QCR HOLDINGS INC
Form 10-Q
August 10, 2009

Table of Contents

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ending June 30, 2009

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large 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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: As of August 1, 2009, the Registrant had outstanding 4,546,990 shares of common stock, $1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

INDEX

	Page Number
Part I FINANCIAL INFORMATION	
Item 1 Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets, June 30, 2009 and December 31, 2008	2
Consolidated Statements of Operations, For the Three Months Ended June 30, 2009 and 2008	3-4
Consolidated Statements of Operations, For the Six Months Ended June 30, 2009 and 2008	5-6
Consolidated Statement of Changes in Stockholders Equity, For the Six Months Ended June 30, 2009 and 2008	7-8
Consolidated Statements of Cash Flows, For the Six Months Ended June 30, 2009 and 2008	9
Notes to Consolidated Financial Statements	10-24
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	25-47
Item 3 Quantitative and Qualitative Disclosures About Market Risk	48-49
Item 4 Controls and Procedures	50
Part II OTHER INFORMATION	
Item 1 Legal Proceedings	51
Item 1.A. Risk Factors	51
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3 Defaults upon Senior Securities	51
Item 4 Submission of Matters to a Vote of Security Holders	51-52
Item 5 Other Information	52
Item 6 Exhibits	52

Signatures 53

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
As of June 30, 2009 and December 31, 2008

	June 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 26,912,711	$ 33,464,074
Federal funds sold	11,672,135	20,695,898
Interest-bearing deposits at financial institutions	40,547,373	2,113,904
Securities held to maturity, at amortized cost	350,000	350,000
Securities available for sale, at fair value	321,111,319	255,726,415
Total securities	321,461,319	256,076,415
Loans receivable held for sale	7,007,416	7,377,648
Loans/leases receivable held for investment	1,218,842,608	1,207,311,984
Gross loans/leases receivable	1,225,850,024	1,214,689,632
Less allowance for estimated losses on loans/leases	(22,494,949)	(17,809,170)
Net loans/leases receivable	1,203,355,075	1,196,880,462
Premises and equipment, net	30,676,180	31,389,267
Goodwill	3,222,688	3,222,688
Accrued interest receivable	7,569,223	7,835,835
Bank-owned life insurance	28,064,037	27,450,751
Other assets	27,375,811	26,499,720
Total assets	$ 1,700,856,552	$ 1,605,629,014
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 155,550,851	$ 161,126,120
Interest-bearing	873,485,374	897,832,478
Total deposits	1,029,036,225	1,058,958,598
Short-term borrowings	138,945,235	101,456,950
Federal Home Loan Bank advances	209,350,000	218,695,000
Other borrowings	140,069,939	75,582,634
Junior subordinated debentures	36,085,000	36,085,000

Other liabilities	20,189,897	22,355,661
Total liabilities	1,573,676,296	1,513,133,843
STOCKHOLDERS EQUITY		
Preferred stock, $1 par value; shares authorized 250,000		
June 2009 - 38,805 shares issued and outstanding		
December 2008 - 568 shares issued and outstanding	38,805	568
Common stock, $1 par value; shares authorized 10,000,000		
June 2009 - 4,663,141 shares issued and 4,541,895 outstanding		
December 2008 - 4,630,883 shares issued and 4,509,637 outstanding	4,663,141	4,630,883
Additional paid-in capital	81,904,170	43,090,268
Retained earnings	38,195,096	40,893,304
Accumulated other comprehensive income	2,346,338	3,628,360
Noncontrolling interests	1,639,216	1,858,298
	128,786,766	94,101,681
Treasury Stock	1,606,510	1,606,510
June 2009 - 121,246 common shares, at cost		
December 2008 - 121,246 common shares, at cost		
Total stockholders equity	127,180,256	92,495,171
Total liabilities and stockholders equity	$ 1,700,856,552	$ 1,605,629,014

See Notes to Consolidated Financial Statements

Table of Contents

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

	2009	2008
Interest and dividend income:		
Loans/leases, including fees	$ 18,096,027	$ 18,049,992
Securities:		
Taxable	2,746,713	2,641,149
Nontaxable	250,129	239,738
Interest-bearing deposits at financial institutions	91,461	52,934
Federal funds sold	37,309	16,755
Total interest and dividend income	21,221,639	21,000,568
Interest expense:		
Deposits	4,902,763	5,737,449
Short-term borrowings	193,287	907,898
Federal Home Loan Bank advances	2,269,321	1,997,740
Other borrowings	1,137,471	598,814
Junior subordinated debentures	513,951	566,928
Total interest expense	9,016,793	9,808,829
Net interest income	12,204,846	11,191,739
Provision for loan/lease losses	4,875,745	1,355,343
Net interest income after provision for loan/lease losses	7,329,101	9,836,396
Non-interest income:		
Credit card issuing fees, net of processing costs	292,885	242,603
Trust department fees	701,314	847,413
Deposit service fees	788,043	787,447
Gains on sales of loans, net	673,212	322,793
Other-than-temporary impairment losses on securities	(192,014)	
Gains on sales of foreclosed assets	186,697	4,584
Earnings on bank-owned life insurance	322,246	279,021
Investment advisory and management fees, gross	351,367	671,373
Other	379,040	498,744
Total non-interest income	3,502,790	3,653,978
Non-interest expense:		
Salaries and employee benefits	7,081,337	6,580,978

Professional and data processing fees	1,202,696	1,135,899
Advertising and marketing	207,353	340,113
Occupancy and equipment expense	1,272,915	1,204,546
Stationery and supplies	146,739	132,351
Postage and telephone	291,518	222,661
Bank service charges	114,583	140,174
FDIC and other insurance	1,470,701	314,921
Other	634,720	415,945
Total non-interest expense	12,422,562	10,487,588
Income (loss) from continuing operations before income taxes	(1,590,671)	3,002,786
Federal and state income tax expense (benefit) from continuing operations	(831,159)	873,178
Income (loss) from continuing operations	(759,512)	2,129,608

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Table of Contents

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

	2009	2008
Discontinued operations (Note 2):		
Operating income from merchant credit card acquiring business		149,127
Operating loss from First Wisconsin Bank & Trust		(537,001)
Loss from discontinued operations before income taxes		(387,874)
Federal and state income tax benefit from discontinued operations		(158,990)
Loss from discontinued operations		(228,884)
Net income (loss)	$ (759,512)	$ 1,900,724
Less: Net income attributable to noncontrolling interests	60,932	128,435
Net income (loss) attributable to QCR Holdings, Inc.	$ (820,444)	$ 1,772,289
Amounts attributable to QCR Holdings, Inc.:		
Income (loss) from continuing operations	$ (820,444)	$ 2,001,173
Loss from discontinued operations		(228,884)
Net income (loss)	$ (820,444)	$ 1,772,289
Less: Preferred stock dividends and discount accretion	1,085,202	446,125
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	$ (1,905,646)	$ 1,326,164
Basic earnings (loss) per common share (Note 3):		
Income (loss) from continuing operations attributable to QCR Holdings, Inc.	(0.42)	0.34
Loss from discontinued operations attributable to QCR Holdings, Inc.		(0.05)
Net income (loss) attributable to QCR Holdings, Inc.	$ (0.42)	$ 0.29
Diluted earnings (loss) per common share (Note 3):		
Income (loss) from continuing operations attributable to QCR Holdings, Inc.	(0.42)	0.34
Loss from discontinued operations attributable to QCR Holdings, Inc.		(0.05)
Net income (loss) attributable to QCR Holdings, Inc.	$ (0.42)	$ 0.29
Weighted average common shares outstanding	4,540,854	4,611,751
Weighted average common and common equivalent shares outstanding	4,540,854	4,634,705
Cash dividends declared per common share	$ 0.04	$ 0.04

See Notes to Consolidated Financial Statements

Table of Contents

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

	2009	2008
Interest and dividend income:		
Loans/leases, including fees	$ 36,172,082	$ 36,313,434
Securities:		
Taxable	5,366,750	5,275,571
Nontaxable	502,542	483,615
Interest-bearing deposits at financial institutions	110,256	147,199
Federal funds sold	56,146	41,948
Total interest and dividend income	42,207,776	42,261,767
Interest expense:		
Deposits	10,229,736	12,559,866
Short-term borrowings	359,008	2,067,215
Federal Home Loan Bank advances	4,529,967	3,939,540
Other borrowings	1,891,781	1,168,984
Junior subordinated debentures	1,032,387	1,197,906
Total interest expense	18,042,879	20,933,511
Net interest income	24,164,897	21,328,256
Provision for loan/lease losses	9,234,288	2,339,583
Net interest income after provision for loan/lease losses	14,930,609	18,988,673
Non-interest income:		
Credit card issuing fees, net of processing costs	538,750	506,337
Trust department fees	1,419,429	1,768,674
Deposit service fees	1,615,017	1,503,939
Gains on sales of loans, net	1,085,123	662,647
Other-than-temporary impairment losses on securities	(206,369)	
Gains on sales of foreclosed assets	186,697	4,584
Earnings on bank-owned life insurance	613,286	546,025
Investment advisory and management fees, gross	702,412	1,086,017
Other	987,189	989,889
Total non-interest income	6,941,534	7,068,112
Non-interest expense:		
Salaries and employee benefits	13,845,947	12,833,840

Professional and data processing fees	2,356,185	2,266,908
Advertising and marketing	452,882	594,844
Occupancy and equipment expense	2,594,007	2,464,341
Stationery and supplies	277,849	252,774
Postage and telephone	519,283	471,812
Bank service charges	236,875	271,016
FDIC and other insurance	2,089,896	633,033
Other	1,147,782	767,659
Total non-interest expense	23,520,706	20,556,227
Income (loss) from continuing operations before income taxes	(1,648,563)	5,500,558
Federal and state income tax expense (benefit) from continuing operations	(1,124,841)	1,541,200
Income (loss) from continuing operations	(523,722)	3,959,358

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Table of Contents

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

	2009	2008
Discontinued operations (Note 2):		
Operating income from merchant credit card acquiring business		241,680
Operating loss from First Wisconsin Bank & Trust		(2,208,056)
Loss from discontinued operations before income taxes		(1,966,376)
Federal and state income tax benefit from discontinued operations		(734,578)
Loss from discontinued operations		(1,231,798)
Net income (loss)	$ (523,722)	$ 2,727,560
Less: Net income attributable to noncontrolling interests	212,378	268,827
Net income (loss) attributable to QCR Holdings, Inc.	$ (736,100)	$ 2,458,733
Amounts attributable to QCR Holdings, Inc.:		
Income (loss) from continuing operations	$ (736,100)	$ 3,690,531
Loss from discontinued operations		(1,231,798)
Net income (loss)	$ (736,100)	$ 2,458,733
Less: Preferred stock dividends and discount accretion	1,780,930	892,250
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	$ (2,517,030)	$ 1,566,483
Basic earnings (loss) per common share (Note 3):		
Income (loss) from continuing operations attributable to QCR Holdings, Inc.	(0.56)	0.61
Loss from discontinued operations attributable to QCR Holdings, Inc.		(0.27)
Net income (loss) attributable to QCR Holdings, Inc.	$ (0.56)	$ 0.34
Diluted earnings (loss) per common share (Note 3):		
Income (loss) from continuing operations attributable to QCR Holdings, Inc.	(0.56)	0.60
Loss from discontinued operations attributable to QCR Holdings, Inc.		(0.27)
Net income (loss) attributable to QCR Holdings, Inc.	$ (0.56)	$ 0.34
Weighted average common shares outstanding	4,532,353	4,606,959
Weighted average common and common equivalent shares outstanding	4,532,353	4,642,629
Cash dividends declared per common share	$ 0.04	$ 0.04

See Notes to Consolidated Financial Statements

Table of Contents

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)
Six Months Ended June 30, 2009

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Treasury Stock	Total
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 (loss):								
Net income				84,344		151,446		235,790
Other comprehensive loss, net of tax					(745,735)			(745,735)
Comprehensive loss								**(509,945)**
Preferred cash dividends declared				(446,125)				(446,125)
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 5,821 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan		5,821	46,568					52,389
Stock compensation expense			246,201					246,201
Restricted stock awards		15,908	(15,908)					
Distributions to noncontrolling interest partners						(96,971)		(96,971)
	$ 38,805	**$ 4,652,612**	**$ 81,381,715**	**$ 40,531,523**	**$ 2,882,625**	**$ 1,912,773**	**$ (1,606,510)**	**$ 129,793,543**

Balance March 31, 2009						
Comprehensive income (loss):						
Net income (loss)			(820,444)		60,932	(759,512)
Other comprehensive loss, net of tax				(536,287)		(536,287)
Comprehensive loss						**(1,295,799)**
Common cash dividends declared $0.04 per share			(181,178)			(181,178)
Preferred cash dividends declared			(934,709)			(934,709)
Cumulative preferred dividends accrued and discount accretion		400,096	(400,096)			
Proceeds from issuance of 11,359 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	11,359	67,858				79,217
Exchange of 830 shares of common stock in connection with payroll taxes for restricted stock	(830)	(6,889)				(7,719)
Stock compensation expense		140,350				140,350
Purchase of noncontrolling interests		(78,960)			(231,040)	(310,000)
Distributions to noncontrolling					(103,449)	(103,449)

interest partners								
Balance June 30, 2009	**$ 38,805**	**$ 4,663,141**	**$ 81,904,170**	**$ 38,195,096**	**$ 2,346,338**	**$ 1,639,216**	**$ (1,606,510)**	**$ 127,180,256**

See Notes to Consolidated Financial Statements

7

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)
Six Months Ended June 30, 2008

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance December 31, 2007	**$ 568**	**$ 4,597,744**	**$ 42,317,374**	**$ 36,338,566**	**$ 2,811,540**	**$ 1,720,683**	**$ 87,786,475**
Comprehensive income:							
Net income				686,444		140,392	826,836
Other comprehensive income, net of tax					1,808,101		1,808,101
Comprehensive income							**2,634,937**
Preferred cash dividends declared				(446,125)			(446,125)
Proceeds from issuance of 4,373 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan		4,373	45,686				50,059
Proceeds from issuance of 1,732 shares of common stock as a result of stock options exercised		1,732	15,839				17,571
Tax benefit of nonqualified stock options exercised			717				717
Stock compensation expense			99,922				99,922
Distributions to noncontrolling interest partners						(104,630)	(104,630)
Balance March 31, 2008	**$ 568**	**$ 4,603,849**	**$ 42,479,538**	**$ 36,578,885**	**$ 4,619,641**	**$ 1,756,445**	**$ 90,038,926**

Comprehensive income:							
Net income				1,772,289		128,435	1,900,724
Other comprehensive loss, net of tax					(3,134,185)		(3,134,185)
Comprehensive loss							**(1,233,461)**
Common cash dividends declared $0.04 per share				(184,585)			(184,585)
Preferred cash dividends declared				(446,125)			(446,125)
Proceeds from issuance of 7,501 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan		7,501	88,700				96,201
Proceeds from issuance of 5,499 shares of common stock as a result of stock options exercised		5,499	66,004				71,503
Exchange of 1,933 shares of common stock in connection with options exercised		(1,933)	(27,284)				(29,217)
Tax benefit of nonqualified stock options exercised			863				863
Stock compensation expense			117,576				117,576
Issuance of 5,000 shares of restricted stock		5,000	(5,000)				
Distributions to noncontrolling interest partners						(2,065)	(2,065)
Balance June 30, 2008	**$ 568**	**$ 4,619,916**	**$ 42,720,397**	**$ 37,720,464**	**$ 1,485,456**	**$ 1,882,815**	**$ 88,429,616**

See Notes to Consolidated Financial Statements

Table of Contents

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

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (736,100)	$ 2,458,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,463,982	1,245,678
Provision for loan/lease losses related to continuing operations	9,234,288	2,339,583
Provision for loan/lease losses related to discontinued operations		1,515,000
Amortization of offering costs on subordinated debentures	7,158	7,158
Stock-based compensation expense	351,329	141,531
Net income attributable to noncontrolling interests	212,378	268,827
Amortization of premiums on securities, net	656,308	16,931
Gain on sale of foreclosed assets	(186,697)	(4,584)
Other-than-temporary impairment losses on securities	206,369	
Loans originated for sale	(95,597,081)	(53,801,338)
Proceeds on sales of loans	97,052,436	56,359,175
Net gains on sales of loans	(1,085,123)	(662,647)
(Increase) decrease in accrued interest receivable	266,612	(117,558)
Increase in other assets	(772,163)	(2,011,351)
Decrease in other liabilities	(2,126,685)	(5,337,286)
Net cash provided by operating activities	$ 8,947,011	$ 2,417,852
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold	9,023,763	730,491
Net (increase) decrease in interest-bearing deposits at financial institutions	(38,433,469)	2,761,517
Proceeds from sale of foreclosed assets	736,697	97,710
Activity in securities portfolio:		
Purchases	(156,609,079)	(69,084,882)
Calls, maturities and redemptions	88,259,205	56,599,881
Paydowns	180,581	435,480
Increase in cash value of bank-owned life insurance	(613,286)	(602,121)
Increase in loans/leases originated and held for investment	(16,300,949)	(96,637,321)
Purchase of premises and equipment	(750,895)	(1,300,914)
Net increase in cash related to discontinued operations, held for sale		(1,990,890)
Net cash used in investing activities	$ (114,507,432)	$ (108,991,049)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	(29,922,373)	52,663,795
Net increase in short-term borrowings	37,488,285	19,799,290
Activity in Federal Home Loan Bank advances:		
Advances		35,145,000

Payments		(9,345,000)		(13,265,006)
Net increase in other borrowings		64,487,305		17,440,647
Tax benefit of nonqualified stock options exercised				1,580
Payment of cash dividends		(1,565,869)		(898,035)
Proceeds from issuance of preferred stock and common stock warrant, net		38,052,823		
Proceeds from issuance of common stock, net		123,887		206,117
Purchase of noncontrolling interest		(310,000)		
Net cash provided by financing activities	$	99,009,058	$	111,093,388
Net increase (decrease) in cash and due from banks		(6,551,363)		4,520,191
Cash and due from banks, beginning		33,464,074		40,490,000
Cash and due from banks, ending	$	26,912,711	$	45,010,191
Supplemental disclosure of cash flow information, cash payments for:				
Interest	$	18,806,850	$	22,008,679
Income/franchise taxes	$	1,722,968	$	1,366,883
Supplemental schedule of noncash investing activities:				
Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale, net	$	(1,282,022)	$	(1,326,084)
Transfers of loans to other real estate owned	$	221,816	$	284,934

See Notes to Consolidated Financial Statements

Table of Contents

Part I
Item 1

QCR HOLDINGS, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation : The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2008, including QCR Holdings, Inc. s (the Company) Form 10-K filed with the Securities and Exchange Commission on March 6, 2009. Accordingly, footnote disclosures, which would substantially duplicate the disclosure contained in the audited consolidated financial statements, have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management s discussion and analysis are due to rounding. The results of the interim periods ended June 30, 2009, are not necessarily indicative of the results expected for the year ending December 31, 2009.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include three state-chartered commercial banks: Quad City Bank & Trust Company (QCBT), Cedar Rapids Bank & Trust Company (CRBT), and Rockford Bank & Trust Company (RB&T); and Quad City Bancard, Inc. (Bancard) which provides cardholder credit card processing services. The Company also engages in direct financing lease contracts through its 80% equity investment in m2 Lease Funds, LLC (m2 Lease Funds), and in real estate holdings through its 73% equity investment in Velie Plantation Holding Company, LLC (Velie Plantation Holding Company). All material intercompany transactions and balances have been eliminated in consolidation.

Activities related to discontinued operations have been recorded separately with current and prior period amounts reclassified as assets and liabilities related to discontinued operations on the consolidated balance sheets and as discontinued operations on the consolidated statements of income and consolidated statement of cash flows. The notes to the consolidated financial statements have also been adjusted to eliminate the effect of discontinued operations.

Subsequent events : The Company has evaluated all subsequent events through August 10, 2009, the date of issuance of these financial statements.

Stock-based compensation plans : Please refer to Note 14 of our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, for information related to the Company s stock option and incentive plans, stock purchase plan, and stock appreciation rights (SARs).

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company accounts for stock-based compensation in accordance with the Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) requires measurement of compensation cost for all stock-based awards at fair value on the grant date and recognition of compensation expense over the requisite service period for awards expected to vest. Stock-based compensation expense totaled $351 thousand and $142 thousand for the six months ended June 30, 2009 and 2008, respectively. A key component in the calculation of stock-based compensation expense is the market price of the Company s stock.

Preferred stock and common stock warrant : As more fully described in Note 8, during the first quarter the Company issued preferred stock and a common stock warrant to the U.S. Department of Treasury (Treasury) as a result of the Company s participation in the Treasury Capital Purchase Program (TCPP), which are classified in stockholders equity on the consolidated balance sheet. The outstanding preferred stock has similar characteristics of an Increasing Rate Security as described by the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 68, *Increasing Rate Preferred Stock* (SAB No. 68). The proceeds received in conjunction with the issuance of the preferred stock and common stock warrant were allocated to preferred stock and additional paid-in-capital based on their relative fair values. Discounts on the increasing rate preferred stock are amortized over the expected life of the preferred stock (5 years), by charging imputed dividend cost against retained earnings and increasing the carrying amount of the preferred stock by a corresponding amount. The discount at the time of issuance is computed as the present value of the difference between dividends that will be payable in future periods and the dividend amount for a corresponding number of periods, discounted at a market rate for dividend yield on comparable securities. The amortization in each period is the amount which, together with the stated dividend in the period results in a constant rate of effective cost with regard to the carrying amount of the preferred stock.

Common stock warrants are evaluated for liability and equity treatment. The common stock warrant outstanding is carried as additional paid-in-capital in stockholders equity until exercised or expired. This is consistent with the view of both the SEC and Financial Accounting Standards Board (FASB) as each withheld objection to classification of such warrants as permanent equity. This view is also consistent with the objective of the TCPP that equity in these securities should be considered part of equity for regulatory reporting purposes. The fair value of the common stock warrant used in allocating total proceeds received was determined using the Black-Scholes option pricing model.

Other-than-temporary impairment : Securities available for sale are reported at fair value, with the unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of deferred income taxes. Available for sale debt and equity securities are evaluated to determine whether declines in fair value below their amortized cost are other-than-temporary. In estimating other-than-temporary impairment losses on debt securities, 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 or whether it is more-likely-than-not that the Company will be required to sell the security before its anticipated recovery. See Note 3 for additional information regarding securities available for sale and the evaluation of other-than-temporary impairment.

Recent accounting developments : On June 29, 2009, FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The* FASB Accounting Standards Codification *and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS No. 168 *).* SFAS No. 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity of US GAAP. SFAS No. 168 will be effective for financial statements issued for interim and annual periods ending after September 15, 2009, for most entities. On the effective date, all non-SEC accounting and reporting standards will be superceded. The Company will adopt SFAS No. 168 for the quarterly period ended September 30, 2009, as required, and adoption is not expected to have a material impact on the Company s financial statements taken as a whole.

11

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

On June 12, 2009, FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* (SFAS No. 166), and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*(SFAS No. 167), which change the way entities account for securitizations and special-purpose entities.

SFAS No. 166 is a revision to FASB SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to risks related to transferred financial assets. SFAS No. 166 also eliminates the concept of a qualifying special-purpose entity , changes the requirements for derecognizing financial assets and requires additional disclosures.

SFAS No. 167 is a revision to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance.

Both SFAS No. 166 and SFAS No. 167 will be effective as of the beginning of each reporting entity s first annual reporting period that beings 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 of SFAS No. 166 shall be applied to transfers that occur on or after the effective date. The Company will adopt both SFAS No. 166 and SFAS No. 167 on January 1, 2010, as required. The Company has not determined the impact the adoption may have on its consolidated financial statements.

On May 28, 2009, FASB issued SFAS No. 165, *Subsequent Event* (SFAS No. 165). Under SFAS No. 165, companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued, or available to be issued in the case of non-public entities. SFAS No. 165 requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. SFAS No. 165 also requires entities to disclose the date through which subsequent events have been evaluated. SFAS No. 165 was effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the provisions of SFAS No. 165 for the quarter ended June 30, 2009, as required, and adoption did not have a material impact on the Company s financial statements taken as a whole.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

On April 9, 2009, FASB issued three final Staff Positions intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* provides guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157, *Fair Value Measurements* , when the volume and level of activity for the asset or liability have decreased significantly. FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

All three Staff Positions are effective for interim and annual periods ending after June 15, 2009. Entities were permitted to early adopt these Staff Positions for interim and annual periods ending after March 15, 2009, but had to adopt all three Staff Positions concurrently. The Company adopted these Staff Positions for the quarterly reporting period ending June 30, 2009, as required. See Note 7 for additional information regarding fair value measurements of financial assets and liabilities, and Note 3 for additional information for investment securities. The adoption of these Staff Positions did not have a material impact on the Company s consolidated financial statements taken as a whole.

In December 2007, FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 changes the measurement, recognition and presentation of minority interests in consolidated subsidiaries (now referred to as noncontrolling interests). This Statement is effective for fiscal years beginning on or after December 15, 2008 and is prospective for the change related to measurement and recognition and retrospective for the changes related to presentation.

The Company presents noncontrolling interests (previously shown as minority interest) as a component of equity on the consolidated balance sheets. Minority interest expense is no longer separately reported as a reduction to net income on the consolidated income statement, but is instead shown below net income under the heading net income attributable to noncontrolling interests. The adoption of SFAS No. 160 did not have any other material impact on the Company s consolidated financial statements.

NOTE 2 DISCONTINUED OPERATIONS

During 2008, Bancard sold its merchant credit card acquiring business resulting in gain on sale, net of taxes and related expenses, of approximately $3.0 million. The 2008 financial results associated with the merchant credit card acquiring business have been reflected as discontinued operations. There is no 2009 activity.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

On December 31, 2008, the Company solid its Milwaukee subsidiary, First Wisconsin Bank & Trust Company (FWBT), for $13.7 million which resulted in a gain on sale, net of taxes and related expenses, of approximately $356 thousand. The 2008 financial results associated with FWBT have been reflected as discontinued operations. There is no 2009 activity.

Please refer to Note 2 of our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, for information related to the Company s discontinued operations.

NOTE 3 INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of June 30, 2009 and December 31, 2008 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2009:				
Securities held to maturity, other bonds	$ 350,000	$	$	$ 350,000
Securities available for sale:				
U.S. Treasury securities	$ 3,202,355	$ 13,648	$	$ 3,216,003
U.S. govt. sponsored agency securities	287,320,799	4,191,369	(720,657)	290,791,511
Mortgage-backed securities	661,777	22,371		684,148
Municipal securities	24,316,738	531,958	(192,420)	24,656,276
Trust preferred securities	200,000		(61,238)	138,762
Other securities	1,609,991	17,791	(3,163)	1,624,619
	$ 317,311,660	$ 4,777,137	$ (977,478)	$ 321,111,319

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2008:				
Securities held to maturity, other bonds	$ 350,000	$	$	$ 350,000
Securities available for sale:				
U.S. Treasury securities	$ 4,318,194	$ 71,351	$	$ 4,389,545
U.S. govt. sponsored agency securities	220,560,286	5,773,091	(90,217)	226,243,160
Mortgage-backed securities	802,485	6,071	(1,417)	807,139
Municipal securities	23,259,460	307,946	(219,181)	23,348,225
Trust preferred securities	200,000		(35,000)	165,000
Other securities	1,132,763	18,045	(377,462)	773,346
	$ 250,273,188	$ 6,176,504	$ (723,277)	$ 255,726,415

14

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2009 and December 31, 2008, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2009:						
Securities available for sale:						
U.S. govt. sponsored agency securities	$ 82,835,976	$ (720,657)	$	$	$ 82,835,976	$ (720,657)
Mortgage-backed securities						
Municipal securities	6,639,635	(93,151)	1,026,479	(99,269)	7,666,114	(192,420)
Trust preferred securities			138,762	(61,238)	138,762	(61,238)
Other securities	5,884	(1,397)	1,484	(1,766)	7,368	(3,163)
Total Portfolio	$ 89,481,495	$ (815,205)	$ 1,166,725	$ (162,273)	$ 90,648,220	$ (977,478)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2008:						
Securities available for sale:						
U.S. govt. sponsored agency securities	$ 8,003,720	$ (90,217)	$	$	$ 8,003,720	$ (90,217)
Mortgage-backed securities	630,974	(1,417)			630,974	(1,417)
Municipal securities	8,001,415	(219,181)			8,001,415	(219,181)
Trust preferred securities	165,000	(35,000)			165,000	(35,000)
Other securities	84,264	(57,316)	407,630	(320,146)	491,894	(377,462)
Total Portfolio	$ 16,885,373	$ (403,131)	$ 407,630	$ (320,146)	$ 17,293,003	$ (723,277)

At June 30, 2009, the investment portfolio included 328 securities. Of this number, 83 securities have current unrealized losses; 5 of which have existed for twelve months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company has the intent to not sell the security and/or it is not likely that the Company will be required to sell the debt security before its anticipated recovery. At June 30, 2009 and December 31, 2008, the Company s equity securities represent less than 1% of the total portfolio.

Declines in fair value of debt securities below their amortized cost basis that are deemed to be other- than temporary impairment are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in income with the remaining noncredit-related component being recognized in other comprehensive income. A credit loss is determined by assessing whether the amortized cost basis of the debt security will be recovered, by comparing the present value of cash flows expected to be collected from the debt security, computed using original yield as the discount rate, to the amortized cost basis of the debt security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the credit loss.

The Company has not recognized other-than-temporary impairment on any debt securities for the three and six months ended June 30, 2009.

Should the impairment of any of the equity securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net earnings in the period which the other-than-temporary impairment is identified.

For the six months ended June 30, 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 thousand. For the three months ended June 30, 2009, the Company s evaluation determined 10 publicly-traded equity securities experienced declines in fair value that were other-than-temporary which resulted in recognition of impairment losses totalling $192 thousand.

For the three and six months ended June 30, 2009 and 2008, there were no sales of investment securities.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The amortized cost and fair value of securities as of June 30, 2009 by contractual maturity are shown below. Expected maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following summary. Other securities are excluded from the maturity categories as there is no fixed maturity date.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	$ 50,000	$ 50,000
Due after one year through five years	250,000	250,000
Due after five years	50,000	50,000
	$ 350,000	$ 350,000
Securities available for sale:		
Due in one year or less	$ 13,983,706	$ 14,177,334
Due after one year through five years	119,286,998	120,699,839
Due after five years	181,769,188	183,925,379
	$ 315,039,892	$ 318,802,552
Mortgage-backed securities	661,777	684,148
Other securities	1,609,991	1,624,619
	$ 317,311,660	$ 321,111,319

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income (loss)	$ (759,512)	$ 1,900,724	$ (523,722)	$ 2,727,560
Less: Net income attributable to noncontrolling interests	60,932	128,435	212,378	268,827
Net income (loss) attributable to QCR Holdings, Inc.	$ (820,444)	$ 1,772,289	$ (736,100)	$ 2,458,733
Amounts attributable to QCR Holdings, Inc.:				
Income (loss) from continuing operations	$ (820,444)	$ 2,001,173	$ (736,100)	$ 3,690,531
Loss from discontinued operations		(228,884)		(1,231,798)
Net income	$ (820,444)	$ 1,772,289	$ (736,100)	$ 2,458,733
Less: Preferred stock dividends	1,085,202	446,125	1,780,930	892,250
Net income (loss) attributable to QCR Holdings, Inc. common stockholders	$ (1,905,646)	$ 1,326,164	$ (2,517,030)	$ 1,566,483
Basic earnings (loss) per common share:				
Income (loss) from continuing operations attributable to QCR Holdings, Inc.	(0.42)	0.34	(0.56)	0.61
Loss from discontinued operations attributable to QCR Holdings, Inc.		(0.05)		(0.27)
Net income (loss) attributable to QCR Holdings, Inc.	$ (0.42)	$ 0.29	$ (0.56)	$ 0.34
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations attributable to QCR Holdings, Inc.	(0.42)	0.34	(0.56)	0.60
Loss from discontinued operations attributable to QCR Holdings, Inc.		(0.05)		(0.27)
Net income (loss) attributable to QCR Holdings, Inc.	$ (0.42)	$ 0.29	$ (0.56)	$ 0.34
Weighted average common shares outstanding	4,540,854	4,611,751	4,532,353	4,606,959

Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	N/A*	22,954	N/A*	35,670
Weighted average common and common equivalent shares outstanding	N/A*	4,634,705	N/A*	4,642,629

* In accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share, the common equivalent shares are not considered in calculating diluted earnings per share as the numerator is a net loss.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 5 BUSINESS SEGMENT INFORMATION

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

The Company s primary segment, Commercial Banking, is geographically divided by markets into the secondary segments which are the three subsidiary banks wholly-owned by the Company: QCBT, CRBT, and RB&T. Each of these secondary segments offer similar products and services, but are managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services. First Wisconsin Bank & Trust is accounted for as discontinued bank operations and the related 2008 financial information has been properly excluded where appropriate. FWBT s assets held for sale at June 30, 2008 are reported in the All Other segment.

The Company s Credit Card Processing segment represents the continuing operations of Bancard. As previously noted, Bancard sold its merchant credit card acquiring business in 2008 and the Company has accounted for it as discontinued operations. The 2008 financial information has been properly excluded.

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

The Company s All Other segment includes the operations of all other consolidated subsidiaries and/or defined operating segments that fall below the segment reporting thresholds. This segment includes the corporate operations of the parent and the 73% owned real estate holding operations of Velie Plantation Holding Company.

Selected financial information on the Company s business segments is presented as follows for the three months and six months ended June 30, 2009 and 2008.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

QCR HOLDINGS, INC. AND SUBSIDIARIES
SELECTED FINANCIAL DATA BUSINESS SEGMENTS
Three Months and Six Months Ended June 30, 2009 and 2008

	Commercial Banking							
	Quad City Bank & Trust	Cedar Rapids Bank & Trust	Rockford Bank & Trust	**Credit Card Processing**	**Trust Management**	**All other**	**Intercompany Eliminations**	**Consolidated Total**
hree Months nded une 30, 009								
otal evenue	$ 13,362,474	$ 7,434,827	$ 3,457,510	$ 62,863	$ 701,314	$ 388,957	$ (683,516)	$ 24,724,429
et Interest ncome	$ 7,323,529	$ 3,940,950	$ 1,539,535	$ 33,290	$	$ (599,168)	$ (33,290)	$ 12,204,846
et Income Loss) from ontinuing perations ttributable QCR oldings, c.	$ 966,720	$ 447,419	$ (771,359)	$ (110,022)	$ 118,428	$ (763,131)	$ (708,499)	$ (820,444
otal Assets	$ 953,481,386	$ 503,611,842	$ 255,483,517	$ 285,528	$	$ 177,543,585	$ (189,549,306)	$ 1,700,856,552
rovision or oan/Lease osses	$ 1,996,276	$ 1,350,000	$ 1,325,000	$ 204,469	$	$	$	$ 4,875,745
oodwill	$ 3,222,688	$	$	$	$	$	$	$ 3,222,688
hree Months nded une 30, 008								
otal evenue	$ 14,213,161	$ 6,619,146	$ 2,902,937	$ 742,369	$ 847,413	$ 2,974,274	$ (3,644,754)	$ 24,654,546
et Interest ncome	$ 7,396,473	$ 3,248,215	$ 1,264,472	$ 114,414	$	$ (686,586)	$ (145,249)	$ 11,191,739
et Income om ontinuing perations ttributable	$ 2,141,340	$ 895,363	$ (41,640)	$ 167,999	$ 206,865	$ 1,871,751	$ (3,240,505)	$ 2,001,173

QCR oldings, c.								
otal Assets	$ 896,709,426	$ 412,285,925	$ 190,405,124	$ 1,314,792	$	$ 140,252,947	$ (57,206,491)	$ 1,583,761,72
rovision or oan/Lease osses	$ 791,990	$ 250,558	$ 249,000	$ 63,795	$	$	$	$ 1,355,34
oodwill	$ 3,222,688	$	$	$	$	$	$	$ 3,222,68
ix Months nded une 30, 009								
otal evenue	$ 26,458,957	$ 14,337,270	$ 6,850,521	$ 308,728	$ 1,419,429	$ 1,713,532	$ (1,939,127)	$ 49,149,31
et Interest ncome	$ 14,705,465	$ 7,694,949	$ 3,035,506	$ 132,573	$	$ (1,271,023)	$ (132,573)	$ 24,164,89
et Income Loss) from ontinuing perations ttributable QCR oldings, c.	$ 2,302,750	$ 877,789	$ (1,334,792)	$ (307,644)	$ 280,848	$ (601,263)	$ (1,953,788)	$ (736,10
otal Assets	$ 953,481,386	$ 503,611,842	$ 255,483,517	$ 285,528	$	$ 177,543,585	$ (189,549,306)	$ 1,700,856,55
rovision or oan/Lease osses	$ 3,730,466	$ 2,500,000	$ 2,386,000	$ 617,822	$	$	$	$ 9,234,28
oodwill	$ 3,222,688	$	$	$	$	$	$	$ 3,222,68
ix Months nded une 30, 008								
otal evenue	$ 28,422,701	$ 13,159,208	$ 5,736,794	$ 1,006,103	$ 1,768,674	$ 4,944,116	$ (5,707,717)	$ 49,329,87
et Interest ncome	$ 14,305,426	$ 6,120,475	$ 2,356,848	$ 235,747	$	$ (1,412,048)	$ (278,192)	$ 21,328,25
et Income om ontinuing perations ttributable QCR oldings, c.	$ 4,150,041	$ 1,519,968	$ (87,529)	$ 214,155	$ 451,326	$ 2,615,168	$ (5,172,598)	$ 3,690,53
otal Assets	$ 896,709,426	$ 412,285,925	$ 190,405,124	$ 1,314,792	$	$ 140,252,947	$ (57,206,491)	$ 1,583,761,72
	$ 1,375,589	$ 443,268	$ 429,000	$ 91,726	$	$	$	$ 2,339,58

rovision or oan/Lease osses															
oodwill	$	3,222,688	$		$		$		$		$		$		$ 3,222,688

19

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 COMMITMENTS AND CONTINGENCIES

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

As of June 30, 2009 and December 31, 2008, commitments to extend credit aggregated were $461.6 million and $494.8 million, respectively. As of June 30, 2009 and December 31, 2008, standby, commercial and similar letters of credit aggregated were $16.8 million and $15.2 million, respectively. Management does not expect that all of these commitments will be funded.

Contractual obligations and other commitments were presented in the Company s 2008 Annual Report on Form 10-K. There have been no material changes in the Company s contractual obligations and other commitments since that report was filed.

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 7 FAIR VALUE

SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value. It also establishes a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

1. Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;
2. Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
3. Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

Assets measured at fair value on a recurring basis comprise the following at June 30, 2009:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
U.S. Treasury securities	$ 3,216,003	$	$ 3,216,003	$
U.S. govt. sponsored agency securities	290,791,511		290,791,511	
Mortgage-backed securities	684,148		684,148	
Municipal securities	24,656,276		24,656,276	
Trust preferred securities	138,762		138,762	
Other securities	1,624,619	567,831	1,056,788	
	$ 321,111,319	$ 567,831	$ 320,543,488	$

A small portion of the securities available for sale portfolio consists of common stocks issued by various unrelated bank holding companies. The fair values used by the Company are obtained from an independent pricing service and represent quoted market prices for the identical securities (Level 1 inputs).

The large majority of the securities available for sale portfolio consists of U.S. government sponsored agency securities for which the Company obtains fair values from an independent pricing service. The fair values are determined by pricing models that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2 inputs).

Table of Contents

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis were not significant at June 30, 2009.

The following table presents the carrying values and estimated fair values of financial assets and liabilities carried on the Company s consolidated balance sheets, including those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis:

	As of June 30, 2009		As of December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	$ 26,912,711	$ 26,912,711	$ 33,464,074	$ 33,464,074
Federal funds sold	11,672,135	11,672,135	20,695,898	20,695,898
Interest-bearing deposits at financial institutions	40,547,373	40,547,373	2,113,904	2,113,904
Investment securities:				
Held to maturity	350,000	350,000	350,000	350,000
Available for sale	321,111,319	321,111,319	255,726,415	255,726,415
Loans/leases receivable, net	1,203,355,075	1,196,521,000	1,196,880,462	1,189,382,000
Accrued interest receivable	7,569,223	7,569,223	7,835,835	7,835,835
Deposits	1,029,036,225	1,014,575,000	1,058,958,598	1,067,480,000
Short-term borrowings	138,945,235	138,945,235	101,456,950	101,456,950
Federal Home Loan Bank advances	209,350,000	223,662,000	218,695,000	235,309,000
Other borrowings	140,069,939	146,884,000	75,582,634	78,472,000
Accrued interest payable	3,775,151	3,775,151	4,539,122	4,539,122

The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. For certain financial assets and liabilities, carrying value approximates fair value due to the nature of the financial instrument. These instruments include: cash and due from banks, federal funds sold, interest-bearing deposits at financial institutions, accrued interest receivable and payable, demand and other non-maturity deposits, and short-term borrowings. The Company used the following methods and assumptions in estimating the fair value of the following instruments:

Loans/leases receivable: The fair values for variable rate loans equal their carrying values. The fair values for all other types of loans/leases are estimated using discounted cash flow analyses, using interest rates currently being offered for loans/leases with similar terms to borrowers with similar credit quality. The fair value of loans held for sale is based on quoted market prices of similar loans sold on the secondary market.

Deposits: The fair values disclosed for demand and other non-maturity deposits equal their carrying amounts, which represent the amount payable on demand. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregate expected monthly maturities on time deposits.

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Federal Home Loan Bank advances: The fair value of these instruments is estimated using discounted cash flow analyses, based on the Company s current incremental borrowing rates for similar types of borrowing arrangements.

Other borrowings: The fair value for the wholesale repurchase agreements is estimated using rates currently available for debt with similar terms and remaining maturities. The fair value for variable rate other borrowings is equal to its carrying value.

Junior subordinated debentures: It is not practicable to estimate the fair value of the Company s junior subordinated debentures as instruments with similar terms are not readily available in the market place.

Commitments to extend credit: The fair value of these instruments is not material.

NOTE 8 ISSUANCE OF SERIES D PREFERRED STOCK AND COMMON STOCK WARRANT

On February 13, 2009, the Company issued 38,237 shares of Series D Preferred Stock to Treasury for an aggregate purchase price of $38,237,000. The sale of Series D Preferred Stock was a result of the Company s participation in the TCPP. This sale also included the issuance of a warrant (Warrant) that allows Treasury to purchase up to 521,888 shares of common stock at an exercise price of $10.99 per share.

The Warrant has a ten-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $10.99 per share of the Common Stock. As of June 30, 2009, there had been no changes to the number of common shares covered by the Warrant nor had the Treasury exercised any portion of the Warrant.

The Series D Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. Prior to the third anniversary of Treasury s purchase of the Series D Preferred Stock, unless the Series D Preferred Stock has been redeemed or Treasury has transferred all of the Series D Preferred Stock to one or more third parties, the consent of Treasury will be required for the Company to: (i) increase the dividends paid on its Common Stock; or (ii) repurchase its Common Stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice. The Series D Preferred Stock will be non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Series D Preferred Stock.

Treasury has the ability to unilaterally amend the TCPP documents at any time to comply with changes in the law, and as a result, the terms of the TCPP could change.

Part I
Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Stimulus Bill) was signed into law, which contains provisions that significantly impact TCPP recipients both retroactively and prospectively. Restrictions on repayment, including the Tier 1 qualified capital raise requirement, have been removed allowing institutions to repay the TCPP funds, in whole or in part, upon consultation and approval from the Company s primary federal banking regulator. If the Treasury is repaid, it will liquidate the warrant it holds at the fair market value. The Stimulus Bill has also imposed more strict compensation limitations and expands the number of executives covered based upon the amount of TCPP funds received. These provisions will apply to existing and future TCPP recipients for periods the TCPP capital is outstanding.

The Series D Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the Securities Act). Upon the request of Treasury at any time, the Company has agreed to promptly enter into a deposit arrangement pursuant to which the Series D Preferred Stock may be deposited and depositary shares representing fractional shares of Series D Preferred Stock, may be issued. The Company registered the Warrant and the shares of Common Stock underlying the Warrant with the Securities and Exchange Commission under the Securities Act. Additionally, the Company has also agreed to register the shares of Series D Preferred Stock upon the written request of Treasury.

The proceeds received from the Treasury were allocated to the Series D Preferred Stock and the Warrant based on relative fair value. The fair value of the Series D Preferred Stock was determined through a discounted future cash flows model using a discount rate of 12%. The fair value of the Warrant was calculated using the Black-Scholes option pricing model, which includes assumptions regarding the Company s dividend yield, stock price volatility, and the risk-free interest rate. The relative fair value of the Series D Preferred Stock and the Warrant on February 13, 2009, was $35.8 million and $2.4 million, respectively.

The Company calculated a discount on the Series D Preferred Stock in the amount of $2.4 million, which will be amortized over a 5 year period. The effective cost on the Series D Preferred Stock, including the accretion of the discount, is approximately 6.23%. In determining net income (loss) attributable to the Company s common stockholders, the periodic accretion and the cash dividend on the preferred stock are subtracted from net income (loss) attributable to the Company.

NOTE 9 OTHER BORROWINGS

The Company has a single $20.0 million secured revolving credit note with a maturity date of April 2, 2010. The Company had $15.0 million available as the note carried an outstanding balance of $5.0 million as of June 30, 2009. The note agreement contains certain covenants that place restrictions on additional debt and stipulate minimum capital and various operating ratios. As of June 30, 2009, the Company was in violation of one of the operating covenants. As of the date of issuance of these financial statements, the Company has not received a formal waiver of this covenant violation; however, the Company has had formal discussions with the lender and fully expects to receive the waiver.

Table of Contents

Part I
Item 2

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

GENERAL

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

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

Quad City Bank & Trust commenced operations in 1994 and provides full-service commercial and consumer banking, and trust and asset management services, to the Quad City area and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and Moline, Illinois. Quad City Bank & Trust also provides leasing services through its 80%-owned subsidiary, m2 Lease Funds, located in Brookfield, Wisconsin. 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.

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

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

On December 31, 2008, the Company sold its Milwaukee subsidiary, First Wisconsin Bank & Trust, for $13.7 million which resulted in a gain on sale, net of taxes and related expenses, of approximately $356 thousand. The 2008 financial results associated with First Wisconsin Bank & Trust have been reflected as discontinued operations.

Bancard currently provides credit card processing for its agent banks and for cardholders of the Company s subsidiary banks and agent banks. As discussed in the footnotes to the financial statements, the Company sold the merchant credit card acquiring business segment of Bancard during the third quarter of 2008. The 2008 activity related to the merchant credit card acquiring business is accounted for as discontinued operations.

Table of Contents

Part I
Item 2

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

OVERVIEW

The Company reported a net loss attributable to QCR Holdings, Inc. for the quarter ended June 30, 2009 of $820 thousand, which resulted in diluted earnings per share for common stockholders of ($0.42). Earnings for the second quarter of 2009 were significantly impacted by additional loan/lease loss provisions and increased FDIC assessments. By comparison, for the quarter ended March 31, 2009, the Company reported net income attributable to QCR Holdings, Inc. of $84 thousand, and diluted earnings per share of ($0.13). For the second quarter of 2008, the Company reported net income attributable to QCR Holdings, Inc. of $1.8 million, and diluted earnings per share of $0.29. For the six months ended June 30, 2009, the Company reported a net loss attributable to QCR Holdings, Inc. of $736 thousand compared to net income attributable to QCR Holdings, Inc. of $2.5 million for the same period in 2008.

For the quarter ended June 30, 2009, the Company recognized a net loss from continuing operations attributable to QCR Holdings, Inc. of $820 thousand as compared to net income from continuing operations attributable to QCR Holdings, Inc. of $2.0 million for the quarter ended June 30, 2008. For this same period, diluted earnings per share from continuing operations attributable to QCR Holdings, Inc. decreased from $0.34 to ($0.42). This reduction was due to significant increases in provision for loan/lease losses of $3.5 million and FDIC assessments of $1.2 million. Partially offsetting these increased expenses was an increase in net interest income of $1.0 million, or 9%, from $11.2 million for the quarter ending June 30, 2008 to $12.2 million for the quarter ending June 30, 2009.

The performance and factors driving the results for the first six months of 2009 are consistent with the second quarter of 2009 mentioned above. For the six months ended June 30, 2009, the Company reported a net loss from continuing operations attributable to QCR Holdings, Inc. of $736 thousand, and diluted earnings per share of ($0.56), as compared to net income from continuing operations attributable to QCR Holdings, Inc. of $3.7 million, and diluted earnings per share of $0.60 for the same period of 2008. This decline resulted primarily from substantial increases in the provision for loan/lease losses of $6.9 million and FDIC Assessments of $1.5 million. Partially offsetting these increased expenses, net interest income grew $2.9 million, or 13%, from $21.3 million for the six months ended June 30, 2008 to $24.2 million for the same period in 2009.

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

Table of Contents

Part I
Item 2

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

Net interest income, on a tax equivalent basis, increased $1.0 million, or 9%, to $12.3 million for the quarter ended June 30, 2009, from $11.3 million for the second quarter of 2008. For the second quarter of 2009, average earning assets increased by $278.3 million, or 21%, and average interest-bearing liabilities increased by $190.7 million, or 15%, when compared with average balances for the second quarter of 2008. A comparison of yields, spread and margin from the second quarter of 2009 to the second quarter of 2008 is as follows (on a tax equivalent basis):

The average yield on interest-earning assets decreased 103 basis points.
The average cost of interest-bearing liabilities decreased 64 basis points.
The net interest spread declined 39 basis points from 3.12% to 2.73%.
The net interest margin declined 33 basis points from 3.37% to 3.04%.

Net interest income, on a tax equivalent basis, increased $2.8 million, or 13%, to $24.4 million for the six months ended June 30, 2009, from $21.6 million for the first six months of 2008. For the six months ended June 30, 2009, average earning assets increased by $211.9 million, or 16%, and average interest-bearing liabilities increased by $148.9 million, or 12%, when compared with average balances for the six months ended June 30, 2008. A comparison of yields, spread and margin for the first six months of 2009 to the first six months of 2008 is as follows (on a tax equivalent basis):

The average yield on interest-earning assets decreased 85 basis points.
The average cost of interest-bearing liabilities decreased 78 basis points.
The net interest spread declined 7 basis points from 2.89% to 2.82%.
The net interest margin declined 7 basis points from 3.18% to 3.11%.

Table of Contents

Part I
Item 2

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

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:

	For the three months ended June 30, 2009 Average Balance	2009 Interest Earned or Paid	2009 Average Yield or Cost	2008 Average Balance	2008 Interest Earned or Paid	2008 Average Yield or Cost
	(dollars in thousands)					
ASSETS						
Interest earning assets:						
Federal funds sold	$ 61,811	$ 37	0.24%	$ 1,855	$ 17	3.67%
Interest-bearing deposits at financial institutions	36,269	92	1.01%	8,282	53	2.56%
Investment securities (1)	303,420	3,117	4.11%	228,778	2,997	5.24%
Gross loans/leases receivable (2) (3)	1,220,175	18,096	5.93%	1,104,472	18,050	6.54%
Total interest earning assets	$ 1,621,675	21,342	5.26%	$ 1,343,387	21,117	6.29%
Noninterest-earning assets:						
Cash and due from banks	$ 28,436			$ 33,710		
Premises and equipment	30,555			31,775		
Less allowance for estimated losses on loans/leases	(21,862)			(13,041)		
Other	73,396			148,105		
Total assets	$ 1,732,200			$ 1,543,936		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 371,723	1,003	1.08%	$ 309,563	1,382	1.79%
Savings deposits	44,003	48	0.44%	63,390	245	1.55%
Time deposits	536,269	3,852	2.87%	407,655	4,110	4.03%
Short-term borrowings	113,696	193	0.68%	183,622	908	1.98%
Federal Home Loan Bank advances	210,610	2,269	4.31%	181,150	1,998	4.41%
Junior subordinated debentures	36,085	514	5.70%	36,085	567	6.29%
Other borrowings	115,870	1,138	3.93%	56,125	599	4.27%

Total interest-bearing liabilities	$ 1,428,256	9,017	2.53%	$ 1,237,590	9,809	3.17%
Noninterest-bearing demand deposits	$ 152,210			$ 129,215		
Other noninterest-bearing liabilities	22,499			90,544		
Total liabilities	$ 1,602,965			$ 1,457,349		
Stockholders equity	129,235			86,587		
Total liabilities and stockholders equity	$ 1,732,200			$ 1,543,936		
Net interest income		$ 12,325			$ 11,308	
Net interest spread			2.73%			3.12%
Net interest margin			3.04%			3.37%
Ratio of average interest earning assets to average interest-bearing liabilities	113.54%			108.55%		

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

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

(3)

Non-accrual loans/leases are included in the average balance for gross loans/leases receivable.

Table of Contents

Part I
Item 2

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

Analysis of Changes of Interest Income/Interest Expense
For the three months ended June 30, 2009

	Inc./(Dec.) from Prior Period	Components of Change (1) Rate	Volume
		2009 vs. 2008 (dollars in thousands)	
INTEREST INCOME			
Federal funds sold	$ 20	$ (124)	$ 144
Interest-bearing deposits at financial institutions	39	(211)	250
Investment securities (2)	120	(3,066)	3,186
Gross loans/leases receivable (3) (4)	46	(7,073)	7,119
Total change in interest income	$ 225	$ (10,474)	$ 10,699
INTEREST EXPENSE			
Interest-bearing demand deposits	$ (379)	$ (1,724)	$ 1,345
Savings deposits	(197)	(138)	(59)
Time deposits	(258)	(5,069)	4,811
Short-term borrowings	(715)	(453)	(262)
Federal Home Loan Bank advances	271	(292)	563
Junior subordinated debentures	(53)	(53)	
Other borrowings	539	(318)	857
Total change in interest expense	$ (792)	$ (8,047)	$ 7,255
Total change in net interest income	$ 1,017	$ (2,427)	$ 3,444

(1) The column increase/decrease from prior period is segmented into the changes attributable to variations in volume and the changes attributable to

changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

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

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

(4) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable.

Table of Contents

Part I
Item 2

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

	For the six months ended June 30,					
	2009			2008		
	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	$ 48,062	56	0.23%	$ 2,918	42	2.88%
Interest-bearing deposits at financial institutions	25,899	111	0.86%	9,338	147	3.15%
Investment securities (1)	279,352	6,110	4.37%	231,361	5,994	5.18%
Gross loans/leases receivable (2) (3)	1,216,117	36,172	5.95%	1,113,900	36,313	6.52%
Total interest earning assets	$ 1,569,430	42,449	5.41%	$ 1,357,517	42,496	6.26%
Noninterest-earning assets:						
Cash and due from banks	$ 29,225			$ 34,691		
Premises and equipment	30,755			31,835		
Less allowance for estimated losses on loans/leases	(20,477)			(12,881)		
Other	75,151			108,438		
Total assets	$ 1,684,083			$ 1,519,600		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 351,140	1,934	1.10%	$ 321,119	3,432	2.14%
Savings deposits	55,414	252	0.91%	51,512	407	1.58%
Time deposits	535,116	8,044	3.01%	420,536	8,721	4.15%
Short-term borrowings	106,221	359	0.68%	183,594	2,067	2.25%
Federal Home Loan Bank advances	211,410	4,530	4.29%	176,656	3,939	4.46%
Junior subordinated debentures	36,085	1,032	5.72%	36,085	1,198	6.64%
Other borrowings	95,676	1,892	3.96%	52,707	1,169	4.44%
Total interest-bearing liabilities	$ 1,391,062	18,043	2.59%	$ 1,242,209	20,933	3.37%
Noninterest-bearing demand	$ 149,965			$ 132,777		

Other noninterest-bearing liabilities	22,566			56,894		
Total liabilities	$ 1,563,592			$ 1,431,880		
Stockholders equity	120,491			87,720		
Total liabilities and stockholders equity	$ 1,684,083			$ 1,519,600		
Net interest income		$ 24,406			$ 21,563	
Net interest spread			2.82%			2.89%
Net interest margin			3.11%			3.18%
Ratio of average interest earning assets to average interest- bearing liabilities	112.82%			109.28%		

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

(3) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable.

Table of Contents

Part I
Item 2

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

Analysis of Changes of Interest Income/Interest Expense
For the six months ended June 30, 2009

	Inc./(Dec.) from Prior Period	Components of Change (1) Rate	Volume
	2009 vs. 2008 (dollars in thousands)		
INTEREST INCOME			
Federal funds sold	$ 14	$ (145)	$ 159
Interest-bearing deposits at financial institutions	(36)	(314)	278
Investment securities (2)	116	(2,083)	2,199
Gross loans/leases receivable (3) (4)	(141)	(6,579)	6,438
Total change in interest income	$ (47)	$ (9,121)	$ 9,074
INTEREST EXPENSE			
Interest-bearing demand deposits	$ (1,498)	$ (2,332)	$ 834
Savings deposits	(155)	(236)	81
Time deposits	(677)	(5,116)	4,439
Short-term borrowings	(1,708)	(1,066)	(642)
Federal Home Loan Bank advances	591	(415)	1,006
Junior subordinated debentures	(166)	(166)	
Other borrowings	723	(362)	1,085
Total change in interest expense	$ (2,890)	$ (9,693)	$ 6,803
Total change in net interest income	$ 2,843	$ 572	$ 2,271

(1) The column increase/decrease from prior period is segmented into the changes attributable to

variations in volume and the changes

attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

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

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

(4) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable.

Table of Contents

Part I

Item 2

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

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 estimated losses on loans/leases. The Company s allowance for estimated losses on loans/leases methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for estimated loan/lease loss that management believes is appropriate at each reporting date. Quantitative factors include the Company s historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans/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 state of certain industries. Size and complexity of individual credits in relation to loan/lease structure, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. Management may report a materially different amount for the provision for loan/lease losses in the statement of operations to change the allowance for estimated losses on loans/leases if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company s financial statements and the accompanying notes presented elsewhere herein, as well as the portion in the section entitled Financial Condition of this Management s Discussion and Analysis that discusses the allowance for estimated losses on loans/leases. Although management believes the level of the allowance as of June 30, 2009 is 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 amortized 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 or whether it is more-likely-than-not that the Company will be required to sell the security before its anticipated recovery. For the quarter ended June 30, 2009, management s evaluation determined that 10 publicly-traded equity securities owned by the Holding Company 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 $192 thousand. For the six months ended June 30, 2009, management s evaluations determined that 11 publicly-traded equity securities owned by the Holding Company experienced declines in fair value that were other-than-temporary resulting in recognized losses totalling $206 thousand.

Part I
Item 2

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

RESULTS OF OPERATIONS

INTEREST INCOME

Interest income experienced a slight increase of $221 thousand, or 1%, from $21.0 million for the quarter ended June 30, 2008 to $21.2 million for the quarter e