QCR HOLDINGS INC
Form 10-K
March 05, 2010

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009.
Commission file number: 0-22208
QCR HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	42-1397595
(State of incorporation)	(I.R.S. Employer Identification No.)

3551 7th Street, Moline, Illinois 61265
(Address of principal executive offices)
(309) 736-3580
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Exchange Act:
Common stock, $1.00 Par Value The NASDAQ Global Market
Securities registered pursuant to Section 12(g) of the Exchange Act:
Preferred Share Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on The NASDAQ Capital Market on June 30, 2009, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $39,850,370.

As of February 26, 2010, the Registrant had outstanding 4,582,791 shares of common stock, $1.00 par value per share.

Documents incorporated by reference:
Part III of Form 10-K Proxy statement for annual meeting of stockholders to be held in May 2010.

QCR HOLDINGS, INC. AND SUBSIDIARIES

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Part I

Item 1. Business

General. QCR Holdings, Inc. (the Company) is a multi-bank holding company headquartered in Moline, Illinois that was formed in February 1993 under the laws of the state of Delaware. The Company serves the Quad City, Cedar Rapids, and Rockford communities through the following three wholly-owned banking subsidiaries, which provide full-service commercial and consumer banking and trust and asset management services:

Quad City Bank and Trust Company (Quad City Bank & Trust), which is based in Bettendorf, Iowa and commenced operations in 1994;

Cedar Rapids Bank and Trust Company (Cedar Rapids Bank & Trust), which is based in Cedar Rapids, Iowa and commenced operations in 2001; and

Rockford Bank and Trust Company (Rockford Bank & Trust), which is based in Rockford, Illinois and commenced operations in 2005.

The Company also engages in direct financing lease contracts through the 80% equity investment by Quad City Bank & Trust in m2 Lease Funds, LLC, based in Brookfield, Wisconsin, and in real estate holdings through its 73% equity investment in Velie Plantation Holding Company, LLC, based in Moline, Illinois.

Quad City Bancard, Inc. (Bancard), previously a wholly-owned subsidiary of the Company, conducted the Company s credit card issuing operation. Effective December 31, 2009, Bancard was dissolved and liquidated. The credit card issuing operation was merged in as a department of Quad City Bank & Trust.

During 2008, Bancard sold its merchant credit card acquiring business. The resulting gain on sale, net of taxes and related expenses, was approximately $3.0 million. The current and comparative financial results associated with the merchant credit card acquiring business have been reflected as discontinued operations throughout the annual report.

On December 31, 2008, the Company sold its Milwaukee, Wisconsin subsidiary, First Wisconsin Bank and Trust Company (First Wisconsin Bank & Trust), for $13.7 million which resulted in a pre-tax gain on sale of approximately $495 thousand. The current and comparative financial results associated with First Wisconsin Bank & Trust have been reflected as discontinued operations throughout the annual report.

Subsidiary Banks. Quad City Bank & Trust was capitalized on October 13, 1993 and commenced operations on January 7, 1994. Quad City Bank & Trust is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the Federal Deposit Insurance Corporation (the FDIC) to the maximum amount permitted by law. Quad City Bank & Trust provides full service commercial and consumer banking and trust and asset management services in the Quad Cities and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and in Moline, Illinois. Quad City Bank & Trust has the 80% equity investment in m2 Lease Funds. Quad City Bank & Trust, on a consolidated basis with m2 Lease Funds, had total segment assets of $975.8 million and $908.6 million as of December 31, 2009 and 2008, respectively. See Financial Statement Note 22 for additional business segment information.

Cedar Rapids Bank & Trust is an Iowa-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. The Company commenced operations in Cedar Rapids in June 2001 operating as a branch of Quad City Bank & Trust. The Cedar Rapids branch operation then began functioning under the Cedar Rapids Bank & Trust charter in September 2001. Cedar Rapids Bank & Trust provides full-service commercial and consumer banking and trust and asset management services to Cedar Rapids, Iowa and adjacent communities through its two facilities. The headquarters for Cedar Rapids Bank & Trust is located in downtown Cedar Rapids, and its first branch location is located in northern Cedar Rapids. Cedar Rapids Bank & Trust had total segment assets of $542.7 million and $468.3 million as of December 31, 2009 and 2008, respectively. See Financial Statement Note 22 for additional business segment information.

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Rockford Bank & Trust is an Illinois-chartered commercial bank that is a member of the Federal Reserve System with depository accounts insured by the FDIC to the maximum amount permitted by law. The Company commenced operations in Rockford, Illinois in September 2004 operating as a branch of Quad City Bank & Trust, and that operation began functioning under the Rockford Bank & Trust charter in January 2005. It provides full-service commercial and consumer banking and trust and asset management 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. Rockford Bank & Trust had total segment assets of $265.8 million and $228.0 million as of December 31, 2009 and 2008, respectively. See Financial Statement Note 22 for additional business segment information.

Operating Subsidiaries. On August 26, 2005, Quad City Bank & Trust acquired 80% of the membership units of m2 Lease Funds. John Engelbrecht, the President and Chief Executive Officer of m2 Lease Funds, retained 20% of the membership units. m2 Lease Funds, which is based in Brookfield, Wisconsin, is engaged in the business of leasing machinery and equipment to commercial and industrial businesses under direct financing lease contracts.

Beginning in 1998, the Company held a 20% equity investment in Velie Plantation Holding Company. In 2006, the Company acquired an additional 37% of the membership units bringing its total equity investment to 57% in aggregate. During 2009, the Company acquired an additional 16% of the membership units to bring its total equity investment to 73% in aggregate. Velie Plantation Holding Company is engaged in holding the real estate property known as the Velie Plantation Mansion in Moline, Illinois.

On January 1, 2008, Quad City Bank & Trust acquired 100% of the membership units of CMG Investment Advisors, LLC, which is an investment management and advisory company.

Trust Preferred Subsidiaries. Following is a listing of the Company s non-consolidated subsidiaries formed for the issuance of trust preferred securities, including pertinent information as of December 31, 2009 and 2008:

Name	Date Issued	Amount Issued	Interest Rate	Interest Rate as of 12/31/09	Interest Rate as of 12/31/08
QCR Holdings Statutory Trust II	February 2004	$ 12,372,000	6.93%*	6.93%	6.93%
QCR Holdings Statutory Trust III	February 2004	8,248,000	2.85% over 3-month LIBOR	3.10%	6.61%
QCR Holdings Statutory Trust IV	May 2005	5,155,000	1.80% over 3-month LIBOR	2.08%	6.62%
QCR Holdings Statutory Trust V	February 2006	10,310,000	6.62%**	6.62%	6.62%
		$ 36,085,000			

* Rate is fixed until March 31, 2011, then becomes variable based on 3-month

LIBOR plus 2.85%, reset quarterly.

** Rate is fixed until April 7, 2011, then becomes variable based on 3-month LIBOR plus 1.55%, reset quarterly.

Securities issued by Trust II mature in thirty years, but are callable at par anytime after seven years from issuance. Securities issued by Trust III, Trust IV, and Trust V mature in thirty years, but are callable at par anytime after five years from issuance.

Other Ownership Interests. The Company invests limited amounts of its capital in stocks of financial institutions and mutual funds. In addition to its wholly-owned and majority-owned subsidiaries, the Company owns a 20% equity position in Nobel Real Estate Investors, LLC. In June 2005, Cedar Rapids Bank & Trust entered into a joint venture as a 50% owner of Cedar Rapids Mortgage Company, LLC.

The Company and its subsidiaries collectively employed 343 and 345 full-time equivalents (FTEs) at December 31, 2009 and 2008, respectively.

Business. The Company s principal business consists of attracting deposits and investing those deposits in loans/leases and securities. The deposits of the subsidiary banks are insured to the maximum amount allowable by the FDIC. The Company s results of operations are dependent primarily on net interest income, which is the difference between the interest earned on its loans/leases and securities and the interest paid on deposits and borrowings. The Company s operating results are affected by economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities, as described more fully in this Form 10-K. Its operating results also can be affected by trust fees, deposit service charge fees, fees from the sale of residential real estate loans and other income. Operating expenses include employee compensation and benefits, occupancy and equipment expense, professional and data processing fees, advertising and marketing expenses, bank service charges, FDIC and other insurance, loan/lease expenses and other administrative expenses.

The Board of Governors of the Federal Reserve System (the Federal Reserve) is the primary federal regulator of the Company and its subsidiaries. In addition, Quad City Bank & Trust and Cedar Rapids Bank & Trust are regulated by the Iowa Superintendent of Banking (the Iowa Superintendent), and Rockford Bank & Trust is regulated by the State of Illinois Department of Financial and Professional Regulation (the Illinois DFPR). The FDIC, as administrator of the Deposit Insurance Fund, has regulatory authority over the subsidiary banks.

Lending/Leasing. The Company and its subsidiaries provide a broad range of commercial and retail lending and investment services to corporations, partnerships, individuals and government agencies. The subsidiary banks actively market their services to qualified lending and deposit clients. Officers actively solicit the business of new clients entering their market areas as well as long-standing members of the local business community. The subsidiary banks have established lending policies which include a number of underwriting factors to be considered in making a loan, including, but not limited to, location, loan-to-value ratio, cash flow, collateral and the credit history of the borrower.

In accordance with Iowa regulation, the legal lending limit to one borrower for Quad City Bank & Trust and Cedar Rapids Bank & Trust, calculated as 15% of aggregate capital, was $14.5 million and $8.3 million, respectively, as of December 31, 2009. In accordance with Illinois regulation, the legal lending limit to one borrower for Rockford Bank & Trust, calculated as 25% of aggregate capital, totaled $7.5 million as of December 31, 2009.

As part of the loan monitoring activity at the three subsidiary banks, credit administration personnel interact closely with senior bank management. The Company has a separate in-house loan review function to analyze credits of the subsidiary banks. To complement the in-house loan review, an independent third-party performs external loan reviews. Management has attempted to identify problem loans at an early stage and to aggressively seek a resolution of these situations.

As noted above, the subsidiary banks are active commercial lenders. The current areas of emphasis include loans to wholesalers, manufacturers, building contractors, business services companies, other banks, and retailers. The banks provide a wide range of business loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of facilities, equipment and other purposes. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. In addition, the subsidiary banks often take personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years. Some of the subsidiary banks commercial business loans have floating interest rates or reprice within one year. The banks also make commercial real estate loans. Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower.

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The following table presents total loans/leases by type and subsidiary as of December 31, 2009 and 2008. Residential real estate loans held for sale are included in residential real estate loans below.

	Quad City Bank & Trust		m2 Lease Funds		Cedar Rapids Bank & Trust		Rockford Bank & Trust		Intercompany Elimination	Consolidated Total	
	$	%	$	%	$	%	$	%	$	$	%
	(dollars in thousands)										
As of December 31, 2009:											
Commercial and industrial loans	$ 217,873	39%	$	0%	$ 148,420	39%	$ 75,243	36%	$	$ 441,536	35%
Commercial real estate loans	261,902	47%		0%	188,750	49%	107,634	51%	(2,279)	556,007	45%
Direct financing leases		0%	90,059	98%		0%		0%		90,059	7%
Residential real estate loans	33,221	6%		0%	21,982	6%	15,405	7%		70,608	6%
Installment and other consumer loans	48,057	9%		0%	24,075	6%	12,139	6%		84,271	7%
Deferred loan/lease origination costs, net of fees	64	0%	2,206	2%	(427)	0%	(4)	0%		1,839	0%
	$ 561,117	100%	$ 92,265	100%	$ 382,800	100%	$ 210,417	100%	$ (2,279)	$ 1,244,320	100%
As of December 31, 2008:											
Commercial and industrial loans	$ 236,023	40%	$	0%	$ 133,191	38%	$ 69,903	36%	$	$ 439,117	36%
Commercial real estate loans	254,848	43%		0%	175,481	49%	98,757	52%	(2,418)	526,668	43%
Direct financing leases		0%	79,408	98%		0%		0%		79,408	7%

Residential real estate loans	44,480	8%		0%	22,608	6%	12,141	6%		79,229	7%
Installment and other consumer loans	54,151	9%		0%	23,597	7%	10,793	6%		88,541	7%
Deferred loan/lease origination costs, net of fees	118	0%	1,864	2%	(299)	0%	44	0%		1,727	0%
	$ 589,620	100%	$ 81,272	100%	$ 354,578	100%	$ 191,638	100%	$ (2,418)	$ 1,214,690	100%

The subsidiary banks sell the majority of their residential real estate loans in the secondary market. The following table presents the originations and sales of residential real estate loans for the Company.

	For the year ended December 31,		
	2009	2008	2007
	(dollars in thousands)		
Originations of residential real estate loans	$ 157,180	$ 116,662	$ 134,965
Sales of residential real estate loans	$ 141,619	$ 87,907	$ 103,640
Percentage of sales to originations	90%	75%	77%

Generally, the subsidiary banks residential mortgage loans conform to the underwriting requirements of Freddie Mac and Fannie Mae to allow the subsidiary banks to resell loans in the secondary market. The subsidiary banks structure most loans that will not conform to those underwriting requirements as adjustable rate mortgages that mature or adjust in one to five years, and then retain these loans in their portfolios. Servicing rights are not presently retained on the loans sold in the secondary market.

The consumer lending departments of each bank provide many types of consumer loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines.

m2 Lease Funds leases machinery and equipment to commercial and industrial customers under direct financing leases.

Competition. The Company currently operates in the highly competitive Quad City, Cedar Rapids, and Rockford markets. Competitors include not only other commercial banks, credit unions, thrift institutions, and mutual funds, but also, insurance companies, finance companies, brokerage firms, investment banking companies, and a variety of other financial services and advisory companies. Many of these competitors are not subject to the same regulatory restrictions as the Company. Many of these unregulated competitors compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services. The Company competes in markets with a number of much larger financial institutions with substantially greater resources and larger lending limits.

Appendices. The commercial banking business is a highly regulated business. See Appendix A for a summary of the federal and state statutes and regulations that are applicable to the Company and its subsidiaries. Supervision, regulation and examination of banks and bank holding companies by bank regulatory agencies are intended primarily for the protection of depositors rather than stockholders of bank holding companies and banks.

See Appendix B for tables and schedules that show selected comparative statistical information relating to the business of the Company required to be presented pursuant to federal securities laws. Consistent with the information presented in Form 10-K, results are presented for the fiscal years ended December 31, 2009, 2008, 2007, 2006, and 2005 and have been reclassified, as appropriate, for discontinued operations.

Internet Site, Securities Filings and Governance Documents. The Company maintains Internet sites for itself and its three banking subsidiaries. The Company makes available free of charge through these sites its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Also available are many of our corporate governance documents, including our Code of Conduct and Ethics Policy. The sites are www.qcrh.com, www.qcbt.com, www.crbt.com, and www.rkfdbank.com.

Item 1A. Risk Factors

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors:

Our business may be adversely affected by the continued downturn in the United States economy and the difficult market conditions in our industry.

Since 2007, the United States economy has experienced a severe downturn that continued in 2009. Business activity across a wide range of industries and regions is greatly reduced, and many businesses and local governments are experiencing serious difficulty in remaining profitable due to the lack of consumer spending and the lack of liquidity in the credit markets. Over the past few years, unemployment in the United States has increased significantly.

As a result of this economic downturn, many lending institutions, including us, have experienced declines in the performance of their loans, including commercial loans, commercial real estate loans and consumer loans. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Moreover, competition among depository institutions for deposits and quality loans has increased significantly. Bank and bank holding company stock prices have been negatively affected, and the ability of banks and bank holding companies to raise capital or borrow in the debt markets has become more difficult in recent years.

If the current weak economic conditions continue or worsen, our business, growth and profitability are likely to suffer. A continued downturn in economic conditions could affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Overall, during the past year, the general business environment has had an adverse effect on our business, and there can be no assurance that the environment will improve in the near term. Until conditions improve, we expect our business, financial condition and results of operations to be adversely affected.

Our business is concentrated in and dependent upon the continued growth and welfare of the Quad City, Cedar Rapids, and Rockford markets.

We operate primarily in the Quad City, Cedar Rapids, and Rockford markets, and as a result, our financial condition, results of operations and cash flows are subject to changes in the economic conditions in those areas. We have developed a particularly strong presence in Bettendorf, Cedar Rapids and Davenport, Iowa and Moline and Rockford, Illinois and their surrounding communities. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce demand for our products and services, affect the ability of our customers to repay their loans to us, increase the levels of our non-performing and problem loans, and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Liquidity risks could affect operations and jeopardize our business, results of operations and financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our primary sources of funds consist of cash from operations, deposits, investment maturities and calls, and loan/lease repayments. Additional liquidity is provided by federal funds purchased from the Federal Reserve Bank or other correspondent banks, FHLB advances, wholesale and customer repurchase agreements, brokered time deposits, and the ability to borrow at the Federal Reserve Bank s Discount Window. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as further disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Since late 2007, the financial services industry and the credit markets generally have been materially and adversely affected by significant declines in asset values and by a lack of liquidity. The liquidity issues have been particularly acute for regional and community banks, as many of the larger financial institutions have significantly curtailed their lending to regional and community banks to reduce their exposure to the risks of other banks. In addition, many of the larger correspondent lenders have reduced or even eliminated federal funds lines for their correspondent customers. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size and limited analyst coverage. Any decline in available funding could adversely impact our ability to originate loans/leases, invest in securities, meet our expenses, pay dividends to our shareholders, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

We face intense competition in all phases of our business from other banks and financial institutions.

The banking and financial services businesses in our markets are highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank financial services providers. Many of these competitors are not subject to the same regulatory restrictions as we are. Many of our unregulated competitors compete across geographic boundaries and are able to provide customers with a feasible alternative to traditional banking services. Additionally, if the regulatory trend toward reducing restrictions on the interstate operations of financial institutions continues, we will continue to experience increased competition as a result.

Increased competition in our markets may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to modify our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, have larger lending limits and

offer a broader range of financial services than we can offer.

Our community banking strategy relies heavily on our subsidiaries independent management teams, and the unexpected loss of key managers may adversely affect our operations.

We rely heavily on the success of our bank subsidiaries independent management teams. Accordingly, much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain the executive officers, current management teams, branch managers and loan officers of our operating subsidiaries will continue to be important to the successful implementation of our strategy. It is also critical, as we manage our existing portfolio and grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

The American Recovery and Reinvestment Act of 2009 that was signed into law in February 2009 includes extensive new restrictions on our ability to pay retention awards, bonuses and other incentive compensation during the period in which we have any outstanding securities held by the U.S. Treasury that were issued under the Capital Purchase Program. Many of the restrictions may not be limited to our senior executives and could cover other employees whose contributions to revenue and performance can be significant. The limitations may adversely affect our ability to recruit and retain these key employees in addition to our senior executive officers, especially if we are competing for talent against institutions that are not subject to the same restrictions. The Federal Reserve, and perhaps the FDIC, are contemplating proposed rules governing the compensation practices of financial institutions and these rules, if adopted, may make it more difficult to attract and retain the people we need to operate our businesses and limit our ability to promote our objectives through our compensation and incentive programs.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

The Company and each of its banking subsidiaries are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations. Our ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market condition, and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. Our failure to meet these capital and other regulatory requirements could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock and to make distributions on our trust preferred securities, our ability to make acquisitions, and our business, results of operations and financial condition.

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Interest rates and other conditions impact our results of operations.

Our profitability is in large part a function of the spread between the interest rates earned on investments and loans/leases and the interest rates paid on deposits and other interest bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan/lease terms or the mix of adjustable and fixed rate loans/leases in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations is presented at Quantitative and Qualitative Disclosures about Market Risk included under Item 7A of Part II of this Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

We must effectively manage our credit risk.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department and an external third party. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.

The majority of our subsidiary banks loan portfolios are invested in commercial and industrial and commercial real estate loans, and we focus on lending to small to medium-sized businesses. The size of the loans we can offer to commercial customers is less than the size of the loans that our competitors with larger lending limits can offer. This may limit our ability to establish relationships with the area s largest businesses. Smaller companies tend to be at a competitive disadvantage and generally have limited operating histories, less sophisticated internal record keeping and financial planning capabilities and fewer financial resources than larger companies. As a result, we may assume greater lending risks than financial institutions that have a lesser concentration of such loans and tend to make loans to larger, more established businesses. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. In addition to commercial and commercial real estate loans, our subsidiary banks are also active in residential mortgage and consumer lending. Should the economic climate worsen, our borrowers may experience financial difficulties, and the level of non-performing loans, charge-offs and delinquencies could rise, which could negatively impact our business.

Commercial and industrial loans make up a large portion of our loan/lease portfolio.

Commercial and industrial loans/leases were $441.5 million, or approximately 35% of our total loan/lease portfolio, as of December 31, 2009. Our commercial and industrial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment and real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the pledged collateral and enforcement of a personal guarantee, if any exists. Whenever possible, we require a personal guarantee on commercial loans. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. In addition, a continued decline in the United States economy or a prolonged recovery period could harm or continue to harm the businesses of our commercial and industrial customers and reduce the value of the collateral securing these loans.

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Our loan/lease portfolio has a significant concentration of commercial real estate loans, which involve risks specific to real estate value.

Commercial real estate lending comprises a significant portion of our lending business. Specifically, commercial real estate loans were $556.0 million, or approximately 45% of our total loan/lease portfolio, as of December 31, 2009. Of this amount, $158.9 million, or approximately 29%, is owner-occupied. The market value of real estate securing our commercial real estate loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

The problems that have occurred in the residential real estate and mortgage markets throughout much of the United States have begun to spread to the commercial real estate market. In our market areas, we have generally experienced a downturn in credit performance by our commercial real estate loan customers, and in light of the uncertainty that exists in the economy and credit markets, there can be no guarantee that we will not experience further deterioration in the performance of commercial real estate and other real estate loans in the future. In such case, we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results, financial condition and/or capital.

Our allowance for loan/lease losses may prove to be insufficient to absorb potential losses in our loan/lease portfolio.

We established our allowance for loan/lease losses in consultation with management of our subsidiaries and maintain it at a level considered adequate by management to absorb loan/lease losses that are inherent in the portfolio. The amount of future loan/lease losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2009, our allowance for loan/lease losses as a percentage of total gross loans/leases was 1.81% and as a percentage of total nonperforming loans/leases was approximately 75%. Because of the concentration of commercial and industrial and commercial real estate loans in our loan portfolio, which tend to be larger in amount than residential real estate loans, the movement of a small number of loans to nonperforming status can have a significant impact on these ratios. Although management believes that the allowance for loan/lease losses as of December 31, 2009 was adequate to absorb losses on any existing loans/leases that may become uncollectible, in light of the current economic environment, we cannot predict loan/lease losses with certainty, and we cannot assure you that our allowance for loan/lease losses will prove sufficient to cover actual loan/lease losses in the future, particularly if economic conditions worsen beyond what management currently expects. Additional provisions to the allowance for loan/lease losses and loan/lease losses in excess of our allowance for loan/lease losses may adversely affect our business, financial condition and results of operations.

Increases in FDIC insurance premiums may have a material adverse effect on the Company s earnings.

Recently, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. In addition, the FDIC instituted two temporary programs in 2008 to further insure customer deposits at FDIC-member banks through December 31, 2009: (1) deposit accounts are now insured up to $250,000 per customer (up from $100,000), and (2) non-interest bearing transactional accounts (as defined by the FDIC) are fully insured (unlimited coverage) for those institutions who opted into the program. These programs have placed additional stress on the Deposit Insurance Fund. On May 20, 2009, the FDIC extended the $250,000 per customer insurance limit through December 31, 2013. On August 26, 2009, the FDIC extended the unlimited insurance on non-interest bearing transaction accounts through June 30, 2010.

In order to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund, the FDIC increased assessment rates of insured institutions uniformly by 7 cents for every $100 of deposits beginning with the first quarter of 2009, with additional changes effective April 1, 2009, which required riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels.

On May 22, 2009, the FDIC adopted a final rule that imposed a special assessment on all insured depository institutions. Pursuant to the final rule, the FDIC imposed on the Company s subsidiary banks special assessments in the total amount of $794,000, which was due and payable on September 30, 2009.

On November 12, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. On December 30, 2009, our subsidiary banks paid the FDIC a total of $8.8 million in prepaid assessments.

These actions by the FDIC significantly increased our noninterest expense in 2009 and are expected to increase our costs for the foreseeable future.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology.

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services. In addition to enabling us to better serve our customers, the effective use of technology increases efficiency and the potential for cost reduction. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow our market share. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

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We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, and if any resulting loss is not insured or exceeds applicable insurance limits, such failure could have a material adverse effect on our business, financial condition and results of operations.

Government regulation can result in limitations on our operations.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including Treasury, the Federal Reserve, the FDIC, the Iowa Superintendent, and the Illinois DFPR. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of stockholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law.

In addition, as a result of ongoing challenges facing the United States economy, the potential exists for new laws and regulations regarding lending and funding practices and liquidity standards to be promulgated, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal or informal enforcement actions or orders. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business and profitability. Increased regulation could increase our cost of compliance and adversely affect profitability. For example, new legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

Failure to pay interest on our debt or dividends on our preferred stock may adversely impact our ability to pay common stock dividends.

As of December 31, 2009, we had $36.1 million of junior subordinated debentures held by four business trusts that we control. Interest payments on the debentures, which totaled $2.1 million for 2009, must be paid before we pay dividends on our capital stock, including our common stock. We have the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if we elect to defer interest payments, all deferred interest must be paid before we may pay dividends on our capital stock. As of December 31, 2009, the Company had 568 shares of non-cumulative perpetual preferred stock issued and outstanding. Although these non-cumulative preferred shares will accrue no dividends, dividends will be payable on the preferred shares if declared, but no dividends may be declared on the Company s common stock unless and until dividends have been declared on the outstanding shares. Deferral, of either interest payments on the debentures or preferred dividends on the preferred shares, could cause a subsequent decline in the market price of our common stock because the Company would not be able to pay dividends on its common stock.

In addition, on February 13, 2009, we issued shares of cumulative perpetual senior preferred stock to Treasury as part of the Capital Purchase Program. The terms of the senior preferred stock restrict the payment of dividends on shares of our common stock. Without the prior consent of Treasury, we are prohibited from increasing common stock dividends for the first three years while Treasury holds the senior preferred stock. Further, we are prohibited from continuing to pay dividends on our common stock unless we have fully paid all required dividends on the senior preferred stock. Although we expect to be able to pay all required dividends on the senior preferred stock (and to continue to pay dividends on common stock at current levels), there is no guarantee that we will be able to do so.

Declines in asset values may result in impairment charges and adversely affect the value of our investments, financial performance and capital.

The market value of investments in our securities portfolio has become increasingly volatile over the past year, and as of December 31, 2009, we had gross unrealized losses of $2.3 million in our investment portfolio (more than offset by gross unrealized gains of $2.5 million). The market value of investments may be affected by factors other than the underlying performance of the servicer of the securities or the mortgages underlying the securities, such as ratings downgrades, adverse changes in the business climate and a lack of liquidity in the secondary market for certain investment securities. On a quarterly basis, we formally evaluate investments and other assets for impairment indicators. We may be required to record additional impairment charges if our investments suffer a decline in value

that is considered other-than-temporary. If we determine that a significant impairment has occurred, we would be required to charge against earnings the credit-related portion of the other-than-temporary impairment, which could have a material adverse effect on our results of operations in the periods in which the write-offs occur.

We cannot predict the effect on our operations of recent legislative and regulatory initiatives that were enacted in response to the ongoing financial crisis.

United States federal, state and foreign governments have taken or are considering taking extraordinary actions in an attempt to deal with the worldwide financial crisis. To the extent adopted, many of these actions have been in effect for only a limited time, and have produced limited or no relief to the capital, credit and real estate markets. There is no assurance that these actions or other actions under consideration will ultimately be successful.

In the United States, the federal government adopted the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009. With authority granted under these laws, the Treasury proposed a financial stability plan that is intended to:

- invest in financial institutions and purchase troubled assets and mortgages from financial institutions for the purpose of stabilizing and providing liquidity to the United States financial markets;
- temporarily increase the limit on FDIC deposit insurance coverage to $250,000 per depositor through December 31, 2009 (which was recently extended to December 31, 2013 under the Helping Families Save Their Homes Act of 2009); and
- provide for various forms of economic stimulus, including to assist homeowners restructure and lower mortgage payments on qualifying loans.

Numerous other actions have been taken by the United States Congress, the Federal Reserve, the Treasury, the FDIC, the SEC and others to address the liquidity and credit crisis that has followed the sub-prime mortgage crisis that commenced in 2007, including the financial stability plan adopted by the Treasury. In addition, President Obama recently announced a financial regulatory reform proposal, and the House and Senate are expected to consider competing proposals over the coming years.

There can be no assurance that the financial stability plan proposed by the Treasury, the other proposals under consideration or any other legislative or regulatory initiatives will be effective at dealing with the ongoing economic crisis and improving economic conditions globally, nationally or in our markets, or that the measures adopted will not have adverse consequences. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, results of operations, financial condition and the trading prices of our securities.

Changes in future rules applicable to participants in the Capital Purchase Program could adversely affect our business, results of operations and financial condition.

On February 13, 2009, we issued shares of perpetual senior preferred stock to Treasury as part of the Capital Purchase Program. The rules and policies applicable to recipients of capital under the Capital Purchase Program continue to evolve and their scope, timing and effect cannot be predicted. Any changes in these rules and policies could adversely affect our business, results of operations and financial condition.

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Any redemption of the securities sold to the U.S. Treasury to avoid these restrictions would require prior Federal Reserve and Treasury approval. Based on guidelines recently issued by the Federal Reserve, institutions seeking to redeem Capital Purchase Program preferred stock must demonstrate an ability to access the long-term debt markets, successfully demonstrate access to public equity markets and meet a number of additional requirements and considerations before such institutions can redeem any securities sold to the Treasury.

The limitations on bonuses, retention awards, severance payments, and incentive compensation applicable to participants in the Capital Purchase Program may adversely affect our ability to retain key employees.

For so long as any of the equity securities we issued to the U.S. Treasury under the Capital Purchase Program remain outstanding, we are subject to limitations on the payment of bonuses, retention awards, severance payments, and other incentive compensation to the Company s five senior executive officers and up to the next 20 highest paid employees. These limitations may adversely affect our ability to recruit and retain key employees, including our executive officers, especially if we are competing for talent against institutions that are not subject to the same limitations.

Item 1B. Unresolved Staff Comments

There are no unresolved staff comments.

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Item 2. Properties

The following table is a listing of the Company s operating facilities for its subsidiary banks:

Facility Address	Facility Square Footage	Facility Owned or Leased
Quad City Bank & Trust		
2118 Middle Road in Bettendorf, IA	6,700	Owned
4500 Brady Street in Davenport, IA	36,000	Owned
3551 7th Street in Moline, IL	30,000	Owned *
5515 Utica Ridge Road in Davenport, IA **	6,000	Leased
1700 Division Street in Davenport, IA	12,000	Owned
Cedar Rapids Bank & Trust		
500 1st Avenue NE, Suite 100 in Cedar Rapids, IA	36,000	Owned
5400 Council Street in Cedar Rapids, IA	5,900	Owned
Rockford Bank & Trust		
127 North Wyman Street in Rockford, IL	7,800	Leased
4571 Guilford Road in Rockford, IL	20,000	Owned

* The building is owned by Velie Plantation Holding Company, in which the Company has a 73% interest.

** Effective April 1, 2010, Quad City Bank & Trust is moving the branch operations currently located at 5515 Utica Ridge Road in Davenport, Iowa to 5405 Utica Ridge Road in

Davenport,
Iowa. The new
facility is leased
and will have
7,400 square
feet available.

The subsidiary banks intend to limit their investment in premises to no more than 50% of their capital. Management believes that the facilities are of sound construction, in good operating condition, are appropriately insured and are adequately equipped for carrying on the business of the Company.

No individual real estate property or mortgage amounts to 10% or more of consolidated assets.

Item 3. 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 4. [Reserved]

Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information. The common stock, par value $1.00 per share, of the Company is listed on The NASDAQ Global Market under the symbol QCRH . The stock began trading on NASDAQ on October 6, 1993. The Company transferred its listing from the NASDAQ Capital Market to the NASDAQ Global Market on March 1, 2010. As of December 31, 2009, there were 4,553,290 shares of common stock outstanding held by approximately 2,600 holders of record. The following table sets forth the high and low sales prices of the common stock, as reported by NASDAQ for the periods indicated.

	2009 Sales Price		2008 Sales Price		2007 Sales Price	
	High	Low	High	Low	High	Low
First quarter	$ 11.930	$ 7.120	$ 17.020	$ 14.150	$ 17.900	$ 15.280
Second quarter	11.000	7.760	16.200	12.130	17.750	15.150
Third quarter	10.980	9.470	16.200	9.700	16.430	13.760
Fourth quarter	10.490	7.060	14.240	9.440	16.000	14.250

Dividends on Common Stock. On April 21, 2009, the Company declared a cash dividend of $0.04 per share, or $181 thousand, which was paid on July 6, 2009, to stockholders of record as of June 22, 2009. On November 5, 2009, the Company declared a cash dividend of $0.04 per share, or $182 thousand, which was paid on January 6, 2010, to stockholders of record as of December 21, 2009. In the future, it is the Company s intention to continue to consider the payment of 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, but believes that operating results have reached a level that can sustain dividends to stockholders as well.

The Company is heavily dependent on dividend payments from its subsidiary banks to make dividend payments on the Company s preferred and common stock. Under applicable state laws, the banks are restricted as to the maximum amount of dividends that they may pay on their common stock. Iowa and Illinois law provide that state-chartered banks in those states may not pay dividends in excess of their undivided profits.

The Company s ability to pay dividends to its stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized.

The Company also has certain contractual restrictions on its ability to pay dividends. The Company has issued junior subordinated debentures in four private placements. Under the terms of the debentures, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. During the fourth quarters of 2006 and 2007, the Company issued shares of non-cumulative perpetual preferred stock. Also, under the terms of this preferred stock, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. None of these circumstances currently exist.

In addition, as a result of the Company s issuance of the preferred stock to the U.S. Treasury on February 13, 2009 under the Capital Purchase Program, the ability of the Company to declare or pay dividends on its common stock is subject to restrictions, including the restriction on increasing dividends from the last semi-annual cash dividend declared prior to October 14, 2008, which was $0.04 per share. This restriction will terminate on the earlier of (a) the third anniversary of the date of issuance of the preferred stock and (b) the date on which the preferred stock has been redeemed in whole or the U.S. Treasury has transferred all of the preferred stock to one or more third parties. Further, the ability of the Company to declare or pay dividends on its common stock will be subject to restrictions in the event that the Company fails to declare and pay full dividends on the preferred stock issued to the U.S. Treasury.

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Purchase of Equity Securities by the Company. There were no purchases of equity securities by the Company for the year ended December 31, 2009. On December 31, 2008, the Company repurchased 121,246 shares of its common stock. The common stock was repurchased at $13.25 per share for a total cost of $1,606,510.

Stockholder Return Performance Graph. The following graph indicates, for the period commencing December 31, 2004 and ending December 31, 2009, a comparison of cumulative total returns for the Company, the NASDAQ Composite Index and the SNL Bank NASDAQ Index prepared by SNL Securities, Charlottesville, Virginia. The graph was prepared at the Company s request by SNL Securities. The information assumes that $100 was invested at the closing price in December 31, 2004 in the common stock of the Company and each index, and that all dividends were reinvested.

			Period Ending			
Index	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**
QCR Holdings, Inc.	100.00	94.18	84.81	68.79	48.59	40.93
NASDAQ Composite	100.00	101.37	111.03	121.92	72.49	104.31
SNL Bank NASDAQ	100.00	96.95	108.85	85.45	62.06	50.34

Item 6. Selected Financial Data

The following Selected Consolidated Financial Data of the Company is derived in part from, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto. See Item 8 Financial Statements. Results for past periods are not necessarily indicative of results to be expected for any future period. All periods reported have been reclassified, as appropriate, for discontinued operations comparative purposes.

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SELECTED CONSOLIDATED FINANCIAL DATA
(dollars in thousands, except per share data)

	Years Ended December 31,				
	2009	2008	2007	2006	2005
STATEMENT OF INCOME DATA					
Continuing Operations:					
Interest income	$ 85,308	$ 84,652	$ 82,491	$ 68,803	$ 48,688
Interest expense	34,949	40,524	48,139	38,907	21,281
Net interest income	50,359	44,128	34,352	29,896	27,407
Provision for loan/lease losses	16,976	9,222	2,336	3,284	877
Non-interest income	15,644	14,426	13,499	10,998	9,106
Non-interest expense	46,731	42,334	35,734	34,063	28,922
Income tax expense	247	1,735	2,893	724	2,121
Income from continuing operations	2,049	5,263	6,888	2,823	4,593
Discontinued Operations:					
Income (loss) from discontinued operations, before taxes		2,580	(1,221)	378	456
Income tax expense (benefit)		846	(498)	133	161
Income (loss) from discontinued operations		1,734	(723)	245	295
Net income	2,049	6,997	6,165	3,068	4,888
Less: net income attributable to noncontrolling interests	277	288	388	266	78
Net income attributable to QCR Holdings, Inc.	1,772	6,709	5,777	2,802	4,810
Less: preferred stock dividends and discount accretion	3,844	1,785	1,072	164	
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	(2,072)	4,924	4,705	2,638	4,810
PER COMMON SHARE DATA					
Income (loss) from continuing operations BASIC (1)	$ (0.46)	$ 0.69	$ 1.19	$ 0.52	$ 1.00
Income (loss) from discontinued operations BASIC (1)		0.38	(0.16)	0.05	0.06
Net income (loss) BASIC (1)	(0.46)	1.07	1.03	0.57	1.06
Income (loss) from continuing operations DILUTED (1)	(0.46)	0.69	1.18	0.52	0.98

Income (loss) from discontinued operations DILUTED (1)		0.37	(0.16)	0.05	0.06
Net income (loss) DILUTED (1)	(0.46)	1.06	1.02	0.57	1.04
Cash dividends declared	0.08	0.08	0.08	0.08	0.08
Dividend payout ratio	(17.39)%	7.48%	7.77%	14.04%	7.55%
BALANCE SHEET DATA					
Total assets	$ 1,779,646	$ 1,605,629	$ 1,476,564	$ 1,271,675	$ 1,042,614
Securities	370,520	256,076	220,557	194,774	182,365
Total loans/leases	1,244,320	1,214,690	1,056,988	960,747	756,254
Allowance for estimated losses on loans/leases	22,505	17,809	11,315	10,612	8,884
Deposits	1,089,323	1,058,959	884,005	875,447	698,504
Stockholders equity:					
Preferred	58,578	20,158	20,158	12,884	
Common	67,017	72,337	67,629	59,361	55,118
KEY RATIOS					
Return on average assets (2)	0.10%	0.43%	0.43%	0.24%	0.51%
Return on average common stockholders equity (3)	(2.84)	7.07	7.40	4.65	9.08
Return on average total stockholder s equity (2)	1.43	7.47	7.55	4.77	9.08
Net interest margin, tax equivalent yield (4)	3.15	3.27	2.86	2.87	3.25
Efficiency ratio (5)	70.80	72.30	74.68	83.30	79.21
Nonperforming assets to total assets	2.27	1.58	0.51	0.58	0.36
Allowance for estimated losses on loans/leases to total loans/leases	1.81	1.47	1.07	1.10	1.17
Net charge-offs to average loans/leases	1.05	0.24	0.14	0.18	0.25
Average total stockholders equity to average total assets	7.18	5.78	5.66	5.09	6.63

(1) Income (loss) amounts are attributable to QCR Holdings, Inc.

(2) Numerator is net income attributable to QCR Holdings, Inc.

(3) Numerator is net income (loss) available to QCR

Holdings, Inc. common stockholders

(4) Interest earned and yields on nontaxable investments ar determined on a tax equivalent basis using a 34% tax rate

(5) Non-interest expenses divided by the sum of net interest income before provision for loan/lease losses and non-interest income

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information regarding our operations for the twelve-month periods ending December 31, 2009, 2008, and 2007, and our financial condition at December 31, 2009 and 2008. This discussion should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and the accompanying notes thereto included or incorporated by reference elsewhere in this document.

OVERVIEW

The Company was formed in February 1993 for the purpose of organizing Quad City Bank & Trust. Over the past seventeen years, the Company has grown to include two additional banking subsidiaries and a number of nonbanking subsidiaries. As of December 31, 2009, the Company had $1.78 billion in consolidated assets, including $1.24 billion in total loans/leases and $1.09 billion in deposits.

The Company recognized net income attributable to QCR Holdings, Inc. of $1.8 million, or diluted earnings per share of ($0.46) after preferred stock dividends and discount accretion of $3.8 million for the year ended December 31, 2009. For the same period in 2008, the Company reported net income attributable to QCR Holdings, Inc. of $6.7 million, or diluted earnings per share of $1.06 after preferred stock dividends of $1.8 million. By comparison, for 2007, the Company realized net income attributable to QCR Holdings, Inc. of $5.8 million, or diluted earnings per share of $1.02 after preferred stock dividends of $1.1 million. As previously reported in 2008, the Company sold its merchant credit card acquiring business and its Milwaukee, Wisconsin bank subsidiary, First Wisconsin Bank & Trust. As a result, the Company recognized income from discontinued operations totaling $1.7 million for the year ended December 31, 2008.

For 2009, income from continuing operations attributable to QCR Holdings, Inc. were $1.8 million, or diluted earnings per share of ($0.46), compared to $5.0 million, or diluted earnings per share of $0.69, for 2008, and $6.5 million, or diluted earnings per share of $1.18, for 2007. The Company experienced an increase in net interest income year-over-year of $6.2 million, or 14%. Additionally, the Company sold securities during the year which realized gains totaling $1.5 million. More than offsetting these items, the Company s provision for loan/lease losses increased $7.8 million, or 84%, from $9.2 million for the year ended December 31, 2008 to $17.0 million for the year ended December 31, 2009. Significant increases in FDIC insurance expense and loan/lease expense related to nonperforming assets were the primary contributors to an increase in non-interest expense of $4.4 million, or 10%.

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As noted above, the Company s net interest income grew significantly in 2009 compared to 2008. Specifically, on a tax equivalent basis, net interest income grew $6.2 million, or 14%, from $44.6 million to $50.8 million. Of this increase, $1.3 million was attributable to the recognition of interest income for cash interest payments previously received on a commercial loan which had been deferred pending the resolution of a contingency which was resolved in the third quarter of 2009. For 2009, average earning assets increased by $245.9 million, or 18%, and average interest-bearing liabilities increased by $159.0 million, or 13%, when compared with average balances for 2008. A comparison of yields, spreads and margins from 2009 to 2008 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 91 basis points from 6.23% to 5.32%.
- The average cost of interest-bearing liabilities decreased 76 basis points from 3.25% to 2.49%.
- The net interest spread declined 15 basis points from 2.98% to 2.83%.
- The net interest margin declined 12 basis points from 3.27% to 3.15%.

Net interest income, on a tax equivalent basis, significantly increased $9.7 million, or 28%, from $34.9 million for 2007 to $44.6 million for 2008. For 2008, average earning assets increased by $148.0 million, or 12%, and average interest-bearing liabilities increased by $135.9 million, or 12%, when compared with average balances for 2007. A comparison of yields, spreads and margins from 2008 to 2007 shows the following (on a tax equivalent basis):

- The average yield on interest-earning assets decreased 59 basis points from 6.82% to 6.23%.
- The average cost of interest-bearing liabilities decreased 108 basis points from 4.33% to 3.25%.
- The net interest spread improved 49 basis points from 2.49% to 2.98%.
- The net interest margin improved 41 basis points from 2.86% to 3.27%.

The Company s management closely monitors and manages net interest margin. From a profitability standpoint, an important challenge for the Company s subsidiary banks and majority-owned leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing strategies and the use of alternative funding sources.

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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:

	Years Ended December 31,								
	2009			**2008**			**2007**		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
	(dollars in thousands)								
ASSETS									
Interest earnings assets:									
Federal funds sold	$ 45,850	$ 134	0.29%	$ 5,631	$ 100	1.78%	$ 5,450	$ 248	4.55%
Interest-bearing deposits at at financial institutions	31,090	313	1.01	5,313	165	3.11	6,142	346	5.63
Investment securities (1)	312,043	12,180	3.90	230,342	12,279	5.33	204,364	10,605	5.19
Gross loans/leases receivable (2) (3)	1,222,493	73,145	5.98	1,124,255	72,566	6.45	1,001,633	71,796	7.17
Total interest earning assets	1,611,476	85,772	5.32	1,365,541	85,110	6.23	1,217,589	82,995	6.82
Noninterest-earning assets:									
Cash and due from banks	$ 30,521			$ 32,651			$ 36,880		
Premises and equipment, net	30,868			31,535			31,705		
Less allowance for estimated losses on loans/leases	(21,831)			(13,770)			(11,178)		
Other	73,613			136,791			76,486		
Total assets	$ 1,724,647			$ 1,552,748			$ 1,351,482		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 366,687	3,834	1.05%	$ 299,417	5,709	1.91%	$ 305,699	10,790	3.53%

Savings deposits	48,596	323	0.66	57,955	806	1.39	31,300	651	2.08
Time deposits	511,359	14,217	2.78	443,122	17,379	3.92	404,544	19,786	4.89
Short-term borrowings	113,614	712	0.63	154,456	2,962	1.92	141,778	5,217	3.68
Federal Home Loan Bank advances	212,494	9,082	4.27	193,119	8,525	4.41	160,474	7,237	4.51
Junior subordinated debentures	36,085	2,016	5.59	36,085	2,389	6.62	36,085	2,623	7.27
Other borrowings	117,271	4,765	4.06	62,975	2,754	4.37	31,398	1,835	5.84
Total interest-bearing liabilities	1,406,106	34,949	2.49	1,247,129	40,524	3.25	1,111,278	48,139	4.33
Noninterest-bearing demand deposits	171,968			135,860			125,117		
Other noninterest-bearing liabilities	22,759			79,956			38,511		
Total liabilities	1,600,833			1,462,945			1,274,906		
Stockholders equity	123,814			89,803			76,576		
Total liabilities and stockholders equity	$ 1,724,647			$ 1,552,748			$ 1,351,482		
Net interest income		$ 50,823			$ 44,586			$ 34,856	
Net interest spread			2.83%			2.98%			2.49%
Net interest margin			3.15%			3.27%			2.86%
Ratio of average interest earning assets to average interest- bearing liabilities	114.61%			109.49%			109.57%		

(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 included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.

(3) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

For the years ended December 31, 2009, 2008 and 2007

	Inc./(Dec.) from Prior Year	Components of Change (1) Rate	Volume
	2009 vs. 2008 (dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$ 34	$ (147)	$ 181
Interest-bearing deposits at other financial institutions	148	(178)	326
Investment securities (2)	(99)	(3,790)	3,691
Gross loans/leases receivable (2) (3) (4)	579	(5,510)	6,089
Total change in interest income	$ 662	$ (9,625)	$ 10,287
INTEREST EXPENSE			
Interest-bearing demand deposits	$ (1,875)	$ (2,965)	$ 1,090
Savings deposits	(483)	(369)	(114)
Time deposits	(3,162)	(5,568)	2,406
Short-term borrowings	(2,250)	(1,616)	(634)
Federal Home Loan Bank advances	557	(277)	834
Junior subordinated debentures	(373)	(373)	
Other borrowings	2,011	(208)	2,219
Total change in interest expense	$ (5,575)	$ (11,376)	$ 5,801
Total change in net interest income	$ 6,237	$ 1,751	$ 4,486

	Inc./(Dec.) from Prior Year	Components of Change (1) Rate	Volume
	2008 vs. 2007 (dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$ (148)	$ (156)	$ 8
Interest-bearing deposits at other financial institutions	(181)	(139)	(42)
Investment securities (2)	1,674	296	1,378
Gross loans/leases receivable (2) (3) (4)	770	(7,537)	8,307
Total change in interest income	$ 2,115	$ (7,536)	$ 9,651
INTEREST EXPENSE			

Interest-bearing demand deposits	$	(5,081)	$	(4,863)	$	(218)
Savings deposits		155		(267)		422
Time deposits		(2,407)		(4,172)		1,765
Short-term borrowings		(2,255)		(2,687)		432
Federal Home Loan Bank advances		1,288		(156)		1,444
Junior subordinated debentures		(234)		(234)		
Other borrowings		919		(555)		1,474
Total change in interest expense	$	(7,615)	$	(12,934)	$	5,319
Total change in net interest income	$	9,730	$	5,398	$	4,332

(1) The column Inc/(Dec) from Prior Year 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 in each year presented.

(3) Loan/lease fees are included in

interest income from loans/leases receivable in accordance with accounting and regulatory guidance.

(4) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

The Company s operating results are also impacted by various sources of non-interest income, including trust department fees, deposit service fees, gains from the sales of residential real estate loans, investment advisory and management fees, and other income. More than offsetting these items, the Company incurs non-interest expenses which include salaries and employee benefits, occupancy and equipment expense, professional and data processing fees, FDIC and other insurance expense, and other administrative expenses.

The Company s operating results are also affected by economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities.

CRITICAL ACCOUNTING POLICIES

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 (also referred to as allowance for estimated losses on loans/leases). 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, governmental guarantees, payment status, changes in nonperforming loans/leases, 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 economic health 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. As the Company adds new products and increases the complexity of its loan/lease portfolio, it enhances its methodology accordingly. 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. The discussion regarding the Company s allowance for loan/lease losses should be read in conjunction with the Company s financial statements and the accompanying notes presented elsewhere in this Form 10-K, as well as the portion of this Management s Discussion and Analysis section entitled Financial Condition Allowance for Estimated Losses on Loans/Leases. Although management believed the level of the allowance as of December 31, 2009 was 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.

The Company s assessment of other-than-temporary impairment of its available-for-sale securities portfolio is another critical accounting policy as a result of the level of judgment required by management. Available-for-sale securities are evaluated to determine whether declines in fair value below their cost are other-than-temporary. In estimating other-than-temporary impairment losses management considers a number of factors including, but not limited to, (1) the length of time and extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions, and (4) the intent of the Company to not sell the security prior to recovery and whether it is not more-likely-than-not that the Company will be required to sell the security prior to recovery. The discussion regarding the Company s assessment of other-than-temporary impairment should be read in conjunction with the Company s financial statements and the accompanying notes presented elsewhere in this Form 10-K. For the year ended December 31, 2009, the Company s evaluation determined that 11 publicly traded equity securities experienced declines in fair value that were other-than-temporary. As a result, the Company wrote down the value of these securities and recognized losses in the amount of $206,369. For the years ended December 31, 2008 and 2007, the Company did not recognize other-than-temporary impairment of any equity securities. For 2009, 2008 and 2007, the Company did not recognize other-than-temporary impairment of any debt securities.

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RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, and 2007

Overview. Net income attributable to QCR Holdings, Inc. for 2009 was $1.8 million, or diluted earnings per share of ($0.46) after preferred stock dividends and discount accretion of $3.8 million, compared to $6.7 million, or diluted earnings per share of $1.06 after preferred stock dividends of $1.8 million, for 2008. During 2008, the Company sold its merchant credit card acquiring business and Milwaukee banking subsidiary resulting in income from discontinued operations, net of taxes, of $1.7 million, or $0.37 per share (on a diluted basis). The Company was successful in improving its net interest income by $6.2 million, or 14%, from $44.2 million for 2008 to $50.4 million for 2009. More than offsetting this increase, the Company s provision for loan/lease losses for 2009 increased $7.8 million, or 84%, from 2008. Additionally, FDIC and other insurance expense increased $2.3 million, or 175%, during 2009. Loan/lease expenses related to carrying higher levels of nonperforming assets increased $1.2 million, or 164%, on a year-over-year basis.

Net income attributable to QCR Holdings, Inc. for 2008 was $6.7 million compared to $5.8 million for 2007, which is an increase of $931 thousand, or 16%. Diluted earnings per share for 2008 was $1.06 compared to $1.02 for 2007. During 2008, the Company sold its merchant credit card acquiring business and Milwaukee banking subsidiary resulting in income from discontinued operations, net of taxes, of $1.7 million, or $0.37 per share (on a diluted basis). The Company was successful in improving its net interest income during 2008 as net interest income grew $9.8 million, or 28%, from 2007. Offsetting these increases, the Company s provision for loan/lease losses for 2008 increased $6.9 million, or 295%, from 2007, and noninterest expenses for 2008 increased $6.6 million, or 18%, from 2007.

Interest income. Interest income increased $656 thousand, or 1%, from $84.7 million for 2008 to $85.3 million for 2009. Excluding the impact of the $1.3 million positive one-time adjustment to interest income in the third quarter of 2009, interest income experienced a slight decrease of $617 thousand, or 1%. As a result of the economic recession and a historically low interest rate environment in 2009, the decline in yield on interest-earnings assets outpaced the increase in interest income from the growth realized across all interest-earning asset types.

Interest income increased $2.2 million, or 3%, from $82.5 million for 2007 to $84.7 million for 2008. As a result of the deteriorating economy and a significant declining interest rate environment in 2008, the majority of the increase in interest income was a result of growth in interest-earning assets, principally loans and leases.

Interest expense. Interest expense decreased $5.6 million, or 14%, from $40.5 million for 2008 to $34.9 million for 2009. With the economic recession and historically low levels of interest rates for 2009, the Company managed down its funding costs as the average cost on interest bearing liabilities decreased 76 basis points from 3.25% for 2008 down to 2.49% for 2009.

Interest expense decreased $7.6 million, or 16%, from $48.1 million for 2007 to $40.5 million for 2008. With the economic recession and drop in rates during 2008, the Company was successful in managing its cost of funds as the average cost on interest bearing liabilities decreased 108 basis points from 4.33% for 2007 down to 3.25% for 2008.

Provision for loan/lease losses. The provision for loan/lease losses is established based on a number of factors, including the Company s historical loss experience, delinquencies and charge-off trends, the local and national economy and the risk associated with the loans/leases in the portfolio as described in more detail in the Critical Accounting Policies section.

The Company had an allowance for estimated losses on loans/leases of 1.81% of total gross loans/leases at December 31, 2009, compared to 1.47% of total gross loans/leases at December 31, 2008, and compared to approximately 1.07% of total gross loans/leases at December 31, 2007.

The Company s provision for loan/lease losses increased significantly from $9.2 million for 2008 to $17.0 million for 2009. This increase was the result of the following:

- The Company experienced continued degradation within the loan/lease portfolio. Specifically, the Company s nonperforming loans/leases grew $8.9 million, or 43%, from $21.1 million at December 31, 2008 to $30.0 million at December 31, 2009. The majority of these nonperforming loans/leases required specific reserves.
- Due to the economic recession and related uncertainty as to the severity and duration of its impact on the national and local economies, the Company continued to increase the qualitative factors impacting the allowance for estimate losses on loans/leases.
- The Company grew its loan/lease portfolio 2% during 2009 as gross loans/leases increased $29.6 million.

During 2008, the Company s provision for loan/lease losses increased significantly from $2.3 million for 2007 to $9.2 million. This increase was a result of the following:

- The Company grew its loan portfolio 15% during 2008 as gross loans/leases increased from $1.1 billion as of December 31, 2007 to $1.2 billion as of December 31, 2008.
- Due to the economic recession and related uncertainty as to the severity and duration of its impact on the national and local economies, the Company increased the qualitative factors impacting the allowance for estimate losses on loans/leases.
- The Company experienced some degradation in specific commercial credits within the loan portfolio that required specific reserves.

Non-interest income. The following tables set forth the various categories of non-interest income for the years ended December 31, 2009, 2008 and 2007.

	Years Ended December 31, 2009	December 31, 2008	$ Change	% Change
Credit card fees, net of processing costs	$ 930,435	$ 987,769	$ (57,334)	(5.8)%
Trust department fees	2,883,482	3,333,812	(450,330)	(13.5)
Deposit service fees	3,319,967	3,134,869	185,098	5.9
Gains on sales of loans, net	1,677,312	1,068,545	608,767	57.0
Securities gains, net	1,488,391	199,500	1,288,891	646.1
Other-than-temporary impairment losses on securities	(206,369)		(206,369)	(100.0)
Gains on sales of foreclosed assets	177,736	394,103	(216,367)	(54.9)
Earnings on bank-owned life insurance	1,243,324	1,016,864	226,460	22.3
Investment advisory and management fees, gross	1,507,557	1,975,236	(467,679)	(23.7)
Other	2,621,599	2,315,531	306,068	13.2
	$ 15,643,434	$ 14,426,229	$ 1,217,205	8.4%

	Years Ended December 31, 2008	December 31, 2007	$ Change	% Change
Credit card fees, net of processing costs	$ 987,769	$ 746,725	$ 241,044	32.3%
Trust department fees	3,333,812	3,672,501	(338,689)	(9.2)
Deposit service fees	3,134,869	2,606,724	528,145	20.3
Gains on sales of loans, net	1,068,545	1,219,800	(151,255)	(12.4)
Securities gains, net	199,500		199,500	100.0
Gains on sales of foreclosed assets	394,103	1,007	393,096	39,036.3
Gains on sales of other assets		435,791	(435,791)	(100.0)
Earnings on bank-owned life insurance	1,016,864	846,071	170,793	20.2
Investment advisory and management fees, gross	1,975,236	1,575,887	399,349	25.3
Other	2,315,531	2,394,893	(79,362)	(3.3)
	$ 14,426,229	$ 13,499,399	$ 926,830	6.9%

Trust department fees continue to be a significant contributor to non-interest income. Income is generated primarily from fees charged based on assets under administration for corporate and personal trusts and for custodial services. Total trust assets under administration were $1.22 billion at December 31, 2009 compared to $811.9 million at December 31, 2008 and compared to $1.19 billion at December 31, 2007. Although the value of trust assets under administration rebounded at the end of 2009, many of the investments experienced downward volatility throughout 2008 and 2009. The fee income recognized was based on the values throughout the years.

Deposit service fees have increased significantly over the past two years. 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 amount and number of demand deposit accounts have increased in each of 2008 and 2009. 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 57.0% in 2009 compared to 2008 which more than reversed the 12.4% decrease in 2008 compared to 2007. This consists primarily of sales of residential mortgages to the secondary market. In 2009, loan origination and sales activity for these loan types increased as a result of the reduction in interest rates and the resulting increase in residential mortgage refinancing transactions. The Company sells the majority of residential mortgages it originations. For 2008, loan origination and sales activity slowed with the beginning of the recession and crisis in the mortgage industry.

In 2009, the Company identified several U.S. government-sponsored agency securities with favorable market positions which were sold at pre-tax gains totaling $1.5 million. These gains were partially offset as the Company wrote down the value of 11 publicly-traded equity securities owned by the Holding Company which had experienced declines in fair value deemed to be other-than-temporary. The Company recognized losses in the amount of $206 thousand for these write-downs.

Investment advisory and management fees increased 25.3% in 2008 over 2007 which was effectively offset by a 23.7% decrease in 2009 compared to 2008. Similar to trust department fees, these fees are largely determined based on the value of the investments managed. The increase for 2008 was largely attributable to the acquisition of CMG Investment Advisors, LLC, a wholly-owned subsidiary of Quad City Bank & Trust, which occurred in the first quarter of 2008. For 2009, with the economic recession, many of these investments experienced declines in market value.

Non-interest expenses. The following tables set forth the various categories of non-interest expenses for the years ended December 31, 2009, 2008 and 2007 and 2006.

	Years Ended December 31, 2009	December 31, 2008	$ Change	% Change
Salaries and employee benefits	$ 26,882,185	$ 26,124,160	$ 758,025	2.9%
Professional and data processing fees	4,829,667	4,801,087	28,580	0.6
Advertising and marketing	991,243	1,296,651	(305,408)	(23.6)
Occupancy and equipment expense	5,372,101	5,091,545	280,556	5.5
Stationery and supplies	528,959	518,639	10,320	2.0
Postage and telephone	1,060,690	933,508	127,182	13.6
Bank service charges	481,223	559,614	(78,391)	(14.0)
FDIC and other insurance	3,626,027	1,316,710	2,309,317	175.4
Loan/lease expense	1,997,583	757,315	1,240,268	163.8
Other	960,979	934,460	26,519	2.8
	$ 46,730,657	$ 42,333,689	$ 4,396,968	10.4%

	Years Ended December 31, 2008	December 31, 2007	$ Change	% Change
Salaries and employee benefits	$ 26,124,160	$ 21,976,683	$ 4,147,477	18.9%
Professional and data processing fees	4,801,087	3,469,331	1,331,756	38.4
Advertising and marketing	1,296,651	1,115,864	180,787	16.2
Occupancy and equipment expense	5,091,545	4,717,054	374,491	7.9
Stationery and supplies	518,639	513,210	5,429	1.1
Postage and telephone	933,508	936,032	(2,524)	(0.3)
Bank service charges	559,614	565,092	(5,478)	(1.0)
FDIC and other insurance	1,316,710	995,955	320,755	32.2
Loss on sale of premises and equipment		223,308	(223,308)	(100.0)
Loan/lease expense	757,315	358,107	399,208	111.5
Other	934,460	863,339	71,121	8.2
	$ 42,333,689	$ 35,733,975	$ 6,599,714	18.5%

Salaries and employee benefits, which is the largest component of non-interest expenses, experienced a modest increase of $758 thousand, or 2.9%, in 2009 compared to 2008. This slight increase is primarily the result of customary annual salary and benefits increases for the majority of the Company s employees. The Company s employee base has stabilized over the past year as FTEs have remained relatively flat from 345 at December 31, 2008 to 343 at December 31, 2009. Salaries and employee benefits increased $4.1 million in 2008 compared to 2007. This increase was primarily due to an increase in the number of FTEs from 326 at December 31, 2007, to 345 at December 31, 2008. The large majority of these employee additions were attributable to the Company s expansion in its existing markets.

Professional and data processing fees remained flat during 2009. In 2008, professional and data processing fees increased 38.4% over 2007. The primary contributors to the year-over-year increase in 2008 were legal, consulting, and data processing fees incurred at the subsidiary banks. Fees incurred for data processing experienced an increase as the number of customers and volume of transactions have grown. In addition, the Company incurred significant expenses for consulting and legal services for work on troubled loans/leases, amendments of compensation agreements in compliance with a new regulation, and the evaluation of the EESA.

FDIC and other insurance expense experienced significant increases in each of the last two years. The reasons for these increases were twofold and both related to expenses for FDIC insurance. First, the FDIC introduced its new premium pricing system and assessment methodology for deposit insurance coverage for all depository institutions in 2007. The system was further modified in 2009. The result was increased premium cost for the subsidiary banks. Second, the FDIC required a one-time special assessment from all insured depository institutions, including the subsidiary banks, for the second quarter of 2009 which amounted to $794 thousand of additional expense. Management expects FDIC assessments will continue to be higher than historical levels.

Loan/lease expense increased significantly over the past two years. In conjunction with the increase in nonperforming assets over the past two years, the Company has incurred increased carrying costs and workout expenses related to these nonperforming assets.

Income tax expense. The provision for income taxes from continuing operations was $247 thousand for the year ended December 31, 2009 compared to $1.7 million for the year ended December 31, 2008 for a decrease of $1.5 million, or 86%. The decrease was the result of a decrease in income from continuing operations before income taxes of $4.7 million, or 67%, for 2009 when compared to 2008. Additionally, primarily due to a decrease in the proportionate share of taxable income to total income from year to year, the Company experienced a decrease in the effective tax rate from 24.8% for 2008 to 10.8% for 2009.

The provision for income taxes from continuing operations was $1.7 million for the year ended December 31, 2008 compared to $2.9 million for the year ended December 31, 2007 for a decrease of $1.2 million, or 40%. The decrease was the result of a decrease in income from continuing operations before income taxes of $2.8 million, or 28%, for 2008 when compared to 2007. Additionally, primarily due to a decrease in the proportionate share of taxable income to total income from year to year, the Company experienced a decrease in the effective tax rate from 29.7% for 2007 to 24.8% for 2008.

Discontinued operations. The Company did not recognize any income or loss from discontinued operations for the year ended December 31, 2009.

Income from discontinued operations for the year ended December 31, 2008 totaled $1.7 million which was a significant improvement from the loss from discontinued operations of $723 thousand incurred for the year ended December 31, 2007. The gain on sale of the merchant credit card acquiring business, after taxes, of approximately $3.0 million more than offset the increase in operating loss by First Wisconsin Bank & Trust, before taxes, of $1.2 million.

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FINANCIAL CONDITION

Overview. Total assets of the Company increased by $174.0 million, or 11%, to $1.78 billion at December 31, 2009 from $1.61 billion at December 31, 2008. Total assets of the Company increased by $129.1 million, or 9%, to $1.61 billion at December 31, 2008 from $1.48 billion at December 31, 2007. The growth in 2009 primarily resulted from an increase in the securities and loans/leases portfolios funded by increases in noninterest-bearing deposits and customer repurchase agreements, wholesale repurchase agreements, and the issuance of preferred stock.

Investments. The composition of the Company s securities portfolio is managed to meet liquidity needs while prioritizing the impact on asset-liability position and maximizing return. The Company s securities available for sale portfolio consists largely of U.S. Treasury and government sponsored agency securities. Residential mortgage-backed securities represents less than 1% of the entire portfolio as of December 31, 2009 and 2008, respectively. The Company has not invested in corporate mortgage-backed securities.

Securities increased $114.4 million, or 45%, to $370.5 million at December 31, 2009, from $256.1 million at December 31, 2008. The increase largely consisted of U.S. government sponsored agency securities and was the result of increased collateral needs for the customer and wholesale repurchase agreements at the subsidiary banks.

Securities increased by $35.5 million, or 16%, to $256.1 million at December 31, 2008, from $220.6 million at December 31, 2007. This increase was primarily investments of U.S. government sponsored agency securities and resulted to support the collateral needs of the subsidiary banks.

See Note 4 to the consolidated financial statements for additional information regarding the Company s investments.

Loans/Leases. Total loans/leases grew by $29.6 million, or 2% from $1.21 billion at December 31, 2008 to $1.24 billion at December 31, 2009. Compared to 2007, total loans/leases grew by $157.7 million, or 15%, to $1.21 billion at December 31, 2008, from $1.06 billion at December 31, 2007.

The mix of the loan/lease types within the Company s loan/lease portfolio is presented in the following table.

	As of December 31,									
	2009		2008		2007		2006		2005	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
Real estate loans held for sale residential mortgage	$ 6,135	1%	$ 7,377	1%	$ 6,508	1%	$ 6,187	1%	$ 2,632	0%
Real estate loans residential mortgage	61,561	5%	69,466	6%	68,281	6%	68,913	7%	54,125	7%
Real estate loans construction	2,912	0%	2,385	0%	8,539	1%	6,534	1%	2,811	0%
Commercial and industrial loans	441,536	35%	439,117	36%	353,401	33%	396,599	41%	323,732	43%
Commercial real estate loans	556,007	45%	526,669	43%	472,284	45%	350,339	37%	269,730	36%
	90,059	7%	79,408	7%	67,224	6%	52,628	5%	34,911	5%

Direct financing leases										
Installment and other consumer loans	84,271	7%	88,540	7%	79,220	8%	78,058	8%	67,090	9%
Total loans/leases	$ 1,242,481	100%	$ 1,212,962	100%	$ 1,055,457	100%	$ 959,258	100%	$ 755,031	100%
Plus deferred loan/lease origination costs, net of fees	1,839		1,727		1,531		1,489		1,223	
Less allowance for estimated losses on loans/leases	(22,505)		(17,809)		(11,315)		(10,612)		(8,884)	
Net loans/leases	$ 1,221,815		$ 1,196,880		$ 1,045,673		$ 950,135		$ 747,370	

Consistent with the intention of the U.S. Treasury s Capital Purchase Program, the Company is committed to providing transparency surrounding its utilization of the proceeds from participation in the Capital Purchase Program including its lending activities and support of the existing communities served. A summary of activity for the year ended December 31, 2009 is presented in the table on the following page.

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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 and are included in the residential real estate loans in the following table.

	For the twelve months ended December 31, 2009					
	Quad City Bank & Trust	m2 Lease Funds	Cedar Rapids Bank & Trust	Rockford Bank & Trust	Intercompany Elimination	Consolidated Total
			(dollars in thousands)			
BALANCE AS OF DECEMBER 31, 2008:						
Commercial and industrial loans	$ 236,023	$	$ 133,191	$ 69,903	$	$ 439,117
Commercial real estate loans	254,848		175,481	98,757	(2,418)	526,668
Direct financing leases		79,408				79,408
Residential real estate loans	44,480		22,608	12,141		79,229
Installment and other consumer loans	54,151		23,597	10,793		88,541
	589,502	79,408	354,877	191,594	(2,418)	1,212,963
Plus deferred loan/lease origination costs, net of fees	118	1,864	(299)	44		1,727
	$ 589,620	$ 81,272	$ 354,578	$ 191,638	$ (2,418)	$ 1,214,690
ORIGINATION OF NEW LOANS:						
Commercial and industrial loans	55,432	11,300	46,693	25,892		139,317
Commercial real estate loans	47,583		48,597	20,535		116,715
Direct financing leases		27,515				27,515
Residential real estate loans	46,812		33,146	26,878		106,836
Installment and other consumer loans	10,852		3,661	2,925		17,438
	$ 160,679	$ 38,815	$ 132,097	$ 76,230	$	$ 407,821
PAYMENTS/MATURITIES/SALES, NET OF ADVANCES OR RENEWALS ON EXISTING LOANS:						
Commercial and industrial loans	(73,582)	(11,300)	(31,464)	(20,552)		(136,898)
Commercial real estate loans	(40,529)		(35,328)	(11,658)	139	(87,376)
Direct financing leases		(16,864)				(16,864)
Residential real estate loans	(58,071)		(33,772)	(23,614)		(115,457)
Installment and other consumer loans	(16,946)		(3,183)	(1,579)		(21,708)
	$ (189,128)	$ (28,164)	$ (103,747)	$ (57,403)	$ 139	(378,303)

BALANCE AS OF DECEMBER 31, 2009:

Commercial and industrial loans	217,873		148,420	75,243		441,536
Commercial real estate loans	261,902		188,750	107,634	(2,279)	556,007
Direct financing leases		90,059				90,059
Residential real estate loans	33,221		21,982	15,405		70,608
Installment and other consumer loans	48,057		24,075	12,139		84,271
	561,053	90,059	383,227	210,421	(2,279)	1,242,481
Plus deferred loan/lease origination costs, net of fees	64	2,207	(427)	(4)		1,839
	$ 561,116	$ 92,266	$ 382,800	$ 210,417	$ (2,279)	1,244,320

The following table sets forth the remaining maturities by loan/lease type as of December 31, 2009. Maturities are based on contractual dates.

				Maturities After One Year	
	Due in one year or less	Due after one through 5 years	Due after 5 years	Predetermined interest rates	Adjustable interest rates
			(dollars in thousands)		
Real estate loans held for sale mortgage	$	$	$ 6,135	$ 6,135	$
Real estate loans residential mortgage	815	572	60,174	8,249	52,497
Real estate loans construction	2,912	0	0	0	0
Commercial and industrial loans	158,732	227,742	55,062	182,688	100,116
Commercial real estate loans	103,332	356,815	95,860	375,428	77,247
Direct financing leases	5,972	71,888	12,199	84,087	0
Installment and other consumer loans	27,813	47,733	8,725	12,347	44,111
	$ 299,576	$ 704,750	$ 238,155	$ 668,934	$ 273,971

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Allowance for Estimated Losses on Loans/Leases. The allowance for estimated losses on loans/leases was $22.5 million at December 31, 2009, compared to $17.8 million at December 31, 2008, for an increase of $4.7 million, or 26%. The allowance for estimated losses on loans/leases was $17.8 million at December 31, 2008, compared to $11.3 million at December 31, 2007, for an increase of $6.5 million, or 57%. The Company incurred net charge-offs totaling $12.3 million for the year ending December 31, 2009. This was a significant increase from $2.7 million for the year ending December 31, 2008 and from $1.6 million for the year ending December 31, 2007. The following table summarizes the activity in the allowance for estimated losses on loans/leases.

	Years ended December 31,				
	2009	2008	2007	2006	2005
	(dollars in thousands)				
Average amount of loans/leases outstanding, before allowance for estimated losses on loans/leases	$ 1,222,493	$ 1,124,255	$ 1,001,633	$ 855,872	$ 682,858
Allowance for estimated losses on loans/leases:					
Balance, beginning of fiscal period	$ 17,809	$ 11,315	$ 10,612	$ 8,884	$ 9,262
Charge-offs:					
Commercial and industrial	(7,510)	(1,205)	(754)	(1,245)	(1,097)
Commercial real estate	(2,824)	(805)	(300)	(95)	(432)
Direct financing leases	(1,255)	(264)	(527)	(75)	(1)
Residential real estate *	(314)	(326)	(174)	(45)	(160)
Installment and other consumer	(2,104)	(1,085)	(469)	(460)	(356)
Subtotal charge-offs	(14,007)	(3,685)	(2,224)	(1,920)	(2,046)
Recoveries:					
Commercial and industrial	344	313	160	260	95
Commercial real estate	98	420	167	2	124
Direct financing leases	52				26
Residential real estate *	40	81	173	52	25
Installment and other consumer	1,193	143	92	50	87
Subtotal recoveries	1,727	957	592	364	357
Net charge-offs	(12,280)	(2,728)	(1,632)	(1,556)	(1,689)
Provision charged to expense	16,976	9,222	2,335	3,284	877
Acquisition of m2 Lease Funds, LLC					434
Balance, end of fiscal year	$ 22,505	$ 17,809	$ 11,315	$ 10,612	$ 8,884
Ratio of net charge-offs to average loans/leases	1.00%	0.24%	0.16%	0.18%	0.25%

outstanding

* Residential real estate includes construction, if any

The adequacy of the allowance for estimated losses on loans/leases was determined by management based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, historical loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions and other factors that, in management s judgment, deserved evaluation in estimating loan/lease losses. To ensure that an adequate allowance was maintained, provisions were made based on the increase in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio was reviewed and analyzed monthly with specific detailed reviews completed on all credits risk-rated less than fair quality and carrying aggregate exposure in excess of $100 thousand. The Company experienced continued degradation within the loan/lease portfolio during 2009. Specifically, the Company s nonperforming loans/leases grew $8.9 million, or 43%, from $21.1 million at December 31, 2008 to $30.0 million at December 31, 2009. The majority of these nonperforming loans/leases required specific reserves. Additionally, due to the continued uncertainty regarding the national economy and the impact on local markets, the Company increased the qualitative reserve factors applied to all loans and leases within the reserve adequacy calculations for all of the subsidiary banks and the leasing company. As a direct result, the allowance for estimated losses on loans/leases as a percentage of total gross loans/leases was 1.81% at December 31, 2009, which was a significant increase from 1.47% at December 31, 2008, and 1.07% at December 31, 2007. The adequacy of the allowance for estimated losses on loans/leases was monitored by the credit administration staff and reported to management and the board of directors.

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The following table presents the allowance for estimated losses on loans/leases by type and the percentage of type to total loans/leases.

	As of December 31,									
	2009		2008		2007		2006		2005	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
Real estate loans held for sale residential mortgage	$ 64	0%	$ 64	1%	$ 46	1%	$ 67	1%	$ 16	0%
Real estate loans residential mortgage	643	5%	605	6%	472	6%	356	7%	250	7%
Real estate loans construction	30	0%	21	0%	62	1%	40	1%	12	0%
Commercial and industrial loans	6,239	36%	8,260	36%	4,697	33%	4,465	41%	3,999	43%
Commercial real estate loans	11,147	45%	6,255	43%	4,064	45%	3,943	37%	3,332	36%
Direct Financing leases	1,681	7%	1,402	7%	874	6%	805	5%	546	5%
Installment and other consumer loans	2,407	7%	1,195	7%	1,090	8%	920	8%	725	9%
Unallocated	294	NA	7	NA	10	NA	16	NA	4	NA
	$ 22,505	100%	$ 17,809	100%	$ 11,315	100%	$ 10,612	100%	$ 8,884	100%

% Represents the percentage of the certain type of loan/lease to total loans/leases

Although management believed that the allowance for estimated losses on loans/leases at December 31, 2009 was at a level adequate to absorb probable 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 additional 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 and leasing company with the intention to improve the overall quality of the Company s loan/lease portfolio.

Nonperforming Assets. The table below presents the amounts of nonperforming assets.

	As of December 31,				
	2009	2008	2007	2006	2005
	(dollars in thousands)				
Nonaccrual loans/leases (1)	$ 28,742	$ 20,828	$ 6,488	$ 6,538	$ 2,579
	89	222	500	755	604

Accruing loans/leases past due 90 days or more					
Troubled debt restructures	1,201				
Other real estate owned	9,286	3,857	496	93	545
Other repossessed assets (2)	1,071	450			
	$ 40,389	$ 25,357	$ 7,484	$ 7,386	$ 3,728
Nonperforming loans/leases to total loans/leases	2.41%	1.73%	0.66%	0.76%	0.42%
Nonperforming assets to total loans/leases plus reposessed property	3.22%	2.08%	0.71%	0.77%	0.49%
Nonperforming assets to total assets	2.27%	1.58%	0.51%	0.58%	0.36%

(1) Includes government guaranteed portion

(2) Company previously excluded repossessed assets from nonperforming assets. Company adjusted amounts reported in prior periods presented to reflect a consistent comparison. The adjustments did not have a significant impact on loan covenant compliance or other previously presented disclosures.

The policy of the Company is to place a loan/lease on nonaccrual status if: (a) payment in full of interest or principal is not expected; or (b) principal or interest has been in default for a period of 90 days or more unless the obligation is both in the process of collection and well secured. A loan/lease is well secured if it is secured by collateral with sufficient market value to repay principal and all accrued interest. A debt is in the process of collection if collection of the debt is proceeding in due course either through legal action, including judgment enforcement procedures, or in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to current status.

The Company experienced an increase in nonperforming assets of $15.0 million, or 59%, from $25.4 million at December 31, 2008 to $40.4 million at December 31, 2009. During 2008, the Company s nonperforming assets increased $17.9 million, or 239%, from $7.5 million as of December 31, 2007, to $25.4 million as of December 31, 2008. The large majority of the Company s nonperforming assets consist of nonaccrual loans/leases and other real estate owned. For those nonaccrual loans/leases, management has thoroughly reviewed these loans/leases and has provided specific reserves as appropriate. Other real estate owned is carried at the lower of carrying amount or fair value less costs to sell. As previously noted, the Company s allowance for estimated losses on loans/leases to total loans/leases increased to 1.81% at December 31, 2009 from 1.47% at December 31, 2008.

Deposits. Deposits increased by $30.4 million, or 3%, during 2009. Deposits increased by $175.0 million, or 20%, to $1.1 billion at December 31, 2008, from $884.0 million at December 31, 2007. The table below presents the composition of the Company s deposit portfolio.

	As of December 31,		
	2009	2008	2007
	(dollars in thousands)		
Non-interest bearing demand deposits	$ 207,844	$ 161,126	$ 160,533
Interest bearing demand deposits	393,732	355,990	300,681
Savings deposits	34,195	31,756	33,337
Time deposits	382,798	386,097	341,581
Brokered time deposits	70,754	123,990	47,873
	$ 1,089,323	$ 1,058,959	$ 884,005

The Company experienced growth in non-interest bearing demand deposits during 2009 of $46.7 million, or 29%. This increase and the Company s overall strong liquidity position have allowed the Company to reduce the level of brokered time deposits which have decreased $53.2 million, or 43%, during 2009. Excluding brokered time deposits, the Company s deposits increased $83.6 million, or 9%, during 2009.

Short-term Borrowings. The subsidiary banks offer overnight 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. The table below presents the composition of the Company s short-term borrowings.

	As of December 31,		
	2009	2008	2007
	(dollars in thousands)		
Overnight repurchase agreements with customers	$ 94,090	$ 68,107	$ 80,264
Federal funds purchased	56,810	33,350	89,940
	$ 150,900	$ 101,457	$ 170,204

See Note 8 of the consolidated financial statements for additional information on the Company s short-term borrowings.

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FHLB Advances and Other Borrowings. FHLB advances decreased $2.8 million, or 1%, during 2009. FHLB advances increased $49.9 million, or 30%, from $168.8 million as of December 31, 2007, to $218.7 million as of December 31, 2008. As of December 31, 2009 and 2008, the subsidiary banks held $11.8 million of FHLB stock in aggregate. As a result of their memberships in the FHLB of Des Moines and Chicago, the subsidiary banks have the ability to borrow funds for short-term or long-term purposes under a variety of programs. The subsidiary banks utilized FHLB advances for loan matching as a hedge against the possibility of rising interest rates or when these advances provided a less costly source of funds than customer deposits. See Note 9 to the consolidated financial statements for additional information regarding FHLB advances.

Other borrowings increased significantly over the past two years. During 2009, other borrowings grew $64.5 million, or 85%, to $140.1 million at December 31, 2009. For 2008, the Company experienced a similar increase as other borrowings increased by $27.9 million, or 58%, from $47.7 million at December 31, 2007, to $75.6 million at December 31, 2008. The increases for both years are largely a result of the introduction and increased utilization of wholesale structured repurchase agreements as an alternative funding source to FHLB advances and customer deposits. Additional information regarding other borrowings is described in Note 10 to the consolidated financial statements.

Stockholders Equity. Stockholders equity increased $33.1 million, or 36%, during 2009. The majority of this increase resulted from the Company s participation in the Capital Purchase Program whereby the Company issued $38.1 million, net of issuance costs, of cumulative perpetual preferred stock to the U.S. Treasury. Additionally, net income attributable to QCR Holdings, Inc. of $1.8 million increased retained earnings; however, this was more than offset by declaration and accrual of preferred stock dividends and discount accretion totaling $3.8 million, and declaration of common stock dividends of $363 thousand. The detail of the preferred stock dividends is as follows:

- $1.1 million for the quarterly dividends on the outstanding shares of Series B Non-Cumulative Perpetual Preferred Stock at a stated rate of 8.00%,
- $712 thousand for the quarterly dividends on the outstanding shares of Series C Non-Cumulative Perpetual Preferred Stock at a stated rate of 9.50%, and
- $2.0 million for the quarterly dividends on the outstanding shares of Series D Cumulative Perpetual Preferred Stock at a stated rate of 5.00%, including the related discount accretion.

Lastly, the available for sale portion of the securities portfolio experienced a decrease in fair value of $3.5 million, net of tax, for 2009 as a result of the increase in market rates at the end of the year.

Stockholders equity increased $4.7 million from $87.8 million as of December 31, 2007 to $92.5 million as of December 31, 2008. Net income of $6.7 million for 2008 increased retained earnings. This increase was offset by the declaration of preferred stock dividends totaling $1.8 million, and the declaration of common stock dividends totaling $370 thousand. Specifically regarding the preferred stock dividends declared, $1.1 million represented the quarterly dividends on the outstanding shares of Series B Non-Cumulative Perpetual Preferred Stock at a stated rate of 8.00%, and $712 thousand was the amount of the quarterly dividends on the outstanding shares of Series C Non-Cumulative Perpetual Preferred Stock at a stated rate of 9.50%. Additionally, the available for sale portion of the securities portfolio experienced an increase in fair value of $817 thousand, net of tax, for 2008 as a result of the decrease in long-term interest rates.

See Note 12 to the consolidated financial statements for additional information regarding the Company s preferred stock.

LIQUIDITY AND CAPITAL RESOURCES

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 Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and Federal funds sold, which totaled $71.8 million at December 31, 2009, $56.3 million at December 31, 2008, and $53.6 million at December 31, 2007.

The subsidiary banks have a variety of sources of short-term liquidity available to them, including Federal funds purchased from correspondent banks, FHLB advances, structured wholesale repurchase agreements, brokered certificates of deposits, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities available for sale, and loan participations or sales. The Company also generates liquidity from the regular principal payments and prepayments made on its portfolio of loans and mortgage-backed securities. At December 31, 2009, the subsidiary banks had 20 lines of credit with upstream correspondent banks totaling $156.1 million, of which $26.6 million is secured and $129.5 million is unsecured. At December 31, 2009, $135.1 million was available. Additionally, the Company has a single $20.0 million secured revolving credit note with a maturity of April 2, 2010. As of December 31, 2009, the Company had $15.0 million available as the note carried an outstanding balance of $5.0 million. See Note 10 to the consolidated financial statements for additional information regarding the lines of credit and revolving credit note.

Throughout its history, the Company has secured additional capital through various resources including approximately $36.1 million through the issuance of trust preferred securities and $58.2 million through the issuance of preferred stock, of which $38.1 million was issued on February 13, 2009 as part of the Company s participation in the Capital Purchase Program. The board of directors and management believed it was prudent to participate in the Capital Purchase Program because (1) the cost of capital under this program was significantly lower than the cost of capital otherwise available to the Company at the time, and (2) despite being well-capitalized, additional capital under this program provided the Company additional capacity to meet future capital needs that may arise in this current uncertain economic environment. See Financial Statement Notes 11 and 12 for information on the issuance of trust preferred securities, and preferred stock, respectively.

On or about March 15, 2010, the Company expects to issue approximately $2.0 million of 6.0% Series A Subordinated Notes due September 1, 2018, to certain accredited investors in a private placement transaction. The transaction also includes the issuance of detachable warrants to purchase approximately 40,000 shares of the Company s common stock at an exercise price per share equal to the greater of $10.00 or the market price of the common stock on the closing date. The Company intends to contribute such proceeds to Rockford Bank & Trust to further strengthen its capital position.

As of December 31, 2009 and 2008, the Company and subsidiary banks remained well-capitalized in accordance with regulatory capital requirements administered by the federal banking authorities. See Financial Statement Note 16 for detail of the capital amounts and ratios for the Company and subsidiary banks.

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COMMITMENTS, CONTINGENCIES, CONTRACTUAL OBLIGATIONS, AND OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the 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 subsidiary 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 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 December 31, 2009 and 2008, no amounts had been recorded as liabilities for the banks potential obligations under these guarantees.

As of December 31, 2009 and 2008, commitments to extend credit aggregated $476.5 million and $494.8 million, respectively. As of December 31, 2009 and 2008, standby letters of credit aggregated $17.8 million and $15.2 million, respectively. Management does not expect that all of these commitments will be funded.

Additional information regarding commitments, contingencies, and off-balance sheet arrangements is described in Note 18 of the consolidated financial statements.

The Company has various financial obligations, including contractual obligations and commitments, which may require future cash payments. The following table presents, as of December 31, 2009, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Description	Financial Statement Note Reference	Total	Payments Due by Period One Year or Less	2 - 3 Years	4 - 5 Years	After 5 Years
		(dollars in thousands)				
Deposits without a stated maturity	N/A	$ 636,196	$ 636,196	$	$	$
Certificates of deposit	7	453,127	360,284	85,249	7,594	
Short-term borrowings	8	150,900	150,900			
FHLB advances	9	215,850	8,100	63,750	15,500	128,500
Other borrowings	10	140,060	5,060	45,000		90,000
Junior subordinated debentures	11	36,085				36,085
Rental commitments	6	2,345	381	655	635	674
Operating contracts	N/A	8,760	2,784	3,135	2,841	
Total contractual cash obligations		$ 1,643,323	$ 1,163,705	$ 197,789	$ 26,570	$ 255,259

Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The Company had no purchase obligations at December 31, 2009. The Company s operating contract obligations represent short and long-term lease payments for data processing equipment and services, software, and other equipment and professional services.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements of the Company and the accompanying notes have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollar amounts without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company s operations. Unlike industrial companies, nearly all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company s performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

IMPACT OF NEW ACCOUNTING STANDARDS

On June 12, 2009, FASB issued two related accounting pronouncements changing the accounting principles and disclosures requirements related to securitizations and special-purpose entities. Specifically, these pronouncements eliminate the concept of a qualifying special-purpose entity , change the requirements for derecognizing financial assets and change how a company determines when an entity is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. These pronouncements also expand existing disclosure requirements to include more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. These pronouncements are effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. The Company adopted these new pronouncements on January 1, 2010, as required. Transfers of financial assets include participation loans/leases sold by the Company s banking subsidiaries and leasing company. For agreements of participation loans/leases sold that contain language that fail to meet the definition of a participating interest and/or surrender of control by the selling institution, the Company is not allowed to recognize the sale and is required to record as a secured borrowing. Management intends to minimize the frequency of these situations. As a result, the adoption is not expected to have a material impact to the financial statements taken as a whole.

On April 9, 2009, FASB issued three related accounting pronouncements intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. In particular, these pronouncements: (1) provide guidelines for making fair value measurements more consistent with the existing accounting principles when the volume and level of activity for the asset or liability have decreased significantly; (2) enhance consistency in financial reporting by increasing the frequency of fair value disclosures; and (3) modify existing general standards of accounting for and disclosure of other-than-temporary impairment losses for impaired debt securities.

All three pronouncements were effective for interim and annual periods ending after June 15, 2009. Entities were permitted to early adopt these pronouncements for interim and annual periods ending after March 15, 2009, but had to adopt all three pronouncements concurrently. The Company adopted these pronouncements for the quarterly reporting period ending June 30, 2009, as required. See Note 21 to the consolidated financial statements for additional information regarding fair value measurements of financial assets and liabilities, and Note 4 for additional information for investment securities. The adoption of these pronouncements did not have a material impact on the Company s consolidated financial statements taken as a whole.

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FORWARD LOOKING STATEMENTS

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, project, appear, plan, intend, estimate, may, will, would, could, should, likely, or oth
Additionally, all 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.

The Company s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors that could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the Risk Factors section included under Item 1A. of Part I of this Form 10-K. In addition to the risk factors described in that section, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to, the following:

- The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.
- The costs, effects and outcomes of existing or future litigation.
- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board.
- The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

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 7A. 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. Internal asset/liability management teams consisting of members of the subsidiary banks management meet weekly to manage the mix of assets and liabilities to maximize earnings and liquidity and minimize interest rate and other risks. 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 annually over a five-year horizon, assuming no balance sheet growth and various interest rate scenarios including no change in rates; 200, 400, and 500 basis point upward shifts; and a 100 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date. The model assumes parallel and pro rata shifts in interest rates over a twelve-month period for the 200 basis point upward shift and 100 basis point downward shift. For the 400 basis point upward shift, the model assumes a parallel and pro rata shift in interest rates over a twenty-four (24) month period. For the 500 basis point upward shift, the model assumes a flattening and pro rata shift in interest rates over a twelve-month period where the short-end of the yield curve shifts upward greater than the long-end of the yield curve. The asset/liability management committee of the board of directors has established policy limits of a 10% decline in the value of net interest income for the 200 basis point upward shift and the 100 basis point downward shift. Application of the simulation model analysis at December 31, 2009 demonstrated a 5.10% decrease in net interest income in year one with a 200 basis point increase in interest rates, and a 0.90% decrease in net interest income in year one with a 100 basis point decrease in interest rates. The simulation is within the board-established policy limit of a 10% decline in value for both scenarios.

Interest rate risk is considered to be one of the most significant market risks affecting the Company. For that reason, the Company engages the assistance of a national consulting firm and its 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 8. Financial Statements
QCR Holdings, Inc.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
QCR Holdings, Inc.

We have audited the accompanying consolidated balance sheets of QCR Holdings, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QCR Holdings, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for noncontrolling interests effective January 1, 2009.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QCR Holdings, Inc. and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2010 expressed an unqualified opinion on the effectiveness of QCR Holdings, Inc. and subsidiaries internal control over financial reporting.

Davenport, Iowa
March 5, 2010

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an affiliation of separate and independent legal entities.

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QCR Holdings, Inc.
and Subsidiaries
Consolidated Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and due from banks	$ 35,878,046	$ 33,464,074
Federal funds sold	6,598,333	20,695,898
Interest-bearing deposits at financial institutions	29,329,413	2,113,904
Securities held to maturity, at amortized cost (Note 4)	350,000	350,000
Securities available for sale, at fair value (Note 4)	370,170,459	255,726,415
	370,520,459	256,076,415
Loans receivable, held for sale (Note 5)	6,135,130	7,377,648
Loans/leases receivable, held for investment (Note 5)	1,238,184,436	1,207,311,984
	1,244,319,566	1,214,689,632
Less allowance for estimated losses on loans/leases (Note 5)	(22,504,734)	(17,809,170)
	1,221,814,832	1,196,880,462
Premises and equipment, net (Note 6)	31,454,893	31,389,267
Goodwill	3,222,688	3,222,688
Accrued interest receivable	7,565,513	7,835,835
Bank-owned life insurance	29,694,077	27,450,751
Prepaid FDIC insurance	7,801,076	
Other assets	35,766,777	26,499,720
Total assets	**$ 1,779,646,107**	**$ 1,605,629,014**
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 207,843,554	$ 161,126,120
Interest-bearing	881,479,172	897,832,478
Total deposits (Note 7)	**1,089,322,726**	**1,058,958,598**
Short-term borrowings (Note 8)	150,899,571	101,456,950
Federal Home Loan Bank advances (Note 9)	215,850,000	218,695,000
Other borrowings (Note 10)	140,059,841	75,582,634
Junior subordinated debentures (Note 11)	36,085,000	36,085,000
Other liabilities	21,834,093	22,355,661

Total liabilities	**1,654,051,231**	**1,513,133,843**
Commitments and Contingencies (Note 18)		
Stockholders Equity (Note 16):		
Preferred stock (Note 12), $1 par value, shares authorized 250,000	38,805	568
December 2009 - 38,805 shares issued and outstanding		
December 2008 - 568 shares issued and outstanding		
Common stock, $1 par value; shares authorized 10,000,000	4,674,536	4,630,883
December 2009 - 4,674,536 shares issued and 4,553,290 outstanding		
December 2008 - 4,630,883 shares issued and 4,509,637 outstanding		
Additional paid-in capital	82,194,330	43,090,268
Retained earnings	38,458,477	40,893,304
Accumulated other comprehensive income	135,608	3,628,360
Noncontrolling interests	1,699,630	1,858,298
	127,201,386	94,101,681
Treasury stock, December 2009 and 2008 - 121,246 common shares, at cost	1,606,510	1,606,510
Total stockholders equity	**125,594,876**	**92,495,171**
Total liabilities and stockholders equity	**$ 1,779,646,107**	**$ 1,605,629,014**

See Notes to Consolidated Financial Statements.

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QCR Holdings, Inc.
and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2009, 2008, and 2007

	2009	2008	2007
Interest and dividend income:			
Loans/leases, including fees	$ 73,145,289	$ 72,565,834	$ 71,796,172
Securities:			
Taxable	10,748,012	10,878,219	9,060,317
Nontaxable	967,940	942,667	1,039,623
Interest-bearing deposits at financial institutions	313,113	165,312	346,382
Federal funds sold	133,723	99,814	248,055
Total interest and dividend income	**85,308,077**	**84,651,846**	**82,490,549**
Interest expense:			
Deposits	18,374,065	23,894,324	31,227,361
Short-term borrowings	711,801	2,962,169	5,216,576
Federal Home Loan Bank advances	9,082,039	8,524,772	7,237,026
Other borrowings	4,764,812	2,754,097	1,835,464
Junior subordinated debentures	2,016,449	2,388,574	2,622,531
Total interest expense	**34,949,166**	**40,523,936**	**48,138,958**
Net interest income	**50,358,911**	**44,127,910**	**34,351,591**
Provision for loan/lease losses (Note 5)	16,975,517	9,221,670	2,335,518
Net interest income after provision for loan/lease losses	**33,383,394**	**34,906,240**	**32,016,073**
Noninterest income:			
Credit card fees, net of processing costs	930,435	987,769	746,725
Trust department fees	2,883,482	3,333,812	3,672,501
Deposit service fees	3,319,967	3,134,869	2,606,724
Gains on sales of loans, net	1,677,312	1,068,545	1,219,800
Securities gains, net	1,488,391	199,500	
Other-than-temporary impairment losses on securities	(206,369)		
Gains on sales of foreclosed assets	177,736	394,103	1,007
Gains on sales of other assets			435,791
Earnings on bank-owned life insurance	1,243,324	1,016,864	846,071
Investment advisory and management fees, gross	1,507,557	1,975,236	1,575,887
Other	2,621,599	2,315,531	2,394,893
Total noninterest income	**15,643,434**	**14,426,229**	**13,499,399**

Noninterest expenses:			
Salaries and employee benefits	26,882,185	26,124,160	21,976,683
Professional and data processing fees	4,829,667	4,801,087	3,469,331
Advertising and marketing	991,243	1,296,651	1,115,864
Occupancy and equipment expense	5,372,101	5,091,545	4,717,054
Stationery and supplies	528,959	518,639	513,210
Postage and telephone	1,060,690	933,508	936,032
Bank service charges	481,223	559,614	565,092
FDIC and other insurance	3,626,027	1,316,710	995,955
Loss on sale of premises and equipment			223,308
Loan/lease expense	1,997,583	757,315	358,107
Other	960,979	934,460	863,339
Total noninterest expenses	**46,730,657**	**42,333,689**	**35,733,975**
Income from continuing operations before income taxes	**2,296,171**	**6,998,780**	**9,781,497**
Federal and state income tax expense from continuing operations (Note 13)	247,340	1,735,717	2,893,421
Income from continuing operations	**2,048,831**	**5,263,063**	**6,888,076**

(Continued)

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QCR Holdings, Inc.
and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2009, 2008, and 2007

	2009	2008	2007
Discontinued operations (Note 2)			
Operating income from merchant credit card acquiring business		361,160	409,569
Gain on sale of merchant credit card acquiring business		4,645,213	
Operating loss from First Wisconsin Bank & Trust		(2,921,371)	(1,630,105)
Gain on sale of First Wisconsin Bank & Trust		494,664	
Income (loss) from discontinued operations before income taxes		2,579,666	(1,220,536)
Federal and state income tax expense (benefit) from discontinued operations		845,435	(497,728)
Income (loss) from discontinued operations	$	$ 1,734,231	$ (722,808)
Net income	$ 2,048,831	$ 6,997,294	$ 6,165,268
Less: net income attributable to noncontrolling interests	276,923	288,436	387,791
Net income attributable to QCR Holdings, Inc.	$ 1,771,908	$ 6,708,858	$ 5,777,477
Amounts attributable to QCR Holdings, Inc.:			
Income from continuing operations	$ 1,771,908	$ 4,974,627	$ 6,500,285
Income (loss) from discontinued operations		1,734,231	(722,808)
Net income	$ 1,771,908	$ 6,708,858	$ 5,777,477
Less: preferred stock dividends and discount accretion	$ 3,843,924	1,784,500	1,072,000
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	$ (2,072,016)	$ 4,924,358	$ 4,705,477
Basic earnings (loss) per common share (Note 17):			
Income (loss) from continuing operations attributable to QCR Holdings, Inc.	$ (0.46)	$ 0.69	$ 1.19
Income (loss) from discontinued operations attributable to QCR Holdings, Inc.		0.38	(0.16)
Net income (loss) attributable to QCR Holdings, Inc.	$ (0.46)	$ 1.07	$ 1.03
Diluted earnings (loss) per common share (Note 17):			
	$ (0.46)	$ 0.69	$ 1.18

Income (loss) from continuing operations attributable to QCR Holdings, Inc.						
Income (loss) from discontined operations attributable to QCR Holdings, Inc.				0.37		(0.16)
Net income (loss) attributable to QCR Holdings, Inc.	$	(0.46)	$	1.06	$	1.02
Weighted average common shares outstanding		4,540,792		4,617,057		4,581,919
Weighted average common and common equivalent shares outstanding		4,540,792		4,634,537		4,599,568
Cash dividends declared per common share	$	0.08	$	0.08	$	0.08

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc.
and Subsidiaries
Consolidated Statements of Changes in Stockholders Equity
Years Ended December 31, 2009, 2008, and 2007

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Treasury Stock	Total
Balance, December 31, 2006	**$ 268**	**$ 4,560,629**	**$ 34,293,511**	**$ 32,000,213**	**$ 27,959**	**$ 1,362,820**	**$**	**$ 72,245,400**
Comprehensive income:								
Net income				5,777,477		387,791		6,165,268
Other comprehensive income, net of tax (Note 3)					2,783,581			2,783,581
Comprehensive income								8,948,849
Common cash dividends declared, $0.08 per share				(367,124)				(367,124)
Preferred cash dividends declared				(1,072,000)				(1,072,000)
Proceeds from issuance of 300 shares of preferred stock	300		7,273,279					7,273,579
Proceeds from issuance of 19,834 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan (Note 15)		19,834	259,054					278,888
Proceeds from issuance of 19,069 shares of common stock		19,069	154,007					173,076

as a result of stock options exercised (Note 15)								
Exchange of 1,788 shares of common stock in connection with options exercised		(1,788)	(28,643)					(30,431)
Tax benefit of nonqualified stock options exercised			22,370					22,370
Stock-based compensation expense			343,796					343,796
Other adjustments to noncontrolling interests						(29,748)		(29,748)
Balance, December 31, 2007	**$ 568**	**$ 4,597,744**	**$ 42,317,374**	**$ 36,338,566**	**$ 2,811,540**	**$ 1,720,863**	**$**	**$ 87,786,655**
Comprehensive income:								
Net income				6,708,858		288,436		6,997,294
Other comprehensive income, net of tax (Note 3)					816,820			816,820
Comprehensive income								7,814,114
Common cash dividends declared, $0.08 per share				(369,620)				(369,620)
Preferred cash dividends declared				(1,784,500)				(1,784,500)
Proceeds from issuance of 22,767 shares of common stock as a result of stock purchased under the Employee Stock		22,767	246,037					268,804

Purchase Plan (Note 15)								
Proceeds from issuance of 7,305 shares of common stock as a result of stock options exercised		7,305	82,410					89,715
Exchange of 1,933 shares of common stock in connection with options exercised (Note 15)		(1,933)	(27,284)					(29,217)
Tax benefit of nonqualified stock options exercised			1,611					1,611
Stock-based compensation expense			475,120					475,120
Restricted stock award		5,000	(5,000)					
Other adjustments to noncontrolling interests						(151,001)		(151,001)
Purchase of 121,246 shares of common stock for the treasury							(1,606,510)	(1,606,510)
Balance, December 31, 2008	**$ 568**	**$ 4,630,883**	**$ 43,090,268**	**$ 40,893,304**	**$ 3,628,360**	**$ 1,858,298**	**$ (1,606,510)**	**$ 92,495,171**
Comprehensive income:								
Net income				1,771,908		276,923		2,048,831
Other comprehensive loss, net of tax (Note 3)					(3,492,752)			(3,492,752)
Comprehensive loss								(1,443,921)
Common cash dividends				(362,811)				(362,811)

declared, $0.08 per share								
Preferred cash dividends declared and accrued				(3,467,989)				(3,467,989)
Discount accretion on cumulative preferred stock			375,935	(375,935)				
Proceeds from issuance of 38,237 shares of preferred stock and common stock warrant	38,237		38,014,586					38,052,823
Proceeds from issuance of 28,575 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan (Note 15)		28,575	205,585					234,160
Exchange of 830 shares of common stock in connection with payroll taxes for restricted stock (Note 15)		(830)	(6,889)					(7,719)
Stock-based compensation expense			609,713					609,713
Restricted stock awards		15,908	(15,908)					
Purchase of noncontrolling interests			(78,960)			(231,040)		(310,000)
Other adjustments to noncontrolling interests						(204,551)		(204,551)
Balance, December 31, 2009	**$ 38,805**	**$ 4,674,536**	**$ 82,194,330**	**$ 38,458,477**	**$ 135,608**	**$ 1,699,630**	**$ (1,606,510)**	**$ 125,594,876**

See Notes to Consolidated Financial Statements.

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QCR Holdings, Inc.
and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2009, 2008, and 2007

	2009	**2008**	**2007**
Cash Flows from Operating Activities:			
Net income	$ 2,048,831	$ 6,997,294	$ 6,165,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,780,190	2,624,433	2,293,874
Provision for loan/lease losses related to continuing operations	16,975,517	9,221,670	2,335,518
Provision for loan/lease losses related to discontinuing operations		1,699,112	528,384
Deferred income taxes	(356,893)	(1,816,719)	472,393
Amortization of offering costs on subordinated debentures	14,317	14,317	14,317
Stock-based compensation expense	512,963	298,921	21,348
Gains on sale of foreclosed assets, net	(177,736)	(394,103)	(1,007)
Gains on sale of other assets			(435,791)
Gain on sale of merchant credit card acquiring business		(4,645,213)	
Gain on sale of First Wisconsin Bank & Trust		(494,664)	
Amortization of premiums (accretion of discounts) on securities, net	2,044,767	133,819	(92,868)
Securities gains, net	(1,488,391)	(199,500)	
Other-than-temporary impairment losses on securities	206,369		
Loans originated for sale	(140,376,155)	(88,775,395)	(103,958,168)
Proceeds on sales of loans	143,295,985	88,975,272	104,860,392
Net gains on sales of loans	(1,677,312)	(1,068,545)	(1,219,800)
Loss on sale of premises and equipment			223,308
Decrease (increase) in accrued interest receivable	270,322	(350,007)	(804,259)
Increase in prepaid FDIC insurance	(7,801,076)		
Increase in other assets	(1,374,070)	(3,115,370)	(3,524,814)
(Decrease) increase in other liabilities	(660,397)	(2,810,645)	3,185,676
Net cash provided by operating activities	**14,237,231**	**6,294,677**	**10,063,771**
Cash Flows from Investing Activities:			
Net decrease (increase) in federal funds sold	14,097,565	(31,775,898)	(4,300,000)
Net (increase) decrease in interest-bearing deposits at financial institutions	(27,215,509)	2,980,577	(2,965,952)
Proceeds from sale of foreclosed assets	1,358,351	1,376,007	93,901
Proceeds from sale of other assets			500,000
Proceeds from sale of merchant credit card acquiring business, net		4,732,009	
Proceeds from sale of First Wisconsin Bank & Trust, net		13,324,553	
Activity in securities portfolio:			
Purchases	(316,260,882)	(140,985,829)	(129,121,827)

Calls, maturities and redemptions	169,176,856	102,733,654	92,041,150
Paydowns	406,998	736,057	562,361
Sales	25,966,885	285,000	
Activity in bank-owned life insurance:			
Purchases	(1,000,002)		(9,165,341)
Increase in cash value	(1,243,324)	(1,016,864)	(846,071)
Net loans/leases originated and held for investment	(50,077,380)	(195,569,104)	(147,780,355)
Purchase of premises and equipment	(2,845,816)	(2,258,536)	(2,261,028)
Purchase of intangible asset			(887,542)
Net increase in cash related to discontinued operations, held for sale		(1,789,295)	(705,890)
Net cash used in investing activities	**(187,636,258)**	**(247,227,669)**	**(204,836,594)**

(Continued)

QCR Holdings, Inc.
and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2008, 2007, and 2006

	2009	2008	2007
Cash Flows from Financing Activities:			
Net increase in deposit accounts	$ 30,364,128	$ 227,545,345	$ 53,979,951
Net increase (decrease) in short-term borrowings	49,442,621	(68,160,318)	71,511,889
Activity in Federal Home Loan Bank advances:			
Advances	11,500,000	68,145,000	71,400,000
Payments	(14,345,000)	(18,265,006)	(54,443,743)
Net increase in other borrowings	64,477,207	27,892,512	43,928,486
Tax benefit of nonqualified stock options exercised		1,611	22,370
Payment of cash dividends on common and preferred stock	(3,595,221)	(1,974,870)	(1,334,012)
Proceeds from issuance of Series D Cumulative Perpetual Preferred Stock and common stock warrant, net	38,052,823		
Proceeds from issuance of Series C Cumulative Perpetual Preferred Stock, net			7,273,579
Proceeds from issuance of common stock, net	226,441	329,302	421,533
Purchase of noncontrolling interests	(310,000)		
Purchase of treasury stock		(1,606,510)	
Net cash provided by financing activities	**175,812,999**	**233,907,066**	**192,760,053**
Net increase (decrease) in cash and due from banks	**2,413,972**	**(7,025,926)**	**(2,012,770)**
Cash and due from banks, beginning	33,464,074	40,490,000	42,502,770
Cash and due from banks, ending	$ 35,878,046	$ 33,464,074	$ 40,490,000
Supplemental Disclosures of Cash Flow Information, cash payments for:			
Interest	$ 36,536,869	$ 40,526,554	$ 49,277,295
Income and franchise taxes	2,557,505	2,306,448	1,960,408
Supplemental Schedule of Noncash Investing Activities:			
Change in accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale, net	(3,492,752)	816,820	2,783,581
Exchange of shares of common stock in connection with payroll taxes for restricted stock and options exercised	(7,719)	(29,217)	(30,431)
Transfers of loans to other real estate owned	6,924,975	4,467,520	496,376
Proceeds from sale of First Wisconsin Bank & Trust, net	$	$ 13,324,553	$
Assets sold:			
Cash and due from banks		2,495,185	
Federal funds sold		17,700,000	

Interest-bearing deposits at financial institutions		1,567	
Securities available for sale, at fair value		18,460,320	
Loans/leases receivable held for investment		80,169,171	
Less: Allowance for estimated losses on loans/leases		(1,122,496)	
Premises and equipment, net		468,522	
Goodwill			
Intangilbe assets		887,542	
Accrued interest receivable		478,729	
Bank-owned life insurance		2,453,660	
Other assets		882,028	
Total Assets	$	$ 122,874,228	$
Liabilities sold:			
Noninteresting-bearing deposits	$	$ 8,943,882	$
Interest-bearing deposits		89,070,083	
Short-term borrowings		13,578,572	
Other liabilities		(368,528)	
Total liabilities	$	$ 111,224,009	$
Accrued expenses related to sale of First Wisconsin Bank & Trust		1,179,670	
Gain on sale of First Wisconsin Bank & Trust	$	$ 494,664	$

See Notes to Consolidated Financial Statements.

QCR Holdings, Inc.
and Subsidiaries
Notes to Consolidated Financial Statements
Note 1. Nature of Business and Significant Accounting Policies
Nature of business:
QCR Holdings, Inc. (the Company) is a bank holding company providing bank and bank related services through its 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), Quad City Bancard, Inc. (Bancard), m2 Lease Funds, LLC (m2 Lease Funds), Velie Plantation Holding Company, LLC (Velie Plantation Holding Company), 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). Quad City Bank & Trust is a commercial bank that serves the Iowa and Illinois Quad Cities and adjacent communities. Cedar Rapids Bank & Trust is a commercial bank that serves Cedar Rapids, Iowa, and adjacent communities. Rockford Bank & Trust is a commercial bank that serves Rockford, Illinois, and adjacent communities.
Quad City Bank & Trust and Cedar Rapids Bank & Trust are chartered and regulated by the state of Iowa, and Rockford Bank & Trust is chartered and regulated by the state of Illinois. All three subsidiary banks are insured and subject to regulation by the Federal Deposit Insurance Corporation (FDIC), and are members of and regulated by the Federal Reserve System. m2 Lease Funds, which is an 80% owned subsidiary, based in the Milwaukee, Wisconsin area is engaged in the business of direct financing lease contracts. Velie Plantation Holding Company, LLC, which is a 73% owned subsidiary, is engaged in holding the real estate property known as the Velie Plantation Mansion in Moline, Illinois. Trust II, Trust III, Trust IV and Trust V were formed for the purpose of issuing various trust preferred securities (see Note 11).
Quad City Bancard, Inc. (Bancard), previously a wholly-owned subsidiary of the Company, conducted the Company s credit card issuing operation and prior to the August 28, 2008 sale of the business, the Company s merchant acquiring operations. Effective December 31, 2009, Bancard was liquidated. The credit card issuing operation was merged into the correspondent banking department of Quad City Bank & Trust in 2009.
As noted above, during 2008 Bancard sold its merchant credit card acquiring business. The current and comparative results related to the merchant credit card acquiring business have been reflected as discontinued operations (see Note 2).
On December 31, 2008, the Company sold its Wisconsin-chartered bank, First Wisconsin Bank & Trust Company (First Wisconsin Bank & Trust). The comparative results related to First Wisconsin Bank & Trust have been reflected as discontinued operations (see Note 2).
Significant accounting policies:
Accounting estimates: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for estimated losses on loans/leases, other-than-temporary impairment of securities, and the fair value of financial instruments.
Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, except Trust II, Trust III, Trust IV and Trust V, which do not meet the criteria for consolidation. All material intercompany accounts and transactions have been eliminated in consolidation. The results of discontinued operations have been reported separately in the consolidated financial statements and the previously reported financial statements have been reclassified.

QCR Holdings, Inc.
and Subsidiaries
Notes to Consolidated Financial Statements
Note 1. Nature of Business and Significant Accounting Policies (Continued)

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks include cash on hand and non-interest bearing amounts due from banks. Cash flows from federal funds sold, interest bearing deposits at financial institutions, loans/leases, deposits, and short-term and other borrowings are treated as net increases or decreases.

Cash and due from banks: The subsidiary banks are required by feder