lease charge-off was a result of a $515 thousand charge-off on a lease receivable within the portfolio of M2 Lease Funds. Consumer loan/lease charge-offs and recoveries totaled $165 thousand and $80 thousand, respectively, during the quarter. Credit card loans accounted for 32% of the third quarter consumer loan/lease gross charge-offs. Residential real estate loans had no charge-offs and recoveries of $2 thousand for the three months ended September 30, 2007.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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The following table sets forth the various categories of noninterest income for the three months ended September 30, 2007 and 2006.

Noninterest Income

| | Three months ended September 30, 2007 | Three months ended September 30, 2006 | % change |
|---|---|---|---|
| Credit card fees, net of processing costs | $ 442,643 | $ 476,783 | (7.16)% |
| Trust department fees | 924,464 | 787,796 | 17.3% |
| Deposit service fees | 706,271 | 478,299 | 47.7% |
| Gains on sales of loans, net | 277,265 | 218,854 | 26.7% |
| Securities gains, net | 0 | 71,013 | |
| Gains (losses) on sales of foreclosed assets | 0 | (100,000) | |
| Gains on sales of other assets | 435,791 | 0 | |
| Earnings on bank-owned life insurance | 261,372 | 152,308 | 71.6% |
| Investment advisory and management fees | 369,239 | 285,635 | 29.3% |
| Other | 441,445 | 371,634 | 18.5% |
| Total noninterest income | $ 3,858,490 | $ 2,742,322 | 41.0% |

Analysis concerning changes in noninterest income for the third quarter of 2007, when compared to the third quarter of 2006, is as follows:

Trust department fees increased $137 thousand. This increase was due to both the continued development of existing trust relationships with a resulting growth in managed assets and the addition of new trust customers with a resulting growth in the number of accounts throughout the past twelve months.

Deposit service fees increased $228 thousand. This increase was primarily a result of an increase in NSF (non-sufficient funds or overdraft) charges related to demand deposit accounts at the Company s subsidiary banks. The quarterly average balance of the Company s consolidated demand deposits at September 30, 2007 increased $33.2 million, or 12%, from September 30, 2006. Service charges and NSF charges related to the Company s demand deposit accounts were the main components of deposit service fees.

Gains on sales of loans, net, increased $58 thousand. Loans originated for sale during the third quarter of 2007 were $26.7 million and during the third quarter of 2006 were $20.3 million. Proceeds on the sales of loans during the third quarters of 2007 and 2006 were $28.5 million and $22.7 million, respectively.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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On July 11, 2007, the Company announced the sale of its 20% interest in Nobel to TriSource Solutions, LLC ( TriSource ). The consideration received by the Company in the sale was $500 thousand in cash and a 2.25% ownership interest in TriSource, resulting in a net gain on sale of investment of $436 thousand.

Earnings on bank-owned life insurance (BOLI) increased by $109 thousand. Over the past 9 months, the subsidiary banks have purchased additional BOLI for key executives increasing the level of insurance $9.1 million.

Investment advisory and management fees increased $84 thousand. This increase was due to both the continued development of existing customers and the addition of new customers with a resulting growth in the number and value of accounts throughout the past three months.

Other noninterest income increased $69 thousand, as the result of modest increases in several areas. Other noninterest income in each quarter consists primarily of income from affiliated companies, earnings on other assets, Visa check card fees, gain on disposal of leased assets and ATM fees.

The following table sets forth the various categories of noninterest expenses for the three months ended September 30, 2007 and 2006.

Noninterest Expenses

| | Three months ended September 30, | | |
|---|---|---|---|
| | 2007 | 2006 | % change |
| Salaries and employee benefits | $ 6,154,660 | $ 5,510,926 | 11.7% |
| Professional and data processing fees | 888,753 | 879,938 | 1.0% |
| Advertising and marketing | 322,632 | 389,812 | (17.2)% |
| Occupancy and equipment expense | 1,297,634 | 1,304,567 | (0.5)% |
| Stationery and supplies | 158,709 | 159,758 | (0.7)% |
| Postage and telephone | 262,664 | 241,867 | 8.6% |
| Bank service charges | 145,364 | 151,369 | (4.0)% |
| FDIC and other insurance | 295,138 | 161,381 | 82.9% |
| Other | 350,210 | 207,960 | 68.4% |
| Total noninterest expenses | $ 9,875,764 | $ 9,007,578 | 9.6% |

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MANAGEMENT S DISCUSSION AND ANALYSIS
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Analysis concerning changes in noninterest expenses for the third quarter of 2007, when compared to the third quarter of 2006, is as follows:

Total salaries and benefits, which is the largest component of noninterest expenses, increased $644 thousand. The increase was primarily due to an increase in employees at the Company s newest subsidiary banks which increased 14 full time equivalents (FTEs) from year-to-year, as a result of the Company s continued expansion in those markets. Increases in salary and employee benefits expense at Rockford Bank & Trust and First Wisconsin Bank & Trust, in aggregate, contributed $273 thousand of the total year-to-year increase. Also, contributing to the increase was an increase of $102 thousand, in aggregate, for compensation programs for senior executives, such as stock appreciation rights (SARs), tax benefit rights (TBRs), and deferred compensation.

Advertising and marketing expense decreased $67 thousand. The Company invested $127 thousand and $221 thousand in advertising and marketing expense at Quad City Bank &Trust for the three months ended September 30, 2007 and 2006, respectively. This decrease was offset by increases in marketing at the Company s newest subsidiary banks, Rockford Bank & Trust and First Wisconsin Bank & Trust, as investment in marketing increased $27 thousand when comparing the first nine months of 2007 to 2006. Investment in advertising and marketing tends to fluctuate as it is dependent on the need in the particular market as determined by management.

FDIC and other insurance expense increased 83% to $295 thousand. The $134 thousand increase was entirely the result of the Federal Deposit Insurance Corporation s (FDIC s) new premium pricing system and the assessment methodology for deposit insurance coverage now being applied to the subsidiary banks.

The provision for income taxes was $646 thousand for the three-month period ended September 30, 2007 compared to $125 thousand for the three-month period ended September 30, 2006 for an increase of $521 thousand. The increase was the result of an increase in income before income taxes of $1.6 million for the 2007 quarter when compared to the 2006 quarter. And, primarily due to an increase in the proportionate share of taxable income to total income from year to year, the Company experienced an increase in the effective tax rate from 18.13% for the third quarter of 2006 to 28.63% for the third quarter 2007. The Company s adoption of FIN 48 resulted in no effect to the provision for income taxes for the third quarter of 2007.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Interest income increased by $13.6 million to $63.1 million for the nine-month period ended September 30, 2007 when compared to $43.1 million for the like period in 2006. The 28% increase in interest income was attributable to greater average outstanding balances in interest earning assets, principally with respect to loans/leases receivable, in combination with an improved aggregate asset yield. The Company s average yield on interest earning assets was 6.94%, an increase of 48 basis points for the nine months ended September 30, 2007 when compared to the same period in 2006.

Interest expense increased by $9.2 million from $27.4 million for the nine-month period ended September 30, 2006, to $36.6 million for the nine-month period ended September 30, 2007. The 34% increase in interest expense was equally due to aggregate increased interest rates and volumes in interest-bearing liabilities, principally with respect to customers time deposits and demand deposits in the subsidiary banks. The Company s average cost of interest bearing liabilities was 4.40% for the six months ended September 30, 2007, which was an increase of 49 basis points when compared to the like period in 2006.

At September 30, 2007 and December 31, 2006, the Company had an allowance for estimated losses on loans/leases of 1.13% and 1.10% of gross loans/leases receivable, respectively. At September 30, 2006, the Company had an allowance for estimated losses on loans/leases of 1.11%. The provision for loan/lease losses increased by $644 thousand from $1.6 million for the nine-month period ended September 30, 2006 to $2.3 million for the nine-month period ended September 30, 2007. Management determined the appropriate monthly provision for loan/lease losses based upon a number of factors, including the increase in loans/leases and a detailed analysis of the loan/lease portfolio. During the first nine months of 2007, net growth in the loan/lease portfolio of $92.2 million warranted a $1.1 million provision to the allowance for loan/lease losses, which was increased significantly by additional provisions of $1.2 million resulting from the establishment of specific reserves for a few commercial downgrades within the portfolios of Quad City Bank & Trust and Rockford Bank & Trust, and increased reserves for a significant charge off at M2 Lease Funds. During the first nine months of 2006, net growth in the loan/lease portfolio of $186.7 million warranted a $2.1 million provision to the allowance for loan/lease losses, which was partially offset by provision reversals of $442 thousand resulting from upgrades and downgrades within the portfolio. For the nine months ended September 30, 2007, there were $955 thousand of commercial loan/lease charge-offs, and there were commercial loan/lease recoveries of $215 thousand. The majority of this commercial loan/lease charge-off amount is attributable to a $515 thousand charge-off on a lease finance receivable within the M2 Lease Funds portfolio. Consumer loan/lease charge-offs and recoveries totaled $316 thousand and $76 thousand, respectively, during the period. Credit card loans accounted for 76% of the consumer gross loan/lease charge-offs during the first nine months of 2007. Residential real estate loans had $9 thousand of charge-offs and $4 thousand of recoveries for the nine months ended September 30, 2007.

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The following table sets forth the various categories of noninterest income for the nine months ended September 30, 2007 and 2006.

Noninterest Income

| | Nine months ended September 30, 2007 | Nine months ended September 30, 2006 | % change |
|---|---|---|---|
| Credit card fees, net of processing costs | $ 1,248,917 | $ 1,464,233 | (14.7)% |
| Trust department fees | 2,783,795 | 2,310,737 | 20.5% |
| Deposit service fees | 1,962,409 | 1,422,379 | 38.0% |
| Gains on sales of loans, net | 965,680 | 711,857 | 35.7% |
| Securities gains (losses), net | 0 | (142,866) | |
| Gains on sales of foreclosed assets | 1,007 | 650,134 | (99.9)% |
| Gains on sales of other assets | 435,791 | 0 | |
| Earnings on bank-owned life insurance | 661,355 | 565,316 | 17.0% |
| Investment advisory and management fees | 1,134,362 | 949,573 | 19.5% |
| Other | 1,391,746 | 1,203,774 | 15.5% |
| Total noninterest income | $ 10,585,062 | $ 9,135,137 | 15.9% |

Analysis concerning changes in noninterest income for the first nine months of 2007, when compared to the like period in 2006, is as follows:

Bancard s credit card fees, net of processing costs, decreased $215 thousand for the first nine months of 2007 when compared to the like period of 2006. The majority of this decrease is an increase in net charge-offs. For the first nine months of 2007, Bancard incurred net charge offs totaling $224 thousand which is an increase of $157 thousand as compared to the first nine months of 2006. Additionally, the recovery of the remaining balance of an ISO-conversion reserve of $64 thousand in March 2006 accounted for approximately 30% of the year-to-year decline.

Trust department fees increased $473 thousand. This increase was due to both the continued development of existing trust relationships with a resulting growth in managed assets and the addition of new trust customers with a resulting growth in the number of accounts throughout the past twelve months.

Deposit service fees increased $540 thousand. This increase was primarily a result of an increase in NSF (non-sufficient funds or overdraft) charges related to demand deposit accounts at the Company s subsidiary banks. The nine-month average balance of the Company s consolidated demand deposits at September 30, 2007 increased $42.3 million, or 16%, from September 30, 2006. Service charges and NSF charges related to the Company s demand deposit accounts were the main components of deposit service fees.

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Gains on sales of loans, net, increased $254 thousand. Loans originated for sale during the first nine months of 2007 were $81.1 million and during the like period of 2006 were $63.8 million. Proceeds on the sales of loans during the first nine months of 2007 and 2006 were $83.8 million and $61.9 million, respectively.

During the second quarter of 2006, Quad City Bank & Trust completed the sale of a foreclosed asset, which resulted in a gain of $745 thousand.

On July 11, 2007, the Company announced the sale of its 20% interest in Nobel to TriSource Solutions, LLC ( TriSource ). The consideration received by the Company in the sale was $500 thousand in cash and a 2.25% ownership interest in TriSource, resulting in a net gain on sale of investment of $436 thousand.

Earnings on bank-owned life insurance (BOLI) increased by $96 thousand. Over the past 9 months, the subsidiary banks have purchased additional BOLI for key executives increasing the level of insurance $9.1 million.

Investment advisory and management fees increased $185 thousand. This increase was due to both the continued development of existing customers and the addition of new customers with a resulting growth in the number and value of accounts throughout the past three months.

The following table sets forth the various categories of noninterest expenses for the nine months ended September 30, 2007 and 2006.

Noninterest Expenses

| | Nine months ended September 30, 2007 | Nine months ended September 30, 2006 | % change |
|---|---|---|---|
| Salaries and employee benefits | $ 17,626,748 | $ 16,253,426 | 8.5% |
| Professional and data processing fees | 2,781,970 | 2,439,191 | 14.1% |
| Advertising and marketing | 944,109 | 1,016,661 | (7.1)% |
| Occupancy and equipment expense | 3,724,000 | 3,829,228 | (2.8)% |
| Stationery and supplies | 453,036 | 497,127 | (8.9)% |
| Postage and telephone | 769,433 | 715,108 | 7.6% |
| Bank service charges | 429,062 | 429,844 | (0.2)% |
| FDIC and other insurance | 707,616 | 447,870 | 58.0% |
| Loss on disposals/sales of fixed assets | 239,016 | | |
| Other | 990,903 | 254,776 | 288.9% |
| Total noninterest expenses | $ 28,665,893 | $ 25,883,231 | 10.8% |

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MANAGEMENT S DISCUSSION AND ANALYSIS
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Analysis concerning changes in noninterest expenses for the first nine months of 2007, when compared to the like period of 2006, is as follows:

Total salaries and benefits, which is the largest component of noninterest expenses, increased $1.4 million. The increase was primarily due to an increase in employees at the Company s newest subsidiary banks which increased 14 full time equivalents (FTEs) from year-to-year, as a result of the Company s continued expansion in those markets. Increases in salary and employee benefits expense at Rockford Bank & Trust and First Wisconsin Bank & Trust, in aggregate, contributed 80% of the total year-to-year increase.

Professional and data processing fees increased $343 thousand. The primary contributors to the year-to-year increase were increases in data processing fees at the subsidiary banks of $254 thousand and an increase of $101 thousand in audit/accounting fees at the parent Company level.

Occupancy and equipment expense decreased $105 thousand. The decrease was the net effect of two offsetting items. The first item was a $242 thousand increase, which proportionately reflects the Company s investment in additional facilities at the subsidiary banks, in combination with the related costs associated with additional furniture, fixtures and equipment, such as depreciation, maintenance, utilities, and property taxes. The offsetting item was a $347 thousand elimination of rental expense, which resulted from the addition of Velie Plantation Holding Company as a consolidated subsidiary during the fourth quarter of 2006.

FDIC and other insurance expense increased 58% to $708 thousand. The $260 thousand increase was entirely the result of the Federal Deposit Insurance Corporation s (FDIC s) new premium pricing system and the assessment methodology for deposit insurance coverage now being applied to the subsidiary banks.

During the first quarter of 2007, Quad City Bank & Trust contributed two vacant lots to a developer to allow for the development of upscale retail space adjacent to its Five Points facility, which resulted in an aggregate write off of $239 thousand.

The provision for income taxes was $1.7 million for the nine-month period ended September 30, 2007 compared to $978 thousand for the nine-month period ended September 30, 2006 for an increase of $714 thousand, or 73%. The increase was the result of an increase in income before income taxes of $2.4 million, or 66%, for the 2007 period when compared to the 2006 period. Additionally, the Company experienced an increase in the effective tax rate from 26.6% for the first nine months of 2006 to 27.7% for the first nine months of 2007. The Company s adoption of FIN 48 resulted in no effect to the provision for income taxes for the first nine months of 2007.

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

FINANCIAL CONDITION

Total assets of the Company increased by $142.6 million, or 11%, to $1.41 billion at September 30, 2007 from $1.27 billion at December 31, 2006. The growth resulted primarily from the net increase in the loan/lease portfolio, funded by short-term and other borrowings.

Cash and due from banks decreased by $2.0 million, or 5%, to $40.5 million at September 30, 2007 from $42.5 million at December 31, 2006. Cash and due from banks represented both cash maintained at its subsidiary banks, as well as funds that the Company and its banks had deposited in other banks in the form of non-interest bearing demand deposits.

Federal funds sold are inter-bank funds with daily liquidity. At September 30, 2007, the subsidiary banks had $7.2 million invested in such funds. This amount increased by $4.9 million, or 208%, from $2.3 million at December 31, 2006. The increase was primarily the result of an increased demand for Federal funds purchased by Quad City Bank & Trust s downstream correspondent banks.

Interest bearing deposits at financial institutions increased by $477 thousand, or 22%, to $2.6 million at September 30, 2007 from $2.1 million at December 31, 2006. Included in interest bearing deposits at financial institutions are demand accounts, money market accounts, and certificates of deposit. The majority of the increase occurred in the money market accounts at Cedar Rapids Bank & Trust.

Securities increased by $34.2 million, or 18%, to $228.9 million at September 30, 2007 from $194.8 million at December 31, 2006. The increase was the result of a number of transactions in the securities portfolio. For the first nine months of 2007, the Company purchased securities in the amount of $94.0 million which was offset by $61.3 million of maturities and calls of securities and paydowns of $436 thousand on mortgage-backed securities. Additionally, the fair value of securities classified as available for sale increased $1.8 million.

Total gross loans/leases receivable increased by $92.2 million, or 10%, to $1.05 billion at September 30, 2007 from $960.7 million at December 31, 2006. The increase was the result of originations, renewals, additional disbursements or purchases of $443.8 million of commercial business, consumer and real estate loans, less loan recoveries, net of charge-offs, of $985 thousand, and loan repayments or sales of loans of $350.8 million. During the nine months ended September 30, 2007, Quad City Bank & Trust contributed $190.2 million, or 43%, Cedar Rapids Bank & Trust contributed $122.2 million, or 28%, Rockford Bank & Trust contributed $50.5 million, or 11%, and First Wisconsin Bank & Trust contributed $15.4 million, or 4%, of the Company s loan originations, renewals, additional disbursements or purchases. M2 Lease Funds contributed $65.4 million in lease originations during the first nine months of 2007. The mix of loan/lease types within the Company s loan/lease portfolio at September 30, 2007 reflected 85% commercial, 8% residential real estate and 7% consumer loans. The majority of residential real estate loans originated by the Company were sold on the secondary market to avoid the interest rate risk associated with long term fixed rate loans. Loans originated for this purpose were classified as held for sale.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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The allowance for estimated losses on loans/leases was $11.9 million at September 30, 2007 compared to $10.6 million at December 31, 2006, an increase of $1.3 million, or 12%. The allowance for estimated losses on loans/leases was determined based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, past loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, governmental guarantees and other factors that, in management s judgement, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on a number of factors, including the increase in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed monthly utilizing the percentage allocation method. In addition, specific reviews were completed each month on all loans risk-rated as criticized credits. The adequacy of the allowance for estimated losses on loans/leases was monitored by the loan review staff, and reported to management and the board of directors.

Although management believes that the allowance for estimated losses on loans/leases at September 30, 2007 was at a level adequate to absorb losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions for loan/lease losses in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require further increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks with the intention to improve the overall quality of the Company s loan/lease portfolio.

Net charge-offs for the nine months ended September 30, 2006 were $73 thousand, and for the first nine months of 2007, there were net charge-offs of $985 thousand. One measure of the adequacy of the allowance for estimated losses on loans/leases is the ratio of the allowance to the gross loan/lease portfolio. The allowance for estimated losses on loans/leases as a percentage of gross loans/leases was 1.13% at September 30, 2007, 1.10% at December 31, 2006 and 1.11% at September 30, 2006.

At September 30, 2007 and December 31, 2006, total nonperforming assets were $10.4 million and $7.4 million, respectively. From December 31, 2006 through September 30, 2007, the Company experienced a $487 thousand increase in nonaccrual loans, as well as a $2.7 million increase in accruing loans past due 90 days, which was slightly offset by a decrease of $93 thousand in other real estate owned.

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Nonaccrual loans were $7.0 million at September 30, 2007, and $6.5 million at December 31, 2006. The $487 thousand increase in nonaccrual loans was comprised of commerical loans of $141 thousand, consumer loans of $18 thousand, and residential real estate loans of $328 thousand. Eight lending relationships at the subsidiary banks, with an aggregate outstanding balance of $5.8 million, comprised 82% of the nonaccrual loans at September 30, 2007, with one relationship accounting for $3.9 million. The existence of a strong collateral position, a governmental guarantee, or an improved payment status on several of the nonperformers significantly reduces the Company s exposure to loss. The subsidiary banks continue to work toward resolutions with all of these customers. Nonaccrual loans represented less than one percent of the Company s held for investment loan/lease portfolio at September 30, 2007.

From December 31, 2006 to September 30, 2007, accruing loans past due 90 days or more increased from $755 thousand to $3.4 million. The majority of this increase was due to a single relationship at Rockford Bank & Trust that is still on full interest accrual but is more than 90-days past due. The customer has brought the interest current on these borrowings but the Company has not renewed the notes while closely monitoring the credit. Management believes that the borrowings are well collateralized and as a result the Company has not provided significant reserves for this relationship. Credit card loans comprised $48 thousand, or only 1%, of this balance at September 30, 2007. Within 30 days after quarter-end, approximately $484 thousand, or 14%, of the loans past due 90 days or more at September 30 had been brought current in their payments.

Premises and equipment decreased by $165 thousand, or less than 1%, to $32.4 million at September 30, 2007 from $32.5 million at December 31, 2006. During the first nine months of 2007, there were purchases of additional land, furniture, fixtures and equipment and leasehold improvements of $1.8 million, which were essentially offset by depreciation expense of $1.7 million. In the second quarter of 2007, Cedar Rapids Bank & Trust purchased a parcel of land for a future banking facility at a cost of $656 thousand. During the first quarter of 2007, Quad City Bank & Trust contributed two vacant lots carried at a book value of $239 thousand to allow a retail development to take place adjacent to its Five Points facility.

On August 26, 2005, Quad City Bank & Trust acquired 80% of the membership units of M2 Lease Funds. The purchase price of $5.0 million resulted in $3.2 million in goodwill. Based on an annual analysis last completed as of July 31, 2007, the Company believes that no goodwill impairment existed.

On February 20, 2007, the Company completed a series of transactions, which resulted in the acquisition of a Wisconsin bank charter and the addition of First Wisconsin Bank & Trust to the Company s current family of community banks. Another result of this series of transactions was the addition to the Company s balance sheet of an intangible asset of $888 thousand representing the purchase price of the bank charter. The charter has no defined life or expiration date, and as such, will not be amortized, but rather will be evaluated annually for impairment.

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Accrued interest receivable on loans, securities and interest-bearing deposits with financial institutions increased by $1.3 million, or 19%, to $8.5 million at September 30, 2007 from $7.2 million at December 31, 2006. The increase was a reflection of the increase in both volumes of and rates on the Company s interest-earning assets since the end of 2006.

Bank-owned life insurance ( BOLI ) increased by $9.8 million from $18.9 million at December 31, 2006 to $28.7 million at September 30, 2007. Banks may generally buy BOLI as a financing or cost recovery vehicle for pre-and post-retirement employee benefits. As the owners and beneficiaries of these policies, the banks monitor the associated risks, including diversification, lending-limit, concentration, interest rate risk, credit risk, and liquidity. Quarterly financial information on the insurance carriers is provided to the Company by its compensation-consulting firm. Benefit expense associated with both the SERPs and deferred compensation arrangements was $444 thousand and $235 thousand, respectively, for the first nine months of 2007. Earnings on BOLI, for the first nine months of 2007, totaled $661 thousand. Benefit expense associated with the SERPs and deferred compensation arrangements was $401 thousand and $207 thousand, respectively, for the first nine months of 2006. Earnings on BOLI, for the first six months of 2006, totaled $565 thousand.

Other assets increased by $2.4 million, or 13%, to $20.4 million at September 30, 2007 from $18.0 million at December 31, 2006 due primarily to increases in deferred tax assets and to purchases of additional Federal Home Loan Bank stock by the subsidiary banks. Other assets included $11.4 million of equity in Federal Reserve Bank and Federal Home Loan Bank stock, $3.6 million of deferred tax assets, $1.1 million in investments in unconsolidated companies, $701 thousand of prepaid Visa/Mastercard processing charges, $377 thousand of unamortized prepaid trust preferred securities offering expenses, and various prepaid expenses and other miscellaneous receivables.

Deposits increased by $20.0 million to $895.5 million at September 30, 2007 from $875.4 million at December 31, 2006. The increase resulted from a $12.5 million aggregate net increase in money market, savings, and total transaction accounts, in combination with a $27.3 million net increase in interest-bearing certificates of deposit. Offsetting this increase was a net decrease in brokered certificates of deposit of the subsidiary banks of $19.8 million.

Short-term borrowings increased $64.2 million, or 58%, from $111.7 million at December 31, 2006 to $175.9 million at September 30, 2007. The subsidiary banks offer short-term repurchase agreements to some of their major customers. Also, the subsidiary banks purchase federal funds for short-term funding needs from the Federal Reserve Bank, or from their correspondent banks. Short-term borrowings were comprised of customer repurchase agreements of $83.3 million and $62.3 million at September 30, 2007 and December 31, 2006, respectively, as well as federal funds purchased from correspondent banks of $92.6 million at September 30, 2007 and $49.4 million at December 31, 2006.

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Federal Home Loan Bank ( FHLB ) advances increased by $8.0 million, or 5%, to $159.9 million at September 30, 2007 from $151.9 million at December 31, 2006. The increase was due primarily to Quad City Bank & Trust s additional utilization during the first nine months of 2007 of FHLB advances as an alternate funding source to customer deposits. As a result of their memberships in either the FHLB of Des Moines or Chicago, the subsidiary banks have the ability to borrow funds for short or long-term purposes under a variety of programs. FHLB advances are utilized for loan matching as a hedge against the possibility of rising interest rates, and when these advances provide a less costly or more readily available source of funds than customer deposits or other alternate funding sources.

Other borrowings increased $44.0 million from $3.7 million at December 31, 2006 to $47.7 million at September 30, 2007. In February 2007, $8.5 million in funds were drawn to partially provide the initial capitalization of First Wisconsin Bank & Trust. In April 2007, Quad City Bank & Trust and Cedar Rapids Bank & Trust together executed a master structured repurchase agreement with an upstream correspondent bank for $30.0 million. The fixed rate structured repurchase agreement carries a term of five years with a no put option for two years. The interest rate on the structure is capped at 4.60% and based on the 3 month LIBOR rate. The Company utilized U.S. government agency bonds to collateralize the structure. Quad City Bank & Trust carries a $20.0 million liability, and Cedar Rapids Bank & Trust carries a $10.0 million liability, as the result of this transaction. Additionally, Quad City Bank & Trust executed an additional $5.0 million fixed rate structured repurchase agreement with the same upstream correspondent bank. The fixed rate structured repurchase agreement carries a term of five years with a quarterly put option available after one year. The interest rate on the structure is fixed at 4.20%. The Company utilized U.S. government agency bonds to collateralize the structure.

Junior subordinated debentures remained at $36.1 million at September 30, 2007 as at December 31, 2006.

Other liabilities were $21.8 million at September 30, 2007, up $1.2 million, or 6%, from $20.6 million at December 31, 2006 due primarily to an increase in accrued interest payable on deposits and borrowings. Other liabilities were comprised of accrued but unpaid amounts for various products and services, and accrued but unpaid interest on deposits and borrowings. At September 30, 2007, the most significant components of other liabilities were $6.5 million of accrued expenses, $3.6 million of accounts payable for leases, $4.7 million of miscellaneous accounts payable, and $7.0 million of interest payable.

In the fourth quarter of 2006, the Company issued 268 shares of Series B Non Cumulative Perpetual Preferred Stock at $50 thousand per share for a total of $12.9 million with a stated rate of 8.00%. The preferred shares will accrue no dividends, and dividends will be payable on the preferred shares only if declared. The capital raised was used initially to pay down the balance on the Company s revolving line of credit, but ultimately was utilized to fund the acquisition and capitalization of first Wisconsin Bank & Trust.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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Common stock, at both September 30, 2007 and December 31, 2006, was $4.6 million. The slight increase of $32 thousand was the result of stock issued from the net exercise of stock options and stock purchased under the employee stock purchase plan.

Additional paid-in capital totaled $34.9 million at September 30, 2007, up $591 thousand from $34.3 million at December 31, 2006. The increase resulted from the proceeds received in excess of the $1.00 per share par value for the 31,519 shares of common stock issued as the result of the net exercise of stock options and stock purchased under the employee stock purchase plan, in combination with the recognition of stock-based compensation expense due to the application of the provisions of SFAS No. 123R.

Retained earnings increased by $3.2 million, or 10%, to $35.2 million at September 30, 2007 from $32.0 million at December 31, 2006. The increase reflected net income for the nine-month period, net of $804 thousand representing the quarterly dividends on the preferred shares at the stated rate of 8.0% and $183 thousand representing a dividend on the common shares at $0.04 per share declared in April.

Unrealized gains on securities available for sale, net of related income taxes, totaled $1.1 million at September 30, 2007 as compared to $28 thousand at December 31, 2006. The increase was attributable to increases during the period in fair value of the securities identified as available for sale.

LIQUIDITY

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers credit needs. The liquidity of the Company primarily depends upon cash flows from operating, investing, and financing activities. Net cash provided by operating activities, consisting primarily of net funds received from the origination and subsequent sale of loans, was $6.9 million thousand for the nine months ended September 30, 2007 compared to $891 thousand net cash provided by operating activities, consisting primarily of net funds used for the origination and subsequent sale of loans, for the same period in 2006. Net cash used in investing activities, consisting principally of originations of loans to be held for investment and purchases of securities in both periods, was $144.4 million for the nine months ended September 30, 2007 and $203.2 million for the like period of 2006. Net cash provided by financing activities, consisting primarily of increased Federal Home Loan Bank advances taken by the subsidiary banks as well as increases in short-term and other borrowings, for the first nine months of 2007 was $135.6 million, and for the same period in 2006 was $194.3 million, consisting principally of increased deposit accounts at the subsidiary banks.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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The Company has a variety of sources of short-term liquidity available to it, including federal funds purchased from correspondent banks, sales of securities available for sale, FHLB advances, lines of credit and loan participations or sales. At September 30, 2007, the subsidiary banks had fifteen lines of credit totaling $119.5 million, of which $13.0 million was secured and $106.5 million was unsecured. At September 30, 2007, Quad City Bank & Trust had drawn $42.8 million of its available balance of $98.0 million, and Cedar Rapids Bank & Trust had drawn none of its available balance of $21.5 million. At December 31, 2006, the subsidiary banks had fourteen lines of credit totaling $104.5 million, of which $13.0 million was secured and $91.5 million was unsecured. At December 31, 2006, the subsidiary banks had not drawn on any of these available lines. In April 2006, a single 364-day revolving note for $15.0 million was written in substitution and replacement of two previously written notes, which were a 364-day revolving note for $10.0 million maturing on December 21, 2006 and a 3-year revolving note for $5.0 million maturing on December 30, 2007. At September 30, 2007, the replacement note carried a balance outstanding of $12.0 million. Interest is payable monthly at the federal funds rate plus 1.25% per annum, as defined in the credit agreement. As of September 30, 2007, the interest rate on the replacement note was 6.51%.

On April 26, 2007, the Company declared a common dividend of $0.04 per share, or $183 thousand, which was paid on July 6, 2007 to common stockholders of record on June 22, 2007. It is the Company s intention to consider the payment of common dividends on a semi-annual basis. The Company anticipates an ongoing need to retain much of its operating income to help provide the capital for continued growth; however, it believes that operating results have reached a level that can sustain dividends to common stockholders as well.

On July 26, 2007, the Company declared a preferred dividend at the stated rate of 8%, or $268 thousand, which was paid to preferred stockholders of record on September 30, 2007. It is the Company s intention to consider the payment of preferred dividends on a quarterly basis.

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

**Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995.** This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company s management and on information currently available to management, are generally identifiable by the use of words such as believe, expect, anticipate, bode, predict, suggest, pro appear, plan, intend, estimate, may, will, would, could, should likely, or other similar expressions statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

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MANAGEMENT S DISCUSSION AND ANALYSIS
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The Company s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors, which could have a material adverse effect on the Company s operations and future prospects are detailed in the Risk Factors section included under Item 1a. of Part I of the Company s Form 10-K. In addition to the risk factors described in that section, there are other factors that may impact any public company, including the Company, which could have a material adverse effect on our operations and future prospects. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

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Item 3

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, like other financial institutions, is subject to direct and indirect market risk. Direct market risk exists from changes in interest rates. The Company s net income is dependent on its net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net income.

In an attempt to manage its exposure to changes in interest rates, management monitors the Company s interest rate risk. Each subsidiary bank has an asset/liability management committee of the board of directors that meets quarterly to review the bank s interest rate risk position and profitability, and to make or recommend adjustments for consideration by the full board of each bank. Management also reviews the subsidiary banks securities portfolios, formulates investment strategies, and oversees the timing and implementation of transactions to assure attainment of the board s objectives in the most effective manner. Notwithstanding the Company s interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

In adjusting the Company s asset/liability position, the board and management attempt to manage the Company s interest rate risk while maintaining or enhancing net interest margins. At times, depending on the level of general interest rates, the relationship between long-term and short-term interest rates, market conditions and competitive factors, the board and management may decide to increase the Company s interest rate risk position somewhat in order to increase its net interest margin. The Company s results of operations and net portfolio values remain vulnerable to increases in interest rates and to fluctuations in the difference between long-term and short-term interest rates.

One method used to quantify interest rate risk is a short-term earnings at risk summary, which is a detailed and dynamic simulation model used to quantify the estimated exposure of net interest income to sustained interest rate changes. This simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest sensitive assets and liabilities reflected on the Company s consolidated balance sheet. This sensitivity analysis demonstrates net interest income exposure over a one year horizon, assuming no balance sheet growth and a 200 basis point upward and a 200 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date. The model assumes a parallel and pro rata shift in interest rates over a twelve-month period. Application of the simulation model analysis at June 30, 2007 demonstrated a 1.30% decrease in net interest income with a 200 basis point increase in interest rates, and a 0.20% increase in net interest income with a 200 basis point decrease in interest rates. Both simulations are within the board-established policy limits of a 10% decline in value.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk is considered to be the most significant market risk affecting the Company. For that reason, the Company engages the assistance of a national consulting firm and their risk management system to monitor and control the Company s interest rate risk exposure. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company s business activities.

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Item 4

## CONTROLS AND PROCEDURES

**Evaluation of disclosure controls and procedures.** An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of September 30, 2007. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of September 30, 2007 to ensure that information required to be disclosed in the reports filed and submitted under the Exchange Act was recorded, processed, summarized and reported as and when required.

**Changes in Internal Control over Financial Reporting.** There have been no significant changes to the Company s internal control over financial reporting during the period covered by this report that have materially effected, or are reasonably likely to affect, the Company s internal control over financial reporting.

Part II

QCR HOLDINGS, INC.
AND SUBSIDIARIES

## PART II — OTHER INFORMATION

Item 1 Legal Proceedings
There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 1.A. Risk Factors
There have been no material changes in the risk factors applicable to the Company from those disclosed in Part I, Item 1.A. "Risk Factors," in the Company's 2006 Annual Report on Form 10-K. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds
None

Item 3 Defaults Upon Senior Securities
None

Item 4 Submission of Matters to a Vote of Security Holders
None

Item 5 Other Information
None

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Part II

PART II — OTHER INFORMATION — continued

Item 6 Exhibits

(a) Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QCR HOLDINGS, INC.
(Registrant)

Date November 9, 2007

/s/ Douglas M. Hultquist
Douglas M. Hultquist, President
Chief Executive Officer

Date November 9, 2007

/s/ Todd A. Gipple
Todd A. Gipple, Executive Vice President
Chief Financial Officer

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QCR HOLDINGS, INC.
(Registrant)

Date November 9, 2007

Douglas M. Hultquist, President
Chief Executive Officer

Date November 9, 2007

Todd A. Gipple, Executive Vice President
Chief Financial Officer