TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form 10-Q
October 26, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2016
or
¨ 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 001-36803

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-0640002
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

5 Penn Plaza (4th Floor)
New York, New York 10001
Telephone: (212) 246-6700
(Address, zip code, and telephone number, including area code, of registrant's principal executive office)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ý

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of October 24, 2016, there were 25,613,547 shares of Common Stock of the registrant outstanding.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2016 and December 31, 2015
(All figures in thousands except share and per share data)
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,330	$ 76,217
Accounts receivable (less allowance for doubtful accounts of $2,638 and $3,133 as of September 30, 2016 and December 31, 2015, respectively)	1,243	1,923
Inventory	283	337
Deferred tax assets	—	1,549
Prepaid corporate income taxes	715	6,895
Prepaid expenses and other current assets	11,832	13,170
Total current assets	62,403	100,091
Fixed assets, net	175,625	195,341
Goodwill	1,065	1,025
Intangible assets, net	144	171
Deferred tax assets	—	219
Deferred membership costs	1,364	3,029
Other assets	4,730	3,225
Total assets	$ 245,331	$ 303,101
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 2,082	$ 2,810
Accounts payable	3,136	2,615
Accrued expenses	30,772	26,129
Accrued interest	89	129
Deferred revenue	37,076	40,225
Deferred tax liabilities	—	236
Total current liabilities	73,155	72,144
Long-term debt	194,947	263,930
Deferred lease liabilities	50,324	51,136
Deferred tax liabilities	61	1,593
Deferred revenue	434	319
Other liabilities	12,441	10,224
Total liabilities	331,362	399,346
Commitments and Contingencies (Note 12)		
Stockholders' deficit:		
Preferred stock, $0.001 par value; no shares issued and outstanding at both September 30, 2016 and December 31, 2015		
Common stock, $0.001 par value; issued and outstanding 25,614,047 and 24,818,786 shares at September 30, 2016 and December 31, 2015, respectively	24	24
Additional paid-in capital	(6,537)	(8,386)
Accumulated other comprehensive loss	(510)	(523)
Accumulated deficit	(79,008)	(87,360)

Total stockholders' deficit	(86,031)	(96,245)
Total liabilities and stockholders' deficit	$ 245,331	$ 303,101

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2016 and 2015
(All figures in thousands except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Club operations	$96,846	$102,119	$296,058	$318,748
Fees and other	1,688	1,645	4,756	4,736
	98,534	103,764	300,814	323,484
Operating Expenses:				
Payroll and related	37,643	42,889	115,202	135,886
Club operating	45,952	49,280	140,365	151,386
General and administrative	5,806	6,696	19,216	23,144
Depreciation and amortization	11,015	12,190	33,097	36,042
Impairment of fixed assets	742	12,420	742	14,571
Impairment of goodwill	—	—	—	31,558
	101,158	123,475	308,622	392,587
Operating loss	(2,624)	(19,711)	(7,808)	(69,103)
Loss (gain) on extinguishment of debt	604	—	(37,893)	—
Interest expense	3,177	5,204	10,746	15,562
Interest income	(2)	—	(2)	—
Equity in the earnings of investees and rental income	(55)	(571)	(201)	(1,761)
(Loss) income before provision (benefit) for corporate income taxes	(6,348)	(24,344)	19,542	(82,904)
(Benefit) provision for corporate income taxes	(842)	(2,338)	11,240	(17,066)
Net (loss) income	$(5,506)	$(22,006)	$8,302	$(65,838)
(Loss) earnings per share:				
Basic	$(0.21)	$(0.89)	$0.33	$(2.68)
Diluted	$(0.21)	$(0.89)	$0.32	$(2.68)
Weighted average number of shares used in calculating (loss) earnings per share:				
Basic	25,748,400	24,654,267	25,487,352	24,554,390
Diluted	25,748,400	24,654,267	26,147,729	24,554,390

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the Three and Nine Months Ended September 30, 2016 and 2015
(All figures in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Statements of Comprehensive (Loss) Income:				
Net (loss) income	$(5,506)	$(22,006)	$8,302	$(65,838)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax of $0, for each of the three and nine months ended September 30, 2016 and 2015	21	(238)	52	(44)
Interest rate swap, net of tax of $0, for each of the three and nine months ended September 30, 2016 and 2015	397	(558)	(39)	(1,274)
Total other comprehensive income (loss), net of tax	418	(796)	13	(1,318)
Total comprehensive (loss) income	$(5,088)	$(22,802)	$8,315	$(67,156)

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2016 and 2015
(All figures in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	$8,302	$(65,838)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	33,097	36,042
Impairment of fixed assets	742	14,571
Impairment of goodwill	—	31,558
Gain on extinguishment of debt	(37,893)	—
Amortization of debt discount	776	972
Amortization of debt issuance costs	493	588
Amortization of building financing costs	—	95
Non-cash rental income, net of non-cash rental expense	(3,026)	(2,694)
Share-based compensation expense	1,531	1,187
Net change in deferred taxes	—	(11,519)
Net change in certain operating assets and liabilities	8,084	12,961
Decrease in deferred membership costs	1,665	2,953
Landlord contributions to tenant improvements	2,080	296
Increase in insurance reserves	1,220	689
Other	(90)	340
Total adjustments	8,679	88,039
Net cash provided by operating activities	16,981	22,201
Cash flows from investing activities:		
Capital expenditures	(13,639)	(24,073)
Change in restricted cash	—	(1,100)
Net cash used in investing activities	(13,639)	(25,173)
Cash flows from financing activities:		
Proceeds from building financing arrangement	—	500
Principal payments on 2013 Term Loan Facility	(1,745)	(2,335)
Repurchase of 2013 Term Loan Facility	(29,765)	—
Debt issuance costs	—	(350)
Cash dividends paid	(17)	(82)
Redemption paid pursuant to the Rights Plan	—	(246)
Proceeds from stock option exercises	318	282
Net cash used in financing activities	(31,209)	(2,231)
Effect of exchange rate changes on cash	(20)	37
Net decrease in cash and cash equivalents	(27,887)	(5,166)
Cash and cash equivalents beginning of period	76,217	93,452
Cash and cash equivalents end of period	$48,330	$88,286
Summary of the change in certain operating assets and liabilities:		
Decrease in accounts receivable	$761	$943
Decrease in inventory	54	118

Decrease (increase) in prepaid expenses and other current assets	1,574	(781)
Increase in accounts payable, accrued expenses and accrued interest	2,488	5,052
Change in prepaid corporate income taxes and corporate income taxes payable	6,241	1,806
(Decrease) increase in deferred revenue	(3,034)	5,823
Net change in certain working capital components	$8,084	$12,961
Supplemental disclosures of cash flow information:		
Cash payments for interest, net of capitalized interest	$9,523	$12,981
Cash payments for income taxes	$8,685	$88

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except share and per share data)
(Unaudited)

1. Basis of Presentation

As of September 30, 2016, Town Sports International Holdings, Inc. (the “Company” or “TSI Holdings”), through its wholly-owned subsidiary, Town Sports International, LLC (“TSI, LLC”), operated 148 fitness clubs (“clubs”) and two BFX Studio (“studio”) locations. The clubs are composed of 101 clubs in the New York metropolitan market under the “New York Sports Clubs” brand name, 27 clubs in the Boston market under the “Boston Sports Clubs” brand name, 12 clubs (one of which is partly-owned) in the Washington, D.C. market under the “Washington Sports Clubs” brand name, five clubs in the Philadelphia market under the “Philadelphia Sports Clubs” brand name and three clubs in Switzerland. We also have one partly-owned club that operated under a different brand name in Washington, D.C. as of September 30, 2016.

The Company’s operating segments are New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs, Washington Sports Clubs and the clubs the Company owned in Switzerland, which is the level at which the chief operating decision makers review discrete financial information and make decisions about segment profitability based on earnings before income tax depreciation and amortization. The Company has determined that these operating segments have similar economic characteristics and meet the criteria which permit them to be aggregated into one reportable segment. Beginning in the first quarter of 2016, the Company's chief operating decision makers do not review studio financial information separately for purposes of making operating decisions and assessing financial performance. Accordingly, the Company manages and reports results through one reportable segment. Previously, the Company managed and reported results through two reportable segments: clubs and studio.

Certain reclassifications were made to the reported amounts on the condensed consolidated balance sheet as of December 31, 2015 to conform to the presentation as of September 30, 2016.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2015 consolidated financial statements and notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The year-end condensed consolidated balance sheet data included within this Form 10-Q was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations. The information reflects all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods set forth herein. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results for the entire year ending December 31, 2016.

The Company has been experiencing declining revenue from members for several years as the fitness industry continues to be highly competitive in the geographic regions in which the Company competes. New members have been joining at lower monthly rates and cancellations of members paying higher rates will continue to negatively impact the Company's results and liquidity if these trends are not reversed. In response to this, the Company initiated cost savings initiatives in 2015 that continued into fiscal 2016 to help mitigate the impact the decline in revenue has had on its profitability and cash flow from operations.

In December 2015, TSI Holdings purchased $29,829 principal amount of debt outstanding under its senior credit facility in the open market for $10,947, or 36.7% of face value. On April 21, 2016, TSI Holdings settled a transaction to purchase $8,705 principal amount of debt outstanding under the senior credit facility for $3,787, or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase $62,447 principal amount of debt outstanding under the senior credit facility for $25,978, or 41.6% of face value. The April and May transactions created gains on extinguishment of debt in the nine months ended September 30, 2016 with a tax effect of $13,451.

When this was netted with our operating loss, it resulted in a tax provision for the nine months ended September 30, 2016 of $11,240. All of the above purchased debt was transferred to Town Sports International, LLC and cancelled. The Company's ability to fund operations and capital expenditures is dependent upon its ability to generate sufficient cash from operations coupled with cash on hand. The Company believes it has sufficient liquidity from a combination of cash on

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hand and cash to be generated from operations to fund anticipated capital expenditures and currently scheduled debt service for at least the next 12 months. As further described in Note 3 - Long-Term Debt, the Company maintains a senior credit facility with its lenders which contains a term loan facility and a revolving loan facility. The terms of the senior credit facility include a financial covenant under which the Company is not able to utilize more than 25%, or $11,250 in accordance with terms of credit agreement, of the revolving loan facility if the total leverage ratio (as defined) exceeds 4:50:1:00 (calculated on a proforma basis to give effect to any borrowing). As of September 30, 2016, the total leverage ratio was slightly below 4.50:1.00. Any new borrowings on the revolving loan facility would be pursuant to the terms and subject to the conditions applicable to borrowings under the Company's senior credit facility, which conditions the Company may or may not be able to satisfy at the time of borrowing. The revolving loan facility is scheduled to mature in November 2018.

The Company continues to focus on increasing membership in existing clubs to increase revenue. The Company may consider additional actions within its control, including the sale of certain assets, club acquisitions, additional club closures and entering into arrangements with revenue generating partnerships, some of which will utilize a "shop-in-shop" concept. The Company may also consider additional strategic alternatives including opportunities to reduce TSI LLC's existing debt and further cost savings initiatives, among other possibilities, if any. The Company's ability to continue to meet its obligations is dependent on its ability to generate positive cash flow from a combination of initiatives, including those mentioned above. Failure to successfully implement these initiatives could have a material adverse effect on our liquidity and our operations and we would need to implement alternative plans that could include additional asset sales, additional reductions in operating costs, deferral of capital expenditures, further reductions in working capital and debt restructurings. There can be no assurance that such alternatives would be available to the Company or that the Company would be successful in their implementation.

Change in Estimated Average Membership Life

The average membership life was 25 months for the three and nine months ended September 30, 2016 and 22 months for the full year of 2015. The Company monitors factors that might affect the estimated average membership life including retention trends, attrition trends, membership sales volumes, membership composition, competition, and general economic conditions, and adjusts the estimate as necessary on a quarterly basis.

Joining fees, as well as related direct and incremental expenses of membership acquisition, which may include sales commissions, bonuses and related taxes and benefits, are deferred and recognized, on a straight-line basis, in operations over the estimated average membership life or 12 months to the extent these costs are related to the first annual fee paid at the time of enrollment. Annual fees are amortized over 12 months.

2. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force)". This ASU provides specific guidance over eight identified cash flow issues. This standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is evaluating the impact of this standard on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting". Under this standard, all excess tax benefits and tax deficiencies will be recorded as an income tax expense or benefit in the income statement in the period in which the awards vest or are exercised. Excess tax benefits will be classified as an operating activity in the statement of cash flows. The standard also allows an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. In addition, entities can withhold up to the maximum individual statutory tax rate without classifying the awards as a liability. This standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the impact of this standard on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (topic 842)", to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of this standard is permitted. The Company is evaluating the impact of this standard on its financial statements.

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In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes”. This amendment requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company has prospectively adopted this amended guidance for the fiscal year beginning January 1, 2016. Prior periods were not retrospectively adjusted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements as it only pertains to a change in the balance sheet presentation of deferred taxes.

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. This standard changes the presentation of debt issuance costs in the financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will be reported as interest expense. In August 2015, the FASB issued ASU No. 2015-15, “Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”. ASU 2015-15 clarifies that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of debt issuance costs over the term of the line-of-credit arrangement, whether or there are any outstanding borrowings on the line-of-credit arrangement. These standards are effective for annual reporting periods beginning after December 15, 2015. The Company has retrospectively adopted this guidance for the fiscal year beginning January 1, 2016 and accordingly reclassified $2,141 and $2,259 of deferred financing costs from other assets to long-term debt on its consolidated balance sheet as of March 31, 2016 and December 31, 2015, respectively. The adoption of this amended guidance did not impact our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 35-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.” This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, the accounting for the license will be consistent with licenses of other intangible assets. If the arrangement does not include a license, the arrangement will be accounted for as a service contract. ASU 2015-05 is effective for interim and annual periods beginning after December 15, 2015. The Company adopted the updated guidance for the fiscal year beginning January 1, 2016 with no impact on the Company’s financial statements.

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This guidance eliminates the concept of extraordinary items from US GAAP. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, the ASU does not affect the reporting and disclosure requirements for an event that is unusual in nature or infrequent in occurrence. This guidance is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted the updated guidance for the fiscal year beginning January 1, 2016 with no impact on the Company’s financial statements.

In November 2014, the FASB issued ASU No. 2014-16, “Derivatives and Hedging” (Topic 815): “Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, which provides guidance on identifying whether the nature of the host contract in a hybrid instrument is in the form of debt or equity”. This standard requires management to consider the stated and implied substantive terms and features of the hybrid financial instrument, including the embedded derivative features, in order to determine whether the nature of the host contract is more akin to debt or to equity. The ASU is effective for annual periods and interim periods with those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the updated guidance for the fiscal year beginning January 1, 2016 with no impact on the Company’s financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The standard requires management to evaluate, at each annual and interim reporting period, the Company’s ability to continue as a going concern within one year of the date the financial statements are issued and provide related disclosures. This guidance is effective for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

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In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606). The standard provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes current revenue recognition guidance. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard also includes enhanced disclosures which are significantly more comprehensive than those in existing revenue standards. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 for all entities by one year, to annual reporting periods beginning after December 15, 2017. Early adoption will be permitted for annual reporting periods beginning after December 15, 2016. The standard allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. In addition, the FASB issued ASU 2016-08, ASU 2016-10, and ASU 2016-12 in March 2016, April 2016, and May 2016, respectively, to help provide interpretive clarifications on the new guidance in ASC Topic 606. The Company is evaluating the impact of this standard on its financial statements.

3. Long-Term Debt

	September 30, 2016	December 31, 2015
2013 Term Loan Facility outstanding principal balance	$202,521	$275,417
Less: Unamortized discount	(4,081)	(6,418)
Less: Deferred financing costs	(1,411)	(2,259)
Less: Current portion due within one year	(2,082)	(2,810)
Long-term portion	$194,947	$263,930

2013 Senior Credit Facility

On November 15, 2013, TSI, LLC, an indirect, wholly-owned subsidiary, entered into a $370,000 senior secured credit facility (“2013 Senior Credit Facility”), among TSI, LLC, TSI Holdings II, LLC, a newly-formed, wholly-owned subsidiary of the Company (“Holdings II”), as a Guarantor, the lenders party thereto, Deutsche Bank AG, as administrative agent, and Keybank National Association, as syndication agent. The 2013 Senior Credit Facility consists of a $325,000 term loan facility maturing on November 15, 2020 (“2013 Term Loan Facility”) and a $45,000 revolving loan facility maturing on November 15, 2018 (“2013 Revolving Loan Facility”). Proceeds from the 2013 Term Loan Facility of $323,375 were issued, net of an original issue discount (“OID”) of 0.5%, or $1,625. Debt issuance costs recorded in connection with the 2013 Senior Credit Facility were $5,119 and are being amortized as interest expense and are recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheets. The Company also recorded additional debt discount of $4,356 related to creditor fees. The proceeds from the 2013 Term Loan Facility were used to pay off amounts outstanding under the Company’s previously outstanding long-term debt facility (“2011 Term Loan Facility”) originally entered into on May 11, 2011 (as amended from time to time), and to pay related fees and expenses. None of the revolving loan facility was drawn upon as of the closing date on November 15, 2013. Loans under the 2013 Revolving Loan Facility may be drawn from time to time pursuant to the terms of the 2013 Senior Credit Facility. The borrowings under the 2013 Senior Credit Facility are guaranteed and secured by assets and pledges of capital stock by Holdings II, TSI, LLC, and, subject to certain customary exceptions, the wholly-owned domestic subsidiaries of TSI, LLC.

Borrowings under the 2013 Term Loan Facility and the 2013 Revolving Loan Facility, at TSI, LLC’s option, bear interest at either the administrative agent’s base rate plus 2.5% or a LIBOR rate adjusted for certain additional costs (the “Eurodollar Rate”) plus 3.5%, each as defined in the 2013 Senior Credit Facility. With respect to the outstanding term loans, the Eurodollar Rate has a floor of 1.00% and the base rate has a floor of 2.00%. Commencing with the last business day of the quarter ended March 31, 2014, TSI, LLC is required to pay 0.25% of the principal amount of the term loans each quarter, which may be reduced by voluntary prepayments. As of September 30, 2016, TSI LLC has made a total of $21,498 in principal payments on the 2013 Term Loan Facility.

On January 30, 2015, the 2013 Senior Credit Facility was amended (the “Amendment”) to permit TSI Holdings to purchase term loans under the Credit Agreement. Any term loans purchased by TSI Holdings will be cancelled in accordance with the terms of the Credit Agreement, as amended by the Amendment. The Company may from time to time purchase term loans in market transactions, privately negotiated transactions or otherwise; however the Company is under no obligation to make any such purchases. Any such transactions, and the amounts involved, will depend on prevailing market conditions,

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liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. As of September 30, 2016, TSI Holdings had a cash balance of approximately $500.

In December 2015, TSI Holdings purchased $29,829 principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for $10,947, or 36.7% of face value, which resulted in a gain on extinguishment of debt of $17,911, including the write-off of related deferred financing costs and debt discount of $249 and $707, respectively. On April 21, 2016, TSI Holdings settled a transaction to purchase $8,705 principal amount of debt outstanding under the 2013 Senior Credit Facility for $3,787, or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase $62,447 principal amount of debt outstanding under the 2013 Senior Credit Facility for $25,978, or 41.6% of face value. The April and May transactions created gains on extinguishment of debt in the nine months ended September 30, 2016 of $37,893 with a tax effect of $13,451. When this was netted with our operating loss, it resulted in a tax provision for the nine months ended September 30, 2016 of $11,240. The gain on extinguishment of debt was net of the write-off of deferred financing costs and debt discount of $545 and $1,561, respectively, and other costs related to the transaction. All of the above purchased debt was transferred to Town Sports International, LLC and cancelled.

The terms of the 2013 Senior Credit Facility provide for a financial covenant in the situation where the total utilization of the revolving loan commitments (other than letters of credit up to $5,500 at any time outstanding) exceeds 25% of the aggregate amount of those commitments. In such event, TSI, LLC is required to maintain a total leverage ratio, as defined in the 2013 Senior Credit Facility, of no greater than 4.50:1.00. As of September 30, 2016, the total leverage ratio was slightly below 4.50:1.00. Other than $2,851 of letters of credit, we did not have any amounts utilized on the 2013 Revolving Loan Facility and therefore we were not subject to this financial covenant as of September 30, 2016.

The terms of the 2013 Senior Credit Facility include a financial covenant under which the Company is not able to utilize more than 25% or $11,250 in accordance with terms of credit agreement, of the 2013 Revolving Loan Facility if the total leverage ratio exceeds 4:50:1:00 (calculated on a proforma basis to give effect to any borrowing). The 2013 Senior Credit Facility also contains certain affirmative and negative covenants, including covenants that may limit or restrict TSI, LLC and Holdings II's ability to, among other things, incur indebtedness and other liabilities; create liens; merge or consolidate; dispose of assets; make investments; pay dividends and make payments to shareholders; make payments on certain indebtedness; and enter into sale leaseback transactions, in each case, subject to certain qualifications and exceptions. In addition, at any time when the total leverage ratio is greater than 4.50:1.00, there are additional limitations on the ability of TSI, LLC and Holdings II to, among other things, make certain distributions of cash to TSI Holdings. The 2013 Senior Credit Facility also includes customary events of default (including non-compliance with the covenants or other terms of the 2013 Senior Credit Facility) which may allow the lenders to terminate the commitments under the 2013 Revolving Loan Facility and declare all outstanding term loans and revolving loans immediately due and payable and enforce its rights as a secured creditor.

TSI, LLC may prepay the 2013 Term Loan Facility and 2013 Revolving Loan Facility without premium or penalty in accordance with the 2013 Senior Credit Facility. Mandatory prepayments are required relating to certain asset sales, insurance recovery and incurrence of certain other debt and commencing in 2015 in certain circumstances relating to excess cash flow (as defined) for the prior fiscal year, as described below, in excess of certain expenditures. Pursuant to the terms of the 2013 Senior Credit Facility, the Company is required to apply net proceeds in excess of $30,000 from sales of assets in any fiscal year towards mandatory prepayments of outstanding borrowings. In connection with the sale of the East 86th Street property, described in Note 5 - Sale of Building, the Company received approximately $43,500 in net sales proceeds (after taxes, before giving effect to utilization of net operating losses and carryforward). Accordingly, the Company made a mandatory prepayment of $13,500 on the 2013 Term Loan Facility in November 2014. To the extent the proceeds of the sale of the East 86th Street property were not reinvested within 30 months of the date of sale, the Company may have been required to use such amounts, other than amounts used in 2014 to repay debt, to pay down its outstanding debt, as provided under the terms of its 2013 Senior Credit Facility. The Company has reinvested all the remaining net proceeds from the sale.

In addition, the 2013 Senior Credit Facility contains provisions that require excess cash flow payments, as defined, to be applied against outstanding 2013 Term Loan Facility balances. The excess cash flow is calculated annually for each fiscal year ending December 31 and paid 95 days after the fiscal year end. The applicable excess cash flow repayment percentage is applied to the excess cash flow when determining the excess cash flow payment. Earnings, changes in working capital and capital expenditure levels all impact the determination of any excess cash flow. The applicable excess cash flow repayment percentage is 50% when the total leverage ratio, as defined in the 2013 Senior Credit Facility, exceeds or is equal to 2.50:1.00; 25% when the total leverage ratio is greater than or equal to 2.00:1.00 but less than 2.50:1.00 and 0% when the total leverage ratio is less than 2.00:1.00. The excess cash flow calculation performed as of December 31, 2015 did not result in any required payments in April 2016. The next excess cash flow payment would be due in April 2017, if applicable. Based on the Company's

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unit growth projection and capital expenditures related to club renovations and the building of new locations, together with its operating forecast, the Company does not expect there will be an excess cash flow payment required at that time.

As of September 30, 2016, the 2013 Term Loan Facility has a gross principal balance of $202,521 and a balance of $197,029 net of unamortized debt discount of $4,081 and unamortized debt issuance costs of $1,411. As of September 30, 2016, both the unamortized balance of debt issuance costs and unamortized debt discount are recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheet and are being amortized as interest expense using the effective interest method.

As of September 30, 2016, there were no outstanding 2013 Revolving Loan Facility borrowings and outstanding letters of credit issued totaled $2,851. The unutilized portion of the 2013 Revolving Loan Facility as of September 30, 2016 was $42,149, with borrowings under such facility subject to the conditions applicable to borrowings under the Company's 2013 Senior Credit Facility, which conditions the Company may or may not be able to satisfy at the time of borrowing.

Fair Market Value

Based on quoted market prices, the 2013 Term Loan Facility had a fair value of approximately $148,853 and $104,658 at September 30, 2016 and December 31, 2015, respectively, and is classified within level 2 of the fair value hierarchy. Level 2 is based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. The fair value for the Company's 2013 Term Loan Facility is determined using observable current market information such as the prevailing Eurodollar interest rate and Eurodollar yield curve rates and includes consideration of counterparty credit risk.

For the fair market value of the Company's interest rate swap instrument refer to Note 4 - Derivative Financial Instruments.

4. Derivative Financial Instruments

In its normal operations, the Company is exposed to market risks relating to fluctuations in interest rates. In order to minimize the possible negative impact of such fluctuations on the Company's cash flows the Company may enter into derivative financial instruments ("derivatives"), such as interest-rate swaps. Derivatives are not entered into for trading purposes and the Company only uses commonly traded instruments. Currently, the Company has used derivatives solely relating to the variability of cash flows from interest rate fluctuations.

The Company originally entered into an interest rate swap arrangement on July 13, 2011 in connection with the 2011 Senior Credit Facility. In connection with entering into the 2013 Senior Credit Facility, the Company amended and restated the interest rate swap agreement initially entered into (and amended in August 2012 and November 2012). Effective as of November 15, 2013, the closing date of the 2013 Senior Credit Facility, the interest rate swap arrangement had a notional amount of $160,000 and will mature on May 15, 2018. The swap effectively converts $160,000 of the current outstanding principal of the total variable-rate debt under the 2013 Senior Credit Facility to a fixed rate of 5.384%, when including the applicable 3.50% margin. As permitted by FASB Accounting Standards Codification ("ASC") 815, Derivatives and Hedging, the Company has designated this swap as a cash flow hedge, the effects of which have been reflected in the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2016 and 2015. The objective of this hedge is to manage the variability of cash flows in the interest payments related to the portion of the variable-rate debt designated as being hedged.

When the Company's derivative instrument was executed, hedge accounting was deemed appropriate and it was designated as a cash flow hedge at inception with re-designation being permitted under ASC 815, Derivatives and Hedging. Interest rate swaps are designated as cash flow hedges for accounting purposes since they are being used to transform variable interest rate exposure to fixed interest rate exposure on a recognized liability (debt). On an ongoing basis, the Company performs a quarterly assessment of the hedge effectiveness of the hedge relationship and measures and recognizes any hedge ineffectiveness in the condensed consolidated statements of operations. For the three and nine months ended September 30, 2016 and 2015, hedge ineffectiveness was evaluated using the hypothetical derivative method. There was no hedge ineffectiveness for the three and nine months ended September 30, 2016 and

2015.

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Accounting guidance on fair value measurements specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The fair value for the Company's interest rate swap is determined using observable current market information such as the prevailing Eurodollar interest rate and Eurodollar yield curve rates and include consideration of counterparty credit risk. The following table presents the aggregate fair value of the Company's derivative financial instrument:

		Fair Value Measurements Using:		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap liability as of September 30, 2016	$ 2,081	$ —	$ 2,081	$ —
Interest rate swap liability as of December 31, 2015	$ 2,042	$ —	$ 2,042	$ —

The swap contract liability of $2,081 and $2,042 are recorded as a component of other liabilities as of September 30, 2016 and December 31, 2015, respectively, with the offset to accumulated other comprehensive income ($1,176 and $1,154, net of taxes, as of September 30, 2016 and December 31, 2015, respectively) on the accompanying condensed consolidated balance sheet.

There were no significant reclassifications out of accumulated other comprehensive income during the three and nine months ended September 30, 2016 and 2015 and the Company does not expect that significant derivative losses included in accumulated other comprehensive income at September 30, 2016 will be reclassified into earnings within the next 12 months.

5. Sale of Building

On September 12, 2014, the Company completed the legal sale of its property (building and land) on East 86th Street, New York City, to an unaffiliated third-party for gross proceeds of $85,650. Concurrent with the closing of the transaction, the Company leased back the portion of the property comprising its health club ("Initial Lease") and had agreed to vacate the property in connection with the purchaser's future development of a new luxury, high-rise multi-use building. In connection with vacating the property, the Company had agreed to enter into a new lease ("New Club Lease") for approximately 24,000 square feet in the new building for the purpose of operating a health club upon completion of construction by the purchaser/landlord. This sale-leaseback transaction was characterized as a financing arrangement for accounting purposes rather than a sale until any continuing involvement has ceased. In March 2015, the Company received the remaining proceeds held in escrow of $500, which was included in the Company's cash flow statement for the nine months ended September 30, 2015 as a financing cash inflow.

On December 23, 2015, the Company terminated the Initial Lease and the agreement to enter into the New Club Lease and received gross proceeds of $3,500 in connection with the termination. Because the lease was terminated with no continuing involvement, this sale-leaseback transaction was accounted for as a completed sale as of December 23, 2015. Under this treatment, the Company recorded a $77,146 gain, previously accounted for as a financing, on the sale of the property, recorded in Gain on sale of building in the consolidated statements of operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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6. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and the interest rate swap. Although the Company deposits its cash with more than one financial institution, as of September 30, 2016, $42,508 of the cash balance of $48,330 was held at two financial institutions. The Company has not experienced any losses on cash and cash equivalent accounts to date, and the Company believes that, based on the credit ratings of these financial institutions, it is not exposed to any significant credit risk related to cash at this time.

The counterparty to the Company’s interest rate swap is a major banking institution with a credit rating of investment grade or better and no collateral is required, and there are no significant risk concentrations. The Company believes the risk of incurring losses on derivative contracts related to credit risk is unlikely.

7. (Loss) Earnings Per Share

Basic earnings (loss) per share (“EPS”) is computed by dividing net earnings (loss) applicable to common stockholders by the weighted average numbers of shares of common stock outstanding during the period. Diluted EPS is computed similarly to basic EPS, except that the denominator is increased for the assumed exercise of dilutive stock options and unvested restricted stock calculated using the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average number of common shares outstanding — basic	25,748,400	24,654,267	25,487,352	24,554,390
Effect of dilutive share based awards	—	—	660,377	—
Weighted average number of common shares outstanding — diluted	25,748,400	24,654,267	26,147,729	24,554,390
(Loss) earnings per share:				
Basic	$(0.21)	$ (0.89)	$0.33	$ (2.68)
Diluted	$(0.21)	$ (0.89)	$0.32	$ (2.68)

For the three months ended September 30, 2016, there was no effect of dilutive stock options and unvested restricted common stock on the calculation of diluted EPS as the Company had a net loss for this period. There would have been 149,060 anti-dilutive shares had the Company not been in a net loss position for this period. For the nine months ended September 30, 2016, the Company did not include stock options to purchase 1,003,077 shares of the Company's common stock in the calculations of diluted EPS because the exercise prices of those options were greater than the average market price and such inclusion would be anti-dilutive.

For the three and nine months ended September 30, 2015, there was no effect of dilutive stock options and unvested restricted common stock on the calculation of diluted EPS as the Company had a net loss for these periods. There would have been 807,228 and 329,847 anti-dilutive shares had the Company not been in a net loss position for the three and nine months ended September 30, 2015, respectively.

8. Stock-Based Compensation

The Company’s 2006 Stock Incentive Plan, as amended and restated in April 2015 (the “2006 Plan”), authorizes the Company to issue up to 3,500,000 shares of common stock to employees, non-employee directors and consultants pursuant to awards of stock options, stock appreciation rights, restricted stock, in payment of performance shares or other stock-based awards. In May 2016, the Company further amended the 2006 Plan to increase the aggregate number of shares of common stock issuable under the 2006 Plan by 1,000,000 shares to a total of 4,500,000. Under the 2006 Plan, stock options must be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to re-pricing, and will not be exercisable more than ten years after the date of grant. Options granted under the 2006 Plan generally qualify as “non-qualified stock options” under the U.S. Internal Revenue Code. As of September 30, 2016, there were 1,342,528 shares available to be issued under the 2006 Plan. At September 30, 2016, the Company had 326,540 stock options outstanding and 674,495 shares of restricted stock outstanding under the 2006 Plan.

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In August 2015, the Company granted its Chief Operating Officer non-qualified options ("Non-Plan Options") and restricted stock awards ("Non-Plan RSA") outside of any shareholder-approved plan as an inducement to accept employment with the Company. In September 2016, the Chief Operating Officer's employment with the Company was terminated. As a result of the termination, the Company accelerated 17% of unvested Non-Plan RSA and Non-Plan Options previously awarded to the Chief Operating Officer. The Company incurred non-cash severance expense of $250 related to this acceleration. At September 30, 2016, the Company had 226,500 Non-Plan Options outstanding and no Non-Plan RSA were outstanding.

Effective December 31, 2014, the Company's Board of Directors adopted a stockholder rights plan (the "Rights Plan"). Pursuant to the Rights Plan, the Board of Directors declared a dividend distribution of one preferred share right (a "Right") for each share of Common Stock held as of January 12, 2015. Each Right entitled the holder to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock (the "Preferred Shares") at an initial exercise price of $15, subject to certain adjustments. On March 24, 2015, the Company entered into a nomination and standstill agreement (the "Nomination and Standstill Agreement"). Pursuant to the Nomination and Standstill Agreement, the Company agreed to redeem, effective immediately, the rights issued pursuant to the Rights Plan. Pursuant to the terms of the Rights Plan, the Company paid a redemption price to the holders of the rights equal to $0.01 per right in cash, or $246, on April 20, 2015.

Stock Option Awards

The Company did not grant any stock options during the three and nine months ended September 30, 2016.

Total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to stock options outstanding was $15 and $151 for the three and nine months ended September 30, 2016, respectively, compared to $28 for both the three and nine months ended September 30, 2015. In the three months ended September 30, 2016, the Company adjusted the forfeiture estimates to reflect actual forfeitures. The actual forfeitures experienced in the nine months ended September 30, 2016 differ from the Company's previous estimate mainly due to the termination of its Chief Operating Officer in September 2016. The impact of forfeiture adjustment reduced stock-based compensation expense by $53 for the three and nine months ended September 30, 2016.

As of September 30, 2016, a total of $57 in unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 3.0 years.

Restricted Stock Awards

On March 10, 2016 and September 30, 2016, the Company issued 559,000 and 200,000 shares of restricted stock, respectively, to employees under the 2006 Plan. The fair value per share for the March 10, 2016 and September 30, 2016 restricted stock awards was $2.06 and $3.09, respectively, representing the closing stock price on the date of grant. These shares will vest in three equal installments on each of the first three anniversaries dates of the respective grants.

The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to restricted stock was $151 and $884 for the three and nine months ended September 30, 2016, respectively, compared to $186 and $714 for the comparable prior-year periods. In the three months ended September 30, 2016, the Company adjusted the forfeiture estimates to reflect actual forfeitures. The actual forfeitures experienced in the nine months ended September 30, 2016 differ from the Company's previous estimate mainly due to the termination of its Chief Operating Officer in September 2016. The impact of forfeiture adjustment reduced stock-based compensation expense by $247 for the three and nine months ended September 30, 2016.

As of September 30, 2016, a total of $1,628 in unrecognized compensation expense related to restricted stock awards is expected to be recognized over a weighted-average period of 2.5 years.

Stock Grants

On February 3, 2016, the Company issued 206,750 shares of common stock to members of the Company's Board of Directors in respect of their annual retainer. The fair value of the shares issued was $1.19 per share and was expensed upon the date of grant. The total compensation expense, classified within general and administrative expenses, related to Board of Director common stock grants was $246 and $445 for the nine months ended September 30, 2016 and

2015, respectively. There was no compensation expense related to Board of Director common stock grants for the three months ended September 30, 2016 and 2015.

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9. Fixed Asset Impairment

Fixed assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable from undiscounted cash flows in accordance with FASB guidance. The Company’s long-lived assets and liabilities are grouped at the individual club level, which is the lowest level for which there are identifiable cash flows. To the extent that estimated future undiscounted net cash flows attributable to the assets are less than the carrying amount, an impairment charge equal to the difference between the carrying value of such asset and their fair values is recognized.

In the three and nine months ended September 30, 2016, the Company tested its underperforming clubs and recorded an impairment charge of $742 on leasehold improvements and furniture and fixtures at clubs that experienced decreased profitability and sales levels below expectations during this period. The Company will continue to monitor the results and changes in expectations of these clubs closely during the remainder of 2016 to determine if additional fixed asset impairment charges will be necessary.

In the nine months ended September 30, 2015, the Company recorded impairment charges of $14,571 related to underperforming clubs. The fixed asset impairment charges are included as a component of operating expenses in a separate line on the condensed consolidated statements of operations.

In periods tested, the recoverability of fixed assets, Level 3 inputs were used in determining undiscounted cash flows, which are based on internal budgets and forecasts through the end of the life of the primary asset in the asset group which is normally the life of leasehold improvements. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, estimated results related to new program launches and maintenance capital expenditures, which were generally estimated at approximately 2% of total revenues depending upon the conditions and needs of a given club. The fair value of fixed assets evaluated for impairment was determined considering a combination of a market approach and a cost approach.

10. Goodwill and Other Intangibles

Goodwill was allocated to reporting units that closely reflect the regions served by the Company’s four trade names: New York Sports Clubs (“NYSC”), Boston Sports Clubs (“BSC”), Washington Sports Clubs (“WSC”) and Philadelphia Sports Clubs (“PSC”), with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units (“Outlier Clubs”), and the Company’s three clubs located in Switzerland being considered a single reporting unit (“SSC”). As of September 30, 2016, only the SSC region has a remaining goodwill balance.

The Company’s annual goodwill impairment test is performed on the last day of February, or more frequently, should circumstances change which would indicate the fair value of goodwill is below its carrying amount.

The Company’s current year annual goodwill impairment test as of February 29, 2016 was performed using the two-step goodwill impairment analysis. Step 1 involves comparing the fair value of the Company’s reporting units to their carrying amounts. If the estimated fair value of the reporting unit is greater than its carrying amount, there is no requirement to perform Step 2 of the impairment test, and there is no impairment. If the reporting unit’s carrying amount is greater than the estimated fair value, the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the estimated fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the estimated fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment charge is recognized equal to the difference. The February 29, 2016 annual impairment test supported the goodwill balance and as such no impairment of goodwill was required.

For the February 29, 2016 impairment test, fair value was determined by using an income approach, as this was deemed to be the most indicative of the Company’s fair value. Under this income approach, the Company determined fair value based on estimated future cash flows of the SSC reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn, which are unobservable Level 3 inputs. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. The estimated weighted-average cost of capital of SSC was 11.2% as of February 29, 2016. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. These assumptions were determined separately for each reporting unit. The Company believes its assumptions are reasonable, however, there can

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be no assurance that the Company's estimates and assumptions made for purposes of the Company's goodwill impairment testing as of February 29, 2016 will prove to be accurate predictions of the future. If the Company's assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result. The estimated fair value of SSC was greater than book value by over 50% as of February 29, 2016.

Solely for purposes of establishing inputs for the fair value calculation described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts (three years) for all reporting units and assumed known changes in the existing club base. Terminal growth rates were calculated for years beyond the three year forecast. As of February 29, 2016, the Company used a terminal growth rate of 2%.

The Company's next annual impairment test will be performed as of February 28, 2017 or earlier, should circumstances change which would indicate the fair value of goodwill is below its carrying amount.

The changes in the carrying amount of goodwill from December 31, 2015 through September 30, 2016 are detailed in the charts below.

	NYSC	BSC	SSC	Outlier Clubs	Total
Goodwill	$31,549	$15,775	$1,175	$3,982	$52,481
Changes due to foreign currency exchange rate fluctuations	—	—	(150)	—	(150)
Less: accumulated impairment of goodwill	(31,549)	(15,775)	—	(3,982)	(51,306)
Balance as of December 31, 2015	—	—	1,025	—	1,025
Changes due to foreign currency exchange rate fluctuations	—	—	40	—	40
Balance as of September 30, 2016	$—	$—	$1,065	$—	$1,065

Amortization expense was $9 and $27 for the three and nine months ended September 30, 2016, respectively, compared to $11 and $213 for the comparable prior-year periods. Intangible assets are as follows:

	As of September 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	11,344	(11,344)	—
Management contracts	250	(138)	112
Trade names	40	(8)	32
	$11,634	$ (11,490)	$ 144

	As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	$11,344	$ (11,344)	$ —
Management contracts	250	(112)	138
Trade names	40	(7)	33
	$11,634	$ (11,463)	$ 171

11. Income Taxes

For the nine months ended September 30, 2016, the Company recorded an income tax provision of $11,240 inclusive of valuation allowance compared with an income tax benefit of $17,066 for the nine months ended September 30, 2015, reflecting an effective income tax rate of 58% for the nine months ended September 30, 2016 and 21% for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, the Company calculated its income tax provision using the estimated annual effective tax rate methodology and for the nine months ended

September 30, 2015, the Company determined its income tax benefit on a discrete basis since the potential impact of fluctuations in the Company's forecast may have had a significant impact on the estimated annual effective tax rate.

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As of both September 30, 2016 and December 31, 2015, the Company had a net deferred tax liability of $61. The Company maintained a full valuation allowance against its U.S. net deferred tax assets as of both September 30, 2016 and December 31, 2015.

As of September 30, 2016, the Company had $1,187 of unrecognized tax benefits and it is reasonably possible that the entire amount could be realized by the Company in the year ending December 31, 2016 since the income tax returns may no longer be subject to audit in 2016.

The following state and local jurisdictions are currently examining our respective returns for the years indicated: New York State (2006 through 2014), and New York City (2006 through 2012). On June 10, 2016, the Company received from the State of New York a notice of deficiency related to tax years 2006-2009 for $4,544, inclusive of $2,042 of interest. The Company disagrees with the proposed assessment and has scheduled a Conciliation Conference with the State of New York to appeal the assessment. The Company has not recorded a tax reserve related to the proposed assessment. It is difficult to predict the final outcome or timing of resolution of any particular matter regarding these examinations. An estimate of the reasonably possible change to unrecognized tax benefits within the next 12 months cannot be made.

12. Commitments and Contingencies

On February 7, 2007, in an action styled White Plains Plaza Realty, LLC v. TSI, LLC et al., the landlord of one of TSI, LLC's former health and fitness clubs filed a lawsuit in state court against it and two of its health club subsidiaries alleging, among other things, breach of lease in connection with the decision to close the club located in a building owned by the plaintiff and leased to a subsidiary of TSI, LLC, the tenant, and take additional space in a nearby facility leased by another subsidiary of TSI, LLC. Following a determination of an initial award, which TSI, LLC and the tenant have paid in full, the landlord appealed the trial court's award of damages, and on August 29, 2011, an additional award (amounting to approximately $900) (the "Additional Award"), was entered against the tenant, which has recorded a liability. Separately, TSI, LLC is party to an agreement with a third-party developer, which by its terms provides indemnification for the full amount of any liability of any nature arising out of the lease described above, including attorneys' fees incurred to enforce the indemnity. As a result, the developer reimbursed TSI, LLC and the tenant the amount of the initial award in installments over time and also agreed to be responsible for the payment of the Additional Award, and the tenant has recorded a receivable related to the indemnification for the Additional Award. The developer and the landlord are currently litigating the payment of the Additional Award and judgment was entered against the developer on June 5, 2013, in the amount of approximately $1,045, plus interest, which judgment was upheld by the appellate court on April 29, 2015. TSI, LLC does not believe it is probable that TSI, LLC will be required to pay for any amount of the Additional Award.

On or about October 4, 2012, in an action styled James Labbe, et al. v. Town Sports International, LLC, plaintiff commenced a purported class action in New York State court on behalf of personal trainers employed in New York State. Labbe is seeking unpaid wages and damages from TSI, LLC and alleges violations of various provisions of the New York State labor law with respect to payment of wages and TSI, LLC's notification and record-keeping obligations. The Company completed settlement negotiations, pursuant to which TSI, LLC will pay its trainers the aggregate sum of $165 in exchange for full releases. The settlement agreement has been executed by the parties and has been approved by the court and the class. The Company will pay the settlement amount in the fourth quarter of 2016.

On January 21, 2016, in an action styled Triangle 17 Center, LLC v. Town Sports International Holdings (NJ), LLC, et al. ("TSI Holdings NJ"), a Landlord of one of TSI Holdings NJ's competitors filed an action against TSI Holdings NJ, its affiliate and subsidiary, claiming that TSI Holdings NJ engaged in sham litigation to prevent the opening of a competitor's facility in close proximity to TSI Holdings NJ's location in Ramsey, New Jersey. This matter recently settled for nominal consideration without any admission of liability on the Company's part.

On or about October 6, 2016, Moelis & Company LLC commenced an action Town Sports International, LLC in the Supreme Court of the State of New York claiming entitlement to certain fees due pursuant to a Letter Agreement between the parties dated December 28, 2015. In consideration for Moelis's services, it is claimed that TSI agreed to pay a debt discount transaction fee plus costs and expenses incurred. TSI, LLC is vigorously defending this claim.

In addition to the litigation discussed above, the Company is involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business, including personal injury, employee relations claims and landlord tenant disputes. The results of litigation are inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these other lawsuits, claims and proceedings cannot be predicted with certainty. The Company establishes accruals for loss contingencies when it has determined that a loss is probable and that the amount of loss, or range of loss, can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changes in circumstances. The Company concluded that an accrual for any such matters is not required as of September 30, 2016.

13. Separation Obligation

In September 2016, Greg Bartoli's employment with the Company as Chief Operating Officer was terminated. Pursuant to a letter agreement entered with Mr. Bartoli in August 2015, Mr. Bartoli is entitled to receive severance payment of $500, payable in equal biweekly installments over a 12-month period beginning October 2016. In September 2016, the Company also accelerated 17% of unvested Non-Plan RSA and Non-Plan Options previously awarded to Mr. Bartoli. In addition, the Company will pay the prorated portion of Mr. Bartoli's 2016 annual bonus under the Company's bonus plan, based on the portion of 2016 that he was employed by the Company. These amounts were classified within payroll and related on the condensed consolidated statements of operations for the three and nine months ended September 30, 2016, and were included in accrued expenses on the condensed consolidated balance sheets as of September 30, 2016.

14. Other Commitments

During the three months ended March 31, 2016, the Company entered into an agreement with Cyc Fitness Partners, LLC (“Cyc”) to provide up to $5,600 of growth capital to Cyc from time to time over the next five years of which half of the growth capital will be considered a loan. Cyc will use any proceeds provided by the Company for capital to build-out locations within certain TSI clubs as well as other locations. The Company must provide consent to the use of any proceeds prior to funding more than $750 per location. A percentage of net earnings derived from each location funded by the Company will be applied to interest accrued on the loan, and the remaining amount will be applied to the principal of the loan. In October 2016, the Company funded $280 to Cyc for the build-out of one of our locations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

In this Form 10-Q, unless otherwise stated or the context otherwise indicates, references to "Town Sports," "TSI," "the Company," "we," "our" and similar references refer to Town Sports International Holdings, Inc. and its subsidiaries, references to "TSI Holdings" refers to Town Sports International Holdings, Inc., and references to "TSI, LLC" refer to Town Sports International, LLC, our wholly-owned operating subsidiary.

Based on the number of clubs, we are one of the leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and one of the largest fitness club owners and operators in the United States. As of September 30, 2016, the Company, through its subsidiaries, operated 148 fitness clubs ("clubs") and two BFX Studio ("studio") locations. Our clubs collectively served approximately 545,000 members as of September 30, 2016. We owned and operated a total of 101 clubs under the "New York Sports Clubs" brand name within a 120-mile radius of New York City as of September 30, 2016, including 34 locations in Manhattan where we are the largest fitness club owner and operator. We owned and operated 27 clubs in the Boston region under our "Boston Sports Clubs" brand name, 12 clubs (one of which is partly-owned) in the Washington, D.C. region under our "Washington Sports Clubs" brand name and five clubs in the Philadelphia region under our "Philadelphia Sports Clubs" brand name as of September 30, 2016. In addition, we owned and operated three clubs in Switzerland as of September 30, 2016. We also have one partly-owned club that operated under a different brand name in Washington, D.C. as of September 30, 2016. We employ localized brand names for our clubs to create an image and atmosphere consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

We develop clusters of clubs to serve densely populated major metropolitan regions and we service such populations by clustering clubs near the highest concentrations of our target customers' areas of both employment and residence. Our clubs are located for maximum convenience to our members in urban or suburban areas, close to transportation hubs or office or retail centers. Our members include a wide age demographic covering the student market to the active mature market. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities.

Revenue and operating expenses

We have two principal sources of revenue:

- Membership revenue: Our largest sources of revenue are dues inclusive of monthly membership fees, annual maintenance fees, initiation and processing fees paid by our members. In addition, we collect usage fees on a per visit basis for non-passport members using non-home clubs. These dues and fees comprised 76.4% of our total revenue for the nine months ended September 30, 2016. We recognize revenue from membership dues in the month when the services are rendered. We recognize revenue from initiation and processing fees over the estimated average membership life and annual fees over a twelve month period.
- Ancillary club revenue: For the nine months ended September 30, 2016, we generated 16.9% of our revenue from personal training and 5.1% of our revenue from other ancillary programs and services consisting of Sports Clubs for Kids, racquet sports, Small Group Training and studio classes, as well as sales of miscellaneous sports products. We continue to grow ancillary club revenue by building on ancillary programs such as our personal training membership product and our fee-based Small Group Training programs.

We also receive revenue (approximately 1.6% of our total revenue for the nine months ended September 30, 2016) from the rental of space in our facilities to operators who offer wellness-related offerings, such as physical therapy and juice bars. In addition, we sell in-club advertising and sponsorships and generate management fees from certain club facilities that we do not wholly own. We also collect laundry related revenue for the laundering of towels for third parties. We refer to these revenues as Fees and other revenue.

Our performance is dependent in part on our ability to continually attract and retain members at our clubs. In the three months ended September 30, 2016 and 2015, our monthly average attrition rate was 4.2% and 4.4%, respectively.

Our operating and selling expenses are comprised of both fixed and variable costs. Fixed costs include club and supervisory and other salary and related expenses, occupancy costs, including most elements of rent, utilities, housekeeping and

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contracted maintenance expenses, as well as depreciation. Variable costs are primarily related to payroll associated with ancillary club revenue, membership sales compensation, advertising, certain facility repairs and club supplies. General and administrative expenses include costs relating to our centralized support functions, such as accounting, insurance, information and communication systems, purchasing, member relations, legal and consulting fees and real estate development expenses. Payroll and related expenses are included in a separate line item on the condensed consolidated statements of operations and are not included in general and administrative expenses. Approximately 40% of general and administrative expenses relate directly to club operations including phone and data lines, computer maintenance, business licenses, office and sales supplies, general liability insurance, recruiting and training. As clubs mature and increase their membership base, fixed costs are typically spread over an increasing revenue base and operating margins tend to improve. Conversely, when our membership base declines, our operating margins are negatively impacted.

As of September 30, 2016, 147 of our fitness clubs were wholly-owned by us and our consolidated financial statements include the operating results of all such clubs. One location in Washington, D.C. was partly-owned by us, with our profit sharing percentage approximating 45%, and is treated as an unconsolidated affiliate for which we apply the equity method of accounting. We also partly-owned another location in Washington D.C. that is not part of the WSC region with a profit sharing percentage approximating 20% (after priority distributions) for which the equity accounting method is also applied. In addition, we provide management services at locations where we do not have an equity interest which include three fitness clubs located in colleges and universities and eight managed sites.

Historical Club Count

The following table sets forth the changes in our club count during each of the quarters in 2015, the full-year 2015, and the first, second and third quarters of 2016.

	2015					2016		
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3
Wholly owned clubs operated at beginning of period	156	156	152	151	156	151	150	148
New clubs opened	1	—	—	—	1	—	—	1
Clubs closed	(1							

the amount, if any, by which the court finds the fair value of the shareholder s shares, plus interest, exceeds the amount paid by QCR to the shareholder for such shares; or

the fair value, plus interest, of the shareholder s shares for which CNB elected to withhold payment.

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In an appraisal proceeding, the court will determine all costs of the proceeding and assess these costs against QCR, unless the court determines that the shareholders acted arbitrarily, vexatiously or not in good faith in making their demand, in which case the court may assess costs against all or some of the shareholders in an amount the court finds fair. The court may also assess fees and expenses of counsel and experts for the parties against QCR if the court finds that it did not substantially comply with the requirements of Division XIII or against any party if the court finds that the party acted arbitrarily, vexatiously or not in good faith. Division XIII also provides that compensation of counsel for any shareholder in an appraisal proceeding whose services benefited other similarly situated shareholders may be paid out of amounts awarded to shareholders who benefited, if such compensation is not assessed against QCR.

The foregoing is a brief summary of Division XIII of the IBCA that sets forth the procedures for demanding statutory appraisal rights. This summary is qualified in its entirety by reference to Division XIII, the text of which is attached hereto as *Annex B*. Failure to comply with all the procedures set forth in Division XIII will result in the loss of a shareholder s statutory appraisal rights. Consequently, if you desire to exercise your appraisal rights, you are urged to consult a legal adviser before attempting to exercise these rights.

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DESCRIPTION OF THE MERGER AGREEMENT

The following is a summary of the material terms of the merger agreement. This summary does not purport to describe all the terms of the merger agreement and is qualified by reference to the complete text of the merger agreement, which is attached as Annex A to this proxy statement/prospectus and is incorporated by reference into this proxy statement/prospectus. You should read the merger agreement completely and carefully as it, rather than this description, is the legal document that governs the merger.

The text of the merger agreement has been included to provide you with information regarding its terms. The terms of the merger agreement (such as the representations and warranties) are intended to govern the contractual rights and relationships, and allocate risks, between the parties in relation to the merger. The merger agreement contains representations and warranties QCR and CNB made to each other as of specific dates. The representations and warranties were negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligations to complete the merger. The statements embodied in those representations and warranties may be subject to important limitations and qualifications as set forth therein, including a contractual standard of materiality different from that generally applicable under federal securities laws.

General

The merger agreement provides for the merger of CNB with and into Merger Sub, with Merger Sub the surviving company. After the consummation of the merger, QCR anticipates dissolving Merger Sub and Community National Bank will be a wholly-owned subsidiary of QCR.

Closing and effective time

Closing. The closing of the merger will take place on the fifth business day following the satisfaction of the conditions to closing set forth in the merger agreement, or at another time that both parties mutually agree upon. See Conditions to completion of the merger below for a more complete description of the conditions that must be satisfied prior to closing. The completion of the merger sometimes is referred to in this proxy statement/prospectus as the closing date.

Completion of the Merger. The merger will become effective on the date when the certificate of merger and the articles of merger filed by the parties are duly filed by the Delaware Secretary of State and the Iowa Secretary of State, or at such later date and time specified in such filing as the parties mutually agree upon. The time at which the merger becomes effective is sometimes referred to in this proxy statement/prospectus as the effective time.

Consideration to be received in the merger

If the merger is completed, each share of CNB common stock which you own immediately before the completion of the merger will be converted into a right to receive $3.00 in cash and 0.40 share of QCR common stock. The amount of the cash consideration is subject to adjustment, as described below.

Assuming that there is no adjustment to the cash consideration and that there are 2,087,932 shares of CNB common stock outstanding at the closing, which is the number of shares of CNB common stock outstanding as of April 2, 2013, the aggregate merger consideration paid by QCR to CNB stockholders is expected to be approximately $19.6 million, consisting of (i) aggregate cash consideration of $6,263,796 and (ii) aggregate share consideration of $13,362,768, based on 835,173 shares of QCR common stock issued in the transaction and the closing price of QCR s common stock at $16.00 per share on April 2, 2013. On a per share basis, this equals per share consideration of $9.40 for each share of CNB common stock. Based on this, approximately 70% of the aggregate consideration will be in the form of QCR common stock and approximately 30% will be in cash.

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Potential Downward Adjustment to the Cash Consideration. The foregoing cash consideration could be subject to downward adjustment if CNB s total adjusted shareholders equity is less than $18,031,404 as of the closing date, as provided in the merger agreement. If CNB s adjusted shareholders equity is less than that amount, then there will be a dollar-for-dollar downward adjustment to the aggregate cash consideration. For example, if CNB s total adjusted shareholders equity at closing is $17,031,404, which is $1.0 million below the threshold, then the aggregate cash consideration will be reduced by $1.0 million to $5,263,796 and the per share cash consideration will be reduced from $3.00 to $2.521.

Prior to the effective time of the merger, CNB will deliver to QCR a closing balance sheet for CNB as of the closing date reflecting CNB s good faith estimate of the accounts of CNB and its subsidiaries. The closing balance sheet will be used to determine CNB s adjusted shareholders equity and whether any adjustment as set forth above is necessary. The closing balance sheets will be prepared in conformity with past practices and policies of CNB and in accordance with generally accepted accounting principles, and adjusted to reflect the following:

- the after-tax impact of any realized gains or losses on securities sold by CNB after September 30, 2012 shall be disregarded;
- accumulated other comprehensive income shall be disregarded; and
- the after-tax impact of all expenses paid or incurred or projected to be paid or incurred by CNB in connection with the merger agreement and the merger shall be excluded.

As of the date of this proxy statement, based on CNB s internal projections and expected transaction expenses related to the merger, CNB s management believes that CNB s total adjusted shareholders equity at closing will exceed the $18,031,404 threshold. However, because projections are inherently uncertain and merger transaction expenses could be greater than originally anticipated, a risk exists that a downward adjustment to the merger consideration could be required.

Potential Upward Adjustment to the Cash Consideration. The foregoing cash consideration could be subject to an upward adjustment if QCR s total adjusted stockholders equity is less than $132,999,000 as of the closing date, as provided in the merger agreement. If QCR s adjusted stockholders equity is less than that threshold, then there will be a dollar-for-dollar upward adjustment to the aggregate cash consideration. For example, if QCR s total adjusted stockholders equity at closing is $131,999,000, which is $1.0 million below the threshold, then the aggregate cash consideration will be increased by $1.0 million to $7,263,796 and the per share cash consideration will be increased from $3.00 to $3.479.

Prior to the effective time of the merger, QCR will deliver to CNB a closing balance sheet for QCR as of the closing date reflecting QCR s good faith estimate of the accounts of QCR and its subsidiaries. The closing balance sheet will be used to determine QCR s adjusted stockholders equity and whether any adjustment as set forth above is necessary. The closing balance sheet will be prepared in conformity with past practices and policies of QCR and in accordance with generally accepted accounting principles, and adjusted to reflect the following:

- accumulated other comprehensive income shall be disregarded; and
- the after-tax impact of all expenses paid or incurred or projected to be paid or incurred by QCR in connection with the merger agreement and the merger shall be excluded.

As of the date of this proxy statement, based on QCR s internal projections and expected transaction expenses related to the merger, QCR s management believes that QCR s total adjusted stockholders equity at closing will exceed the $132,999,000 threshold. However, because projections are inherently uncertain, it is possible that an upward adjustment to the merger consideration could be required.

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Fractional shares

No fractional shares of QCR common stock will be issued in the merger. Instead, QCR will pay to each holder of CNB common stock who would otherwise be entitled to a fractional share of QCR common stock an amount in cash (without interest) rounded to the nearest whole cent, determined by multiplying the average closing price of a share of QCR common stock for the five trading days immediately preceding the closing date of the merger by such fraction to which such CNB shareholder would otherwise be entitled.

Exchange of certificates

QCR has engaged IST Shareholder Services to act as its exchange agent to handle the exchange of CNB common stock for the merger consideration and the payment of cash for any fractional share interest. Within five business days after the effective time, the exchange agent will send to each CNB shareholder a letter of transmittal for use in the exchange with instructions explaining how to surrender CNB common stock certificates to the exchange agent. CNB shareholders who surrender their certificates to the exchange agent, together with a properly completed letter of transmittal, will receive the merger consideration. CNB shareholders that do not exchange their CNB common stock will not be entitled to receive the merger consideration or any dividends or other distributions by QCR until their certificates are surrendered. After surrender of the certificates representing CNB shares, any unpaid dividends or distributions with respect to the QCR common stock represented by the certificates will be paid without interest.

Conduct of business pending the merger and certain covenants

Under the merger agreement, CNB has agreed to certain restrictions on its activities and the activities of its subsidiaries until the merger is completed or the merger agreement is terminated. In general, CNB and its subsidiaries are required to conduct their business in the ordinary course of business, consistent with prudent banking practice.

The following is a summary of the more significant restrictions imposed upon CNB, subject to the exceptions set forth in the merger agreement. CNB will not, without QCR s prior written consent:

- effect any change in the capitalization of CNB or its subsidiaries or the number of issued and outstanding shares of CNB;
- pay any dividends or other distributions on its common stock;
- amend the terms of, waive any rights under, terminate, knowingly violate the terms of or enter into any contract material to CNB;
- enter into loan transactions not in accordance with, or consistent with, past practices of Community National Bank;
- enter into any new credit or new lending relationships in excess of $150,000;
- maintain an allowance for loan and lease losses which is not adequate in all material respects under the requirements of GAAP to provide for possible losses on CNB s outstanding loans and leases, and charge-off any loans or leases that would be deemed uncollectible and place on non-accrual any loans or leases that are past due greater than 90 days;
- sell, transfer, encumber or otherwise dispose of or discontinue any of its assets, deposits, business or properties, except in the ordinary course of business and in a transaction that, together with other such transactions, is not material to CNB and its subsidiaries, taken as a whole;

buy or sell any security held, or intended to be held, for investment not in accordance with its current investment policy;

acquire other than in the ordinary course of business all or any portion of the assets, business, deposits or properties of any other entity;

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amend the charters and bylaws of CNB and its subsidiaries;

implement or adopt any change in its accounting principles, practices or methods, other than as may be required by GAAP or applicable regulatory accounting requirements;

except as permitted by the merger agreement, increase in any manner the compensation or benefits of any of the current or former directors or officers of CNB or its subsidiaries in an amount more than 3% in the aggregate;

except as permitted by the merger agreement, establish, amend or terminate any employee benefit plan;

incur or guarantee any indebtedness for borrowed money other than in the ordinary course of business;

enter into any new line of business or materially change its lending, investment, underwriting, risk and asset liability management and other banking and operating policies;

settle any action, suit, claim or proceeding against it or any of its subsidiaries in excess of $50,000;

make application for the opening, relocation or closing of any, or open, relocate or close any, branch office, loan production office or other significant office or operations facility;

make or change any material tax elections, change or consent to any change in it or its subsidiaries method of accounting for tax purposes, settle or compromise any material tax liability, claim or assessment or file any material amended tax return; or

agree to take, make any commitment to take or adopt any resolutions of CNB s board of directors in support of, any of the actions described in this section.

QCR has agreed to file all other applications and notices to obtain the necessary regulatory approvals for the transactions contemplated by the merger agreement. Both parties have agreed to cooperate with the other in connection with obtaining the regulatory approvals. Both parties agree:

to use all reasonable best efforts and to cooperate in the preparation and filing of all applications, notices and documents required to obtain regulatory approval and/or consents from governmental authorities for the merger and the merger agreement;

to use good faith efforts to satisfy the conditions required to close the merger and to consummate the merger as soon as practicable;

that neither will intentionally act in a manner that would cause a breach of the merger agreement;

to promptly notify the other party in writing if any fact or condition arises that causes or constitutes a breach of any of the representations and warranties; and to coordinate publicity of the transactions contemplated by the merger agreement to the media.

CNB has agreed to use commercially reasonable efforts to maintain and preserve intact its business organization and advantageous business relationships, and to provide QCR with certain documents before the closing date, including:

certain information regarding CNB s employee benefit plans;

an owner s preliminary report of title issued by a title insurance company for each of CNB s properties;

certain information regarding the loans in Community National Bank s loan portfolio; and

interim financial statements.

CNB has also agreed to the following:

to cause Community National Bank, prior to closing, to add a minimum of $400,000 to its allowance for loan and lease losses above the amount reflected in its financial statements dated December 31, 2012;

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to charge an amount of at least $1,028,000 to its litigation reserve to cover potential losses related to ongoing litigation;

to allow QCR to conduct environmental investigations on the properties CNB owns, leases or otherwise has an interest;

to write down potential loan losses in conformity with past practices and policies of Community National Bank and GAAP;

to cancel any stock option, whether vested or unvested, issued under the Community National Bancorporation Stock Option Plan II or any other stock option plan maintained by CNB; and

to correct certain operational violations that may have occurred under the Amendment and Restated Change of Control Agreements between Community National Bank and each of Josef M. Vich and Stacey J. Bentley, in accordance with the procedures set forth in IRS Notice 2010-6.

The merger agreement also contains certain covenants relating to employee benefits and other matters pertaining to officers and directors. See Employee benefit matters below and The Merger Interests of certain persons in the merger.

No solicitation of or discussions relating to an acquisition proposal

The merger agreement contains provisions prohibiting CNB from solicitating, initiating or encouraging an alternative proposal to the merger. CNB has agreed that it will not, and will cause each of its subsidiaries not to, directly or indirectly solicit, encourage or facilitate any proposal or any inquiry or proposal or enter into any negotiations or discussions with any person or entity concerning any proposed acquisition of CNB or its subsidiaries, or furnish any information to any person or entity proposing or seeking such an acquisition. However, the merger agreement provides that CNB may furnish such information pursuant to a customary confidentiality agreement and engage in such negotiations or discussions in response to an acquisition proposal that was not solicited by CNB in violation of the merger agreement, if the board of directors determines in good faith and after consultation with outside counsel.

Notwithstanding the restrictions described above, the merger agreement provides that CNB may provide information to and engage in discussions with third parties from whom CNB has received an acquisition proposal that was not solicited in violation of the merger agreement, so long as the board of directors of CNB, after consultation with its financial advisor and outside legal counsel, determines in good faith that such proposal constitutes a superior proposal and that a failure to pursue such unsolicited proposal is reasonably likely to result in a breach of its fiduciary duties. If the board of directors of CNB determines that it is necessary to pursue a superior proposal in order to act in a manner consistent with its fiduciary duties, the board may withdraw, modify or otherwise change the board s recommendation with respect to the merger and the merger agreement, and/or terminate the merger agreement. However, the CNB board of directors may not terminate the merger agreement for a superior proposal unless it has first notified QCR and otherwise negotiated with QCR so that the merger may be effected. A superior proposal means any acquisition proposal containing terms that the CNB board of directors determines in good faith (based on the advice of an independent financial advisor) to be more favorable to CNB shareholders than the merger and has a reasonable prospect of being consummated in accordance with its terms.

If QCR terminates the merger agreement because CNB breaches its covenant not to solicit an acquisition proposal from a third party, CNB will pay to QCR a termination fee equal to $1.0 million. See Termination fee below.

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Representations and warranties

The merger agreement contains representations and warranties made by CNB, QCR and Merger Sub. These include, among other things, representations relating to:

- valid corporate organization and existence;
- corporate power and authority to enter into the merger and the merger agreement;
- third party consents and approvals;
- absence of any breach of organizational documents, law or other agreements as a result of the merger
- capitalization;
- compliance with laws;
- absence of undisclosed investigations and litigation;
- absence of material adverse changes;
- broker/finder fees; and
- absence of omissions in the representations and warranties contained in the merger agreement.

QCR and Merger Sub also represent and warrant to CNB in the merger agreement regarding compliance with SEC filing requirements.

CNB makes additional representations and warranties to QCR in the merger agreement relating to, among other things:

- organizational documents, minutes and stock records;
- ownership of its subsidiaries, including Community National Bank;
- financial statements;
- filing of necessary reports with regulatory authorities;

real property, personal property and other material assets;

loans and its allowance for loan losses;

certain tax matters;

employee matters and employee benefits;

conduct of business and absence of undisclosed liabilities;

compliance with, absence of default under and information regarding, material contracts;

insurance matters;

environmental matters;

fiduciary accounts;

affiliate transactions;

compliance with the Community Reinvestment Act;

technology and intellectual property;

investment securities;

performance of obligations under the trust preferred securities; and

absence of excess parachute payments resulting from the transactions contemplated in the merger agreement.

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Conditions to completion of the merger

Closing Conditions for the Benefit of QCR and Merger Sub. QCR s and Merger Sub s obligations are subject to fulfillment of certain conditions, including:

- accuracy of representations and warranties of CNB in the merger agreement as of the closing date, except as otherwise set forth in the merger agreement;
- performance by CNB in all material respects of its agreements under the merger agreement;
- approval of the merger agreement at the special meeting of CNB shareholders;
- no commenced or threatened litigation: (i) involving a challenge to, or seeking relief in connection with, the transactions contemplated by the merger agreement, or (ii) that may have the effect of preventing or delaying any of the transactions contemplated by the merger agreement, in either case that would have a material adverse effect on CNB;
- receipt of all necessary regulatory approvals;
- the registration statement, of which this proxy statement/prospectus is a part, concerning QCR common stock issuable pursuant to the merger agreement having been declared effective by the SEC and continuing to be effective as of the effective time of the merger;
- receipt of an opinion from CNB s special counsel regarding the valid existence and the valid issuance of the capital stock of CNB, its authority to enter into the merger agreement and the due execution and delivery of the merger agreement by CNB, among other things;
- receipt of a tax opinion from Barack Ferrazzano that the merger constitutes a reorganization within the meaning of Section 368(a) of the Code;
- receipt of an assignment and assumption agreement or supplemental indenture to effectuate the assumption by QCR of each of the trust preferred securities issued by trusts controlled by CNB;
- receipt of an assignment and assumption agreement to effectuate the assumption by QCR, or the pay off, of CNB s outstanding debt obligation to West Bank, the principal of which was $3.95 million as of March 25, 2013;
- approval of the listing of the shares of QCR common stock issuable pursuant to the merger agreement on NASDAQ;
- no material adverse change in CNB since February 13, 2013;

receipt of balance sheets of CNB, adjusted to reflect certain adjustments, specifications and charges, as set forth in the merger agreement;

adjustment of the merger consideration, as applicable, as set forth in Consideration to be received in the merger above; and

receipt of all other necessary consents, permissions and approvals, which the failure to obtain would have a material adverse effect with respect on CNB.

Closing Conditions for the Benefit of CNB. CNB s obligations are subject to fulfillment of certain conditions, including:

accuracy of representations and warranties of QCR and Merger Sub in the merger agreement as of the closing date, except as otherwise set forth in the merger agreement;

performance by QCR and Merger Sub in all material respects of its agreements under the merger agreement;

approval of the merger agreement by the CNB shareholders at the special meeting;

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no commenced or threatened litigation: (i) involving a challenge to, or seeking relief in connection with, the transactions contemplated by the merger agreement, or (ii) that may have the effect of preventing or delaying any of the transactions contemplated by the merger agreement, in either case that would have a material adverse effect on QCR;

receipt of all necessary regulatory approvals;

the registration statement, of which this proxy statement/prospectus is a part, concerning QCR common stock issuable pursuant to the merger agreement having been declared effective by the SEC and continuing to be effective as of the effective time of the merger;

receipt of an opinion from QCR s outside legal counsel regarding the valid existence of QCR and Merger Sub, their authority to enter into the merger agreement, due execution and delivery of the merger agreement by QCR and Merger Sub and the due authorization of QCR common stock issuable pursuant to the merger agreement, among other things;

receipt of a tax opinion from Roth & Company, P.C. that the merger constitutes a reorganization within the meaning of Section 368(a) of the Code;

delivery of the assignment and assumption agreement or supplemental indenture to effectuate the assumption by QCR of each of the trust preferred securities issued by trusts controlled by CNB;

approval of the listing of the shares of QCR common stock issuable pursuant to the merger agreement on NASDAQ;

receipt of balance sheets of QCR, adjusted to reflect certain adjustments, specifications and charges, as set forth in the merger agreement; and

adjustment of the merger consideration, as applicable, as set forth in Consideration to be received in the merger above.

Termination

QCR and CNB may mutually agree to terminate the merger agreement and abandon the merger at any time. Subject to conditions and circumstances described in the merger agreement, either QCR or CNB may terminate the merger agreement as follows:

the other party has not satisfied a condition under the merger agreement required to be met by it prior to the closing date, provided its inability to satisfy the condition was not caused by the non-breaching party s failure to meet any of its obligations under the merger agreement;

any regulatory authority has denied approval of any of the transactions contemplated by the merger agreement or any application for a necessary regulatory approval has been withdrawn at the request of a regulatory authority;

the merger is not completed (other than through the failure of any party seeking to terminate the agreement to comply fully with its material obligations under the merger agreement) by June 30, 2013; provided, that the termination date will be extended to July 15, 2013 if, in the judgment of QCR, it is necessary to delay the merger to preserve any tax benefits pursuant to Section 382 of the Code;

or

a court or regulatory authority has enjoined or prohibited any of the transactions contemplated in the merger agreement.

In addition, a particular party may terminate the merger agreement as follows:

QCR may terminate if CNB materially breaches any of its obligations with respect to soliciting alternative acquisition proposals or holding a meeting of its shareholders to approve the merger agreement;

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CNB may terminate if CNB has accepted or consummated a superior proposal from a third party;

QCR may terminate if, after the identification or confirmation of the presence of certain environmental conditions related to certain real property, the aggregate cost of remedying such conditions exceeds $500,000;

QCR may terminate the agreement if CNB s adjusted shareholders equity, as defined in the merger agreement, is less than $16,228,264; or

CNB may terminate if QCR s adjusted stockholders equity, as defined in the merger agreement, is less than $119,699,100.

Any termination of the merger agreement will not affect any rights accrued prior to such termination.

Termination fee

Termination Fees Payable by CNB. CNB has agreed to pay to QCR a termination fee of $500,000 if the merger agreement is terminated by QCR because CNB committed a material breach of or failed to perform its material obligations under the merger agreement and such breach is not the result of QCR s failure to comply or perform in all material respects with any of its material obligations under the merger agreement.

CNB has agreed to pay QCR a termination fee of $1.0 million if the merger agreement is terminated under the following circumstances:

QCR terminates the merger agreement because CNB breaches its covenant not to solicit an acquisition proposal from a third party or its covenant to hold a shareholder meeting to approve the merger agreement;

CNB terminates the merger agreement upon the entry into, consummation of or the CNB board s determination to accept an unsolicited superior proposal; or

the merger agreement is terminated (a) by QCR because CNB has not satisfied a condition under the merger agreement required to be met by it prior to the closing date, provided its inability to satisfy the condition was not caused by QCR s failure to meet any of its obligations under the merger agreement or (b) by QCR because the closing has not occurred by June 30, 2013 (or July 15, 2013, if, in the judgment of QCR, it is necessary to delay the merger to preserve any tax benefits pursuant to Section 382 of the Code) due to the failure of CNB to fulfill its obligations under the merger agreement, and in each such case, within twelve months after termination of the merger agreement, CNB enters into a definitive agreement relating to an acquisition proposal with a third party.

Termination Fees Payable by QCR. QCR has agreed to pay to CNB a termination fee of $500,000 if the merger agreement is terminated by CNB because QCR committed a material breach of or failed to perform its material obligations under the merger agreement and such breach is not the result of CNB failure to comply or perform in all material respects with any of its material obligations under the merger agreement.

Management of QCR and CNB after the merger

Following the merger, Michael L. Peterson, CNB s current Chairman of the Board, will be appointed to the board of directors of QCR. The QCR board of directors will otherwise remain the same after the merger and the Merger Sub managers will continue to serve as the managers of the surviving company until it is dissolved.

Employee benefit matters

Except as more fully described above under The Merger Interests of certain persons in the merger, pursuant to the merger agreement, QCR will assume all of the employee benefit plans sponsored or maintained by CNB or Community National Bank. Former employees of CNB and Community National Bank may continue

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to participate in those plans until QCR terminates the plans or merges them with existing QCR plans. To the extent that any former employees of CNB or Community National Bank participate in any employee benefit plans sponsored or maintained by QCR as of the closing date, such employees will be given credit for amounts paid under a corresponding CNB or Community National Bank benefit plan during the plan year in which the closing of the merger occurs for purposes of applying deductibles, co-payments and out-of-pocket maximums as though such amounts had been paid in accordance with the terms and conditions of such QCR benefit plan for the plan year in which the closing of the merger occurs. For purposes of determining eligibility to participate in and, where applicable, vesting under QCR s applicable employee benefit plans, each former employee of CNB or Community National Bank will receive past service credit for his or her prior employment with CNB or Community National Bank as if each such employee had then been employed by QCR. QCR reserves the right to amend or terminate these plans and arrangements in accordance with the terms of such plans and arrangements and applicable laws. If QCR chooses to terminate any CNB or Community National Bank employee benefit or similar plan after the closing date, employees previously covered under the terminated plan will be eligible to participate in a similar QCR employee benefit plan. Also, if any former employee of CNB or Community National Bank who became an employee of QCR by virtue of the merger is terminated without cause within one year following the effective time of the merger, such individual will be eligible to receive severance in the amount of one week s base salary for each whole year of continuous service with CNB, Community National Bank and QCR.

Expenses

All expenses incurred in connection with the merger agreement will be paid by the party incurring the expenses.

NASDAQ stock listing

QCR common stock currently is listed on NASDAQ under the symbol QCRH. The shares to be issued to CNB s shareholders as merger consideration also will be eligible for trading on the NASDAQ Global Market.

Amendment

The merger agreement may be amended in writing by the parties.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF CNB

The following table shows, as of March 25, 2013, the beneficial ownership of CNB common stock of each person who beneficially owns more than 5% of CNB s outstanding common stock, of each CNB director, of each executive officer of CNB and all of CNB s directors and officers as a group. Except as otherwise noted in the footnotes to the table, each individual has sole investment and voting power with respect to the shares of common stock set forth. Except as indicated in the footnotes to the table below, the business address of the persons listed below is c/o Community National Bancorporation, 422 Commercial Street, P.O. Box 1288, Waterloo, Iowa 50704.

Name	Common Stock directly, indirectly or beneficially owned as of March 25, 2013	Percent of Outstanding
Directors and Executive Officers		
Allan D. Bangtson	5,500	*
Darvin R. Habben	24,793	1.2%
David R. Mason, Sr.	24,392	1.2%
Dawn Champion	1,500	*
Dr. Kenneth A. Budke, II	22,500	1.1%
Gary W. Lindgren	1,253	*
James Mudd, Jr.	133	*
John Deery, Jr.	25,000	1.2%
Josef M. Vich	41,048	2.0%
Kathleen McCoy	68,440	3.3%
Michael L. Peterson	320,500	15.4%
Richard C. Young	81,587	3.9%
Robert L. Smith, Jr.	1,504	*
Robert T. Buckley	32,988	1.6%
Stacey J. Bentley	3,128	*
Thomas L. Hovland	5,385	*
All directors and executive officers as a group (16 persons)	659,651	31.6%

* Indicates that the individual or entity owns less than one percent of CNB s common stock.

The information presented in the table is based on information furnished by the specified persons and was determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, which we refer to as the Securities Exchange Act, as required for purposes of this proxy statement/prospectus. Briefly stated, under that rule shares are deemed to be beneficially owned by any person or group having the power to vote or direct the vote of, or the power to dispose or direct the disposition of, such shares, or who has the right to acquire beneficial ownership thereof within 60 days. Beneficial ownership for the purposes of this proxy statement/prospectus is not necessarily to be construed as an admission of beneficial ownership for other purposes.

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COMPARISON OF RIGHTS OF QCR STOCKHOLDERS AND CNB SHAREHOLDERS

General

As a shareholder of CNB, your rights are governed by CNB s articles of incorporation and its bylaws, each as currently in effect. Upon completion of the merger, the rights of CNB shareholders who receive shares of QCR common stock in exchange for their shares of CNB common stock and become stockholders of QCR will be governed by QCR s certificate of incorporation, as amended, and amended and restated bylaws, as well as the rules and regulations applying to public companies. QCR is incorporated in Delaware and is subject to the Delaware General Corporation Law, or the DGCL. CNB is incorporated in Iowa and is subject to the IBCA.

The following discussion summarizes material similarities and differences between the rights of CNB shareholders and QCR stockholders and is not a complete description of all of the differences. This discussion is qualified in its entirety by reference to the DGCL and IBCA and QCR s and CNB s respective certificate of incorporation, articles of incorporation and bylaws.

	QCR Stockholder Rights	CNB Shareholder Rights
Authorized Capital Stock:	QCR is authorized to issue 20 million shares of common stock, par value $1.00 per share, and 250,000 shares of preferred stock, par value $1.00 per share, which we refer to as QCR preferred stock. Of the 250,000 shares of QCR preferred stock, (i) 25,000 have been designated QCR series E preferred, and (ii) 40,090 have been designated QCR series F preferred.	CNB is authorized to issue 10 million shares of common stock, no par value per share, and 1 million shares of preferred stock, no par value per share.
		On March 25, 2013, CNB had 2,087,932 shares of common stock outstanding and no shares of preferred stock outstanding.
	On March 25, 2013, QCR had 4,936,316 shares of common stock outstanding, 25,000 shares of QCR series E preferred outstanding and 29,867 shares of QCR series F preferred outstanding. Further issuance of shares of QCR s preferred stock may affect the relative rights of the holders of its common stock, depending upon the exact terms, qualifications, limitations and relative rights and preferences, if any, of the shares of the preferred stock as determined by QCR s board of directors.	
Dividends:	Subject to any rights of holders of QCR preferred stock, QCR may pay dividends if, as and when declared by its board of directors from any funds legally available therefor.	Subject to any rights of holders of CNB preferred stock, CNB may pay dividends if, as and when declared by its board of directors from any funds legally available therefor.

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	QCR Stockholder Rights	CNB Shareholder Rights
Number of Directors; Classification:	The QCR board of directors currently consists of 13 members. QCR s certificate of incorporation provides that its board of directors must consist of not less than three and no more than 15 directors, as may be established by resolution of not less than 80% of the number of directors of the then-current board.	The CNB board of directors currently consists of nine members. CNB s articles of incorporation provide that its board of directors must consist of not less than five and no more than 20 directors, as may be established by resolution of the then-current board.
	QCR s board of directors is divided into three classes, with each class consisting of approximately one-third of the total number of directors. Directors are elected for three-year terms, with one class of directors up for election at each annual meeting of stockholders.	CNB s board of directors is divided into three classes, with each class consisting of approximately one-third of the total number of directors. Directors are elected for three-year terms, with one class of directors up for election at each annual meeting of shareholders.
Election of Directors; Vacancies:	Each QCR stockholder is entitled to one vote for each share of the voting stock held by such stockholder. Directors shall be elected by a plurality vote.	Each CNB shareholder is entitled to vote the number of shares owned by such shareholder for as many persons as there are directors to be elected and for whose election such shareholder has a right to vote. Directors shall be elected by a plurality vote.
	QCR s certificate of incorporation does not provide for cumulative voting.	
	QCR s bylaws provide that any vacancy on the board of directors may be filled at an annual meeting or special meeting of the stockholders called for such purpose, or if such vacancy arises between meetings of stockholders, by a majority vote of the board of directors then in office.	CNB s bylaws provide that that any vacancy on the board of directors may be filled by the affirmative vote of a majority of the shareholders entitled to vote at an annual meeting or special meeting of the shareholders or by a majority vote of the board of directors then in office.
Removal of Directors:	A QCR director may be removed at a stockholders meeting, for cause, by the affirmative vote of not less than 75% of the outstanding shares entitled to vote.	A CNB director may be removed at a special shareholders meeting, with or without cause, by the vote of a majority of the shares entitled to vote at an election of directors.
Call of Special Meeting of Directors:	QCR s bylaws provide that a special meeting of the board of directors may be called by or at the request of the president or any director.	CNB s bylaws provide that a special meeting of the board of directors may be called by direction of the president, the secretary or any two directors.
Limitation on Director Liability:	QCR s certificate of incorporation provides that no director will be personally liable to the corporation or any of its stockholders for monetary damages for any breach of fiduciary duty except for liability:	CNB s articles of incorporation provide that a director will not be personally liable to the corporation or any of its shareholders for monetary damages for breach of fiduciary duty except for liability:
	for any breach of the director s duty of loyalty to the corporation or its stockholders;	for any breach of the director s duty of loyalty to the corporation or its shareholders;

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	QCR Stockholder Rights	CNB Shareholder Rights
	for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;	for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
	under Section 174 of the DGCL (which creates liability for unlawful payment of dividends and unlawful stock purchases or redemptions), as it exists or hereafter may be amended; or	under Section 490.833 of the IBCA (which creates liability for unlawful payment of dividends), as it exists or hereafter may be amended; or
	for any transaction from which the director derived an improper benefit.	for any transaction from which the director derived an improper personal benefit.
Indemnification:	QCR s certificate of incorporation and bylaws provide for indemnification of its officers and directors to the fullest extent authorized by the DGCL.	CNB s articles of incorporation and bylaws provide for indemnification of its officers and directors to the fullest extent authorized by the IBCA.
	The bylaws provide that, to the extent a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any proceeding, or in defense of any claim, issue or matter therein, the corporation shall indemnify the director or officer against expenses actually and reasonably incurred by him or her in connection with such proceeding to the extent he or she was a party as a result of being a director or officer, provided that such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation. The board may indemnify employees and agents of the corporation in this context.	The bylaws provide that, to the extent a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any proceeding, or in defense of any claim, issue or matter therein, the corporation shall indemnify the director or officer against expenses actually and reasonably incurred by such person in connection with such proceeding to the extent such person was a party as a result of being a director or officer, provided that such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation.
Call of Special Meetings of Stockholders/Shareholders:	QCR s bylaws provide that a special meeting of the stockholders may be called by the chairman of the board, the president, the board of directors or at the request in writing of stockholders owning a majority of the issued and outstanding voting stock of the corporation.	CNB s bylaws provide that a special meeting of the shareholders may be called by the president, the secretary, the board of directors or at the written request of the holders of a majority of all outstanding shares entitled to vote at the meeting.
	Written notice stating the place, date, hour and purpose(s) of the special meeting must be delivered, either personally or by mail or facsimile, not less than 10 nor more than 60 days before the date of the meeting.	Written notice stating the place, day, hour and purpose(s) of the special meeting must be delivered, either personally or by mail, not less than 10 nor more than 60 days before the date of the meeting.

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	QCR Stockholder Rights	CNB Shareholder Rights
Quorum of Stockholders/Shareholders:	QCR s bylaws provide that a majority of the outstanding shares of voting stock, represented in person or by proxy, constitutes a quorum at any meeting of stockholders.	CNB s bylaws provide that a majority of the shares entitled to vote, present in person or represented by proxy, constitutes a quorum at any meeting of shareholders.
Advance Notice Regarding Stockholders/Shareholders Proposals (other than Nomination of Candidates for Election to the Board of Directors):	QCR s bylaws provide that for a stockholder to properly bring business before an annual or special meeting of stockholders, written notice of such proposal must be delivered, mailed or telegraphed to the secretary of the corporation at the principal executive offices of the corporation not less than 30 days nor more than 75 days prior to the date of the originally scheduled meeting (provided, however, that if less than 40 days notice of the date of the scheduled meeting is given or made by the corporation, notice by the stockholder to be timely must be so delivered, mailed or telegraphed to the corporation not later than the close of business on the 10th day following the day on which notice of the date of the scheduled meeting was first mailed to stockholders).	CNB s bylaws provide that any business brought before the meeting may be transacted at an annual meeting of shareholders, or a special meeting may be called for any purpose. Requests for special meetings shall state the purpose(s) for which the meeting is to be called.
	A stockholder s notice to the secretary shall set forth the following as to each matter the stockholder proposes to bring before the meeting: (i) a brief description of the proposal desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and address, as they appear on the corporation s books, of the stockholder proposing such business, (iii) the number of shares of the corporation s common stock beneficially owned by such stockholder on the date of such stockholder s notice, and (iv) any financial or other interest of such stockholder in the proposal.	
Advance Notice Regarding Stockholders/Shareholders Nomination of Candidates for Election to the Board of Directors:	QCR s bylaws provide that nominations of persons for election to the board of directors may be made at an annual or special meeting of stockholders by a stockholder of QCR.	CNB s articles of incorporation and bylaws do not address shareholder nomination of candidates for election to the board of directors. The IBCA also does not address shareholder nomination of candidates for election to the board of directors.
	For nominations for election to the board of directors of QCR to be	

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QCR Stockholder Rights	CNB Shareholder Rights
properly brought before an annual or special meeting, written notice of such nomination(s) must be delivered to or mailed and received by the secretary of the corporation at the principal executive offices of the corporation not less than 30 days nor more than 75 days prior to the meeting (provided, however, that in the event that less than 40 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which such notice of the date of meeting was mailed or such public disclosure was made).	
A stockholder s notice to the secretary shall set forth: (i) the name and address of record of the stockholder who intends to make the nomination, (ii) a representation that the stockholder is, a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (iii) the name, age, business and residence addresses, and principal occupation or employment of each nominee, (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder, (v) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, as then in effect, and (vi) the consent of each nominee to serve as a director of the corporation if so elected.	

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	QCR Stockholder Rights	CNB Shareholder Rights
Stockholder/Shareholder Action by Written Consent:	QCR s certificate of incorporation provides that any action required or permitted to be taken by the holders of capital stock of the corporation must be effected at a duly called annual or special meeting of the holders of capital stock of the corporation and may not be effected by any consent in writing by such holders, unless such action is authorized by not less than 80% of the number of directors.	CNB s bylaws provide that any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting or vote if a consent in writing, setting forth the action so taken, is signed by 90% or more of the votes entitled to be cast at a meeting at which all share entitled to vote on the action were present and voted, and delivered to CNB for filing with the corporate minutes or records.
Appointment and Removal of Officers:	QCR s bylaws provide that the officers shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of the stockholders. Each officer will hold office until his or her successor is duly elected and qualified or until his or her prior death, resignation or removal.	CNB s bylaws provide that the officers shall be appointed annually by the board of directors at the annual meeting thereof. Each officer will hold office until the next succeeding annual meeting of the board of directors and until a successor is duly appointed and qualified or until the officer s death, resignation or removal.
	Any officer may be removed by the board of directors whenever in its judgment the best interests of the corporation will be served thereby.	Any officer may be removed by the board of directors whenever in its judgment the best interests of the corporation will be served thereby. Officers may also be removed by any superior officer or agent upon whom the power to appoint shall have been conferred by the board of directors.
Required Vote for Certain Transactions	The QCR certificate of incorporation requires the affirmative vote of stockholders having at least 75% of the voting power of all outstanding voting stock for the following transactions: (i) merger or consolidation, (ii) sale, lease or exchange of all or substantially all of the assets of the corporation, (iii) issuance or transfer of any voting securities to a corporation, person or entity in exchange for cash, assets or securities, and (iv) voluntary dissolution of the corporation. However, such vote is not necessary for any such transaction if approved by not less than 80% of the number of directors then in office.	The CNB articles of incorporation do not specifically discuss transactions involving merger, consolidation, or sale, lease or exchange of all or substantially all of the property or assets of the corporation, except for such transactions with an interested shareholder. The applicable IBCA provisions state that such a transaction must be approved by the shareholders at a meeting at which a quorum consisting of at least a majority of the votes entitled to be cast on the plan exists. The corporation may, however, without approval by a vote of shareholders, merge with any corporation of which at least 90% of the outstanding shares of each class is owned by the corporation.

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	QCR Stockholder Rights	CNB Shareholder Rights
Amendment to Charter and Bylaws:	An amendment to the certificate of incorporation that relates to certain provisions, including the amendment process, use of written ballots, business combinations with interested stockholders and stockholder action by written consent, must be approved by the affirmative vote of the holders of shares having at least 75% of the voting power of all outstanding stock of the corporation entitled to vote thereon.	As provided by the IBCA, CNB s articles of incorporation may be amended by the affirmative vote of at least a majority of the shares entitled to vote on the proposal after the board of directors has adopted the amendment and submitted it to the shareholders for their approval. Additionally, the board of directors may adopt amendments to the articles of incorporation without shareholder approval for certain enumerated purposes.
	Otherwise, as provided by the DGCL, the certificate of incorporation may be amended by the affirmative vote of at least a majority of the shares entitled to vote on the proposal after the board of directors has passed a resolution by majority vote setting forth the proposed amendment and directing that it be submitted to a vote at a stockholders meeting.	The bylaws may be altered, amended or repealed or new bylaws may be adopted by the affirmative vote of a majority of the directors then in office.
	The bylaws of QCR may be amended, altered, changed or repealed by either an affirmative vote of holders of not less than 75% of the outstanding shares of stock entitled to vote or the affirmative vote of not less than 80% of the directors then in office.	

Certain anti-takeover effects of QCR s certificate and bylaws and Delaware law and federal law

Certain provisions of QCR s certificate of incorporation, bylaws and the DGCL may have the effect of impeding the acquisition of control of QCR by means of a tender offer, a proxy fight, open-market purchases or otherwise in a transaction not approved by QCR s board of directors.

These provisions may have the effect of discouraging a future takeover attempt which is not approved by QCR s board of directors but which individual QCR stockholders may deem to be in their best interests or in which QCR stockholders may receive a substantial premium for their shares over then-current market prices. As a result, stockholders who might desire to participate in such a transaction may not have an opportunity to do so. Such provisions will also render the removal of QCR s current board of directors or management more difficult.

These provisions of QCR s certificate of incorporation and bylaws include the following:

QCR s board of directors may issue additional authorized shares of QCR s capital stock to deter future attempts to gain control of QCR, including the authority to determine the terms of any one or more series of preferred stock, such as voting rights, conversion rates and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, QCR s board has the power, to the extent consistent with its fiduciary duty, to issue a series of preferred stock to persons friendly to management in order to attempt to block a merger or other transaction by which a third party seeks control, and thereby assist the incumbent board of directors and management to retain their respective positions;

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- QCR s certificate of incorporation does not provide for cumulative voting for any purpose, and QCR s certificate of incorporation also provides that any action required or permitted to be taken by stockholders may be taken only at an annual or special meeting and prohibits stockholder action by written consent in lieu of a meeting unless authorized by not less than 80% of the directors;

- Certain transactions (including any merger or consolidation, the sale, lease or exchange of all of substantially all assets, any issuance or transfer of any voting securities to any other entity in exchange for cash, assets or securities, and the voluntary dissolution of QCR) must be approved by at least 75% of the outstanding voting stock, unless approved by not less than 80% of the directors;

- When evaluating a proposal by another person to make a tender or exchange offer for an equity security, to merge or consolidate with QCR or to purchase or otherwise acquire all or substantially all of the assets of QCR, QCR s certificate of incorporation allows the board of directors to consider non-stockholder interests, such as the social and economic effects of the transaction on QCR and its subsidiaries and the other elements of the communities in which QCR and its subsidiaries operate or are located; and

- The amendment of QCR s certificate of incorporation must be approved by a majority vote of the board of directors and also by a majority vote of the outstanding shares of QCR s common stock, provided, however, that an affirmative vote of at least 75% of the outstanding voting stock entitled to vote is required to amend or repeal certain provisions of the certificate of incorporation, including provisions (i) governing amendment of the bylaws, (ii) relating to the use of written ballots, (iii) limiting business combinations with interested stockholders, (iv) limiting the stockholders ability to act by written consent, and (v) regarding amendment of the foregoing supermajority provisions of QCR s certificate of incorporation. QCR s bylaws may be amended only by vote of 80% of the board of directors or by affirmative vote of not less than 75% of the outstanding shares of stock then entitled to vote.

Additionally, on September 11, 2003, QCR s board of directors adopted a stockholders rights agreement, which we refer to as the Rights Agreement. Pursuant to the terms of the Rights Agreement, QCR s board of directors authorized and declared a dividend of one preferred share purchase right, or a Right, for each share of QCR common stock outstanding as of the close of business on September 22, 2003, with each Right representing the right to purchase one one-thousandth (subject to adjustment) of a share of series B junior participating preferred stock, $1.00 par value per share. The Rights have no immediate economic value to QCR s stockholders and cannot be exercised unless and until a person, group or entity acquires 15% or more of QCR s common stock or announces a tender offer. The Rights Agreement also permits QCR s board of directors to redeem each right for $0.01 under various circumstances. In general, the Rights Agreement provides that if a person, group or entity acquires a 15% or larger stake in QCR or announces a tender offer, and QCR s board of directors chooses not to redeem the rights, all holders of rights, other than the 15% stockholder or the tender offer or, will be able to purchase a certain amount of QCR s common stock for half of its market price. The Rights Agreement will expire pursuant to its terms on September 11, 2013.

To extend the term of the Rights Plan, QCR s board of directors unanimously approved an amendment to the Rights Agreement on February 7, 2013, which we refer to as the Amended Rights Agreement. The Amended Rights Agreement will not become effective until and unless approved by QCR s stockholders at their 2013 annual meeting, which will be held on May 1, 2013. The primary purpose of the Amended Rights Agreement is to extend the term of the Rights Agreement for an additional three years, increase the trigger from 15% to 20%, add additional stockholder protections and amend certain provisions that limit the authority of QCR s board of directors. The Rights Agreement will continue in effect until shareholders approve the Amended Rights Agreement at the annual meeting, and, if the Amended Rights Agreement is not approved, the Rights Agreement will expire on September 11, 2013. If the Amended Rights Agreement is not approved and the Rights Agreement expires, QCR s board of directors may reconsider whether to pursue a stockholders rights plan in the future.

The provisions described above are intended to reduce QCR s vulnerability to takeover attempts and certain other transactions which have not been negotiated with and approved by members of QCR s board of directors.

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The ability of a third party to acquire QCR is also subject to applicable banking laws and regulations. The Bank Holding Company Act of 1956 and the regulations thereunder require any bank holding company (as defined in that Act) to obtain the approval of the Federal Reserve prior to acquiring more than 5% of the outstanding shares of a class of QCR s voting stock. Any person other than a bank holding company is required to obtain prior approval of the Federal Reserve to acquire 10% or more of the outstanding shares of a class of QCR s voting stock under the Change in Bank Control Act of 1978. Any holder of 25% or more (or between 10% and 25%, if the holder is unable to rebut the presumption that it controls QCR) of the outstanding shares of a class of QCR s voting stock, other than an individual, is subject to supervision and regulation as a bank holding company under the Bank Holding Company Act. In calculating a holder s aggregate ownership of QCR s common stock for purposes of these banking regulations, the Federal Reserve likely would include at least the minimum number of shares (and could instead include the maximum number of shares) of QCR common stock that a holder is entitled to receive pursuant to securities convertible into or settled in QCR common stock, including QCR s series E preferred stock.

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DESCRIPTION OF QCR CAPITAL STOCK

The following description of the capital stock of QCR does not purport to be complete and is qualified, in all respects, to applicable Delaware law and provisions of QCR s certificate of incorporation, as amended, and QCR s amended and restated bylaws. QCR s certificate of incorporation, as amended, and QCR s amended and restated bylaws are incorporated by reference and will be sent to stockholders of QCR and shareholders of CNB upon request. See Where You Can Find More Information.

Authorized capital stock

Under its certificate of incorporation, as amended, QCR has the authority to issue 20 million shares of common stock, par value $1.00 per share, and 250,000 shares of preferred stock, par value $1.00 per share. As of March 25, 2013, there were issued and outstanding 4,936,316 shares of QCR common stock (exclusive of shares held in treasury), 25,000 shares of series E preferred and 29,867 shares of series F preferred.

QCR common stock

QCR Common Stock Outstanding. The outstanding shares of QCR common stock are, and the shares of QCR common stock issued pursuant to the merger or issuable upon the conversion of the series E preferred will be, duly authorized, validly issued, fully paid and non-assessable. The rights, preferences and privileges of holders of QCR common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of QCR preferred stock, including the series E preferred, series F preferred and any series of preferred stock that QCR may designate and issue in the future.

Voting Rights. Each holder of QCR common stock is entitled to one vote for each share held of record on all matters voted upon by stockholders of QCR and does not have cumulative voting rights. Accordingly, holders of a majority of the shares of QCR common stock entitled to vote in any election of directors of QCR may elect all of the directors standing for election.

Dividend Rights. The holders of QCR common stock are entitled to receive dividends, if and when declared payable by the QCR board of directors from any funds legally available for the payment of dividends, subject to any preferential dividend rights of outstanding QCR preferred stock, including the series E preferred and series F preferred. Upon the liquidation, dissolution or winding up of QCR, the holders of QCR common stock are entitled to share pro rata in the net assets of QCR available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding QCR preferred stock, including the series E preferred and series F preferred.

Preemptive Rights. The certificate of incorporation, as amended, does not grant the holders of QCR common stock any preemptive, subscription, redemption or conversion rights.

Preferred stock

Blank Check Preferred Stock. Under its certificate of incorporation, as amended, the QCR board of directors has the authority to issue preferred stock in one or more series, and to fix for each series the voting powers, full or limited, or no voting powers, and with such designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the QCR board of directors providing for the issuance of such series as may be permitted by the DGCL, without any further vote or action by the stockholders of QCR.

QCR series E preferred stock

Series E Preferred Stock Outstanding. As of March 25, 2013, QCR had 25,000 shares of series E preferred outstanding.

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Dividends. Non-cumulative dividends on the series E preferred are payable quarterly in arrears if, when and as declared by QCR s board of directors, at a rate of 7.00% per year on the liquidation preference of $1,000 per share. No dividends may be paid on any preferred stock ranking junior to the series E preferred or the common stock unless and until dividends have been paid on the series E preferred. The series E preferred is not redeemable by the holders thereof. After the fifth anniversary of the issuance date, QCR may redeem all, but not less than all, of the series E preferred shares.

Conversion. Holders of the series E preferred may convert their shares into common stock at any time at a per share conversion price of $12.15. QCR may convert all, but not less than all, of the series E preferred into common stock at the same share conversion price of $12.15 on or after the third anniversary of the issuance date, if, for at least 20 trading days in a period of 30 consecutive trading days, the closing price of its common stock equals or exceeds $17.22 and QCR has declared or paid in full dividends on the series E preferred for four consecutive quarters. The conversion price of the series E preferred is subject to customary anti-dilution adjustments.

Reorganization Events and Fundamental Transactions. If QCR consummates a capital reorganization of the common stock or a merger or consolidation of QCR with or into another corporation, or the sale of all or substantially all QCR s properties and assets to any other person, each share of the series E preferred will become convertible into the number of shares of stock or other securities or property to which a holder of that number of shares of common stock deliverable upon conversion of the series E preferred would have been entitled on such capital reorganization, merger, consolidation or sale.

Voting Rights. Holders of the series E preferred generally do not have any voting rights, except as required by law.

QCR series F preferred stock

Series F Preferred Stock Outstanding. As of March 25, 2013, QCR had 29,867 shares of series F preferred outstanding. QCR issued the shares of series F preferred to the United States Department of the Treasury on September 15, 2011, in connection with the SBLF program.

Dividends. Non-Cumulative dividends on the series F preferred are payable quarterly in arrears if, when and as declared by QCR s board of directors. The per annum dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the series F preferred is outstanding, based upon changes in the amount of Qualified Small Business Lending or QSBL of QCR s wholly-owned bank subsidiaries from the baseline (as defined by SBLF, the baseline is the average of QSBL for the last two quarters of 2009 and first two quarters of 2010). The dividend rate for the initial dividend period (which ended September 30, 2011) was 5.00%. For the second through the 10th calendar quarters, the dividend rate may be adjusted to between 1.00% and 5.00% to reflect the change the QCR s subsidiary banks level of QSBL. For the 11th calendar quarter to four and one-half years after the issuance date, the dividend rate will be fixed at between 1.00% and 5.00%, based upon the increase in QSBL from the baseline to the level as of the end of the ninth dividend period (i.e., as of September 30, 2013), or will be fixed at 7.00% if there is no increase or there is a decrease in QSBL during such period. In addition, beginning on April 1, 2014 and ending on April 1, 2016, if there is no increase or there is a decrease in QSBL from the baseline level to the level as of the end of the ninth dividend period (i.e., as of September 30, 2013), because of QCR s participation in Treasury s Capital Purchase Program, QCR will be subject to an additional lending incentive fee of 2.00% per year. From and after four and one-half years from the issuance date (i.e., as of March 15, 2016), the dividend rate will be fixed at 9.00%, regardless of the amount of QSBL.

For 2011 and 2012, QCR reported a net decline in QSBL from the baseline; therefore, the dividend rate for all of the corresponding calendar quarters was 5.00%. As of March 25, 2013, the dividend rate was 5.00%. On a going forward basis, QCR does not anticipate reporting QSBL at a level necessary to take advantage of the reduced dividend rate discussed above.

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The liquidation preference is $1,000 per share. No dividends may be paid on any preferred stock ranking junior to the series F preferred or the common stock unless and until dividends have been paid on the series F preferred. The series F preferred is not redeemable by the holders thereof. The series F preferred is redeemable at any time at the option of QCR, subject to the approval of QCR s primary federal banking regulator, in amounts equal to at least 25% of the number of originally issued shares, or 100% of the then-outstanding shares (if less than 25% of the originally issued shares). QCR has redeemed 25% of the Series F preferred that was originally issued to the United States Department of the Treasury.

Conversion. Holders of the series F preferred may not convert their shares into common stock.

Reorganization Events and Fundamental Transactions. QCR may not (i) consummate a merger, exchange, dissolution or similar transaction that would affect the rights of series F preferred, or (ii) sell all, or any material portion of, QCR s assets if in conjunction with such sale, the series F preferred will not be redeemed in full without the consent of the holder of series F preferred.

Voting Rights. Holders of the series F preferred generally do not have any voting rights, except as required by law. However, QCR may not amend its certificate of incorporation or bylaws in a manner adverse to the rights of the series F preferred, authorize or issue capital stock ranking senior to the series F preferred or take certain other actions without the approval of the holder of the series F preferred. In addition, in the event that QCR misses five dividend payments, whether or not consecutive, the holder of series F preferred will have the right, but not the obligation, to appoint a representative as an observer on QCR s board of directors. In the event that QCR misses six dividend payments, whether or not consecutive, and if the then outstanding aggregate liquidation amount of the series F preferred is at least $25,000,000, then the holder of series F preferred will have the right to designate two directors to the board of directors of QCR. The right of the holder of the series F preferred to appoint a non-voting observer or elect directors, as the case may be, will terminate when full dividends have been timely paid on the series F preferred for at least four consecutive dividend periods.

Exchange agent and registrar

IST Shareholder Services is the exchange agent for the merger and the registrar for the QCR common stock.

LEGAL MATTERS

Certain matters pertaining to the validity of the authorization and issuance of the QCR common stock to be issued in the merger have been passed upon by Barack Ferrazzano Kirschbaum & Nagelberg LLP. Certain matters pertaining to the federal income tax consequences of the merger have been passed upon by Barack Ferrazzano Kirschbaum & Nagelberg LLP.

EXPERTS

The consolidated financial statements of QCR for the years ended December 31, 2012 and 2011 and the effectiveness of QCR s internal control over financial reporting as of December 31, 2012 have been audited by McGladrey LLP, independent registered public accounting firm, as set forth in their reports thereon incorporated herein.

WHERE YOU CAN FIND MORE INFORMATION

QCR files annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public over the Internet at the SEC s website at www.sec.gov. You may also read and copy any document QCR files with the SEC at the SEC s public reference room located at 100 F Street, N.E., Washington D.C. 20549. Copies of these documents also can be obtained at prescribed rates by writing to the Public Reference Section of the SEC, at 100 F Street, N.E., Washington D.C. 20549 or by calling 1-800-SEC-0330 for additional information on the operation of the public reference facilities. QCR s SEC filings are also available on its Web site at http://www.qcrh.com.

QCR filed with the SEC a registration statement on Form S-4 under the Securities Act to register the shares of QCR common stock to be issued to CNB s shareholders upon completion of the merger. This proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of QCR in addition to being a proxy statement of CNB for its special meeting. As permitted by the SEC rules, this proxy statement/prospectus does not contain all of the information that you can find in the registration statement or in the exhibits to the registration statement. The additional information may be inspected and copied as set forth above.

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INFORMATION ABOUT QCR HOLDINGS, INC.

In this section, references to QCR Holdings, QCR, the Company, we, us and our refer to QCR Holdings, Inc. and its subsidiaries collecti unless the context requires otherwise.

Business of QCR Holdings, Inc.

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 Cities, 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 (QCBT), which is based in Bettendorf, Iowa, and commenced operations in 1994;

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

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

The Company also engages in direct financing lease contracts through m2 Lease Funds, LLC (m2), a wholly-owned subsidiary of QCBT based in Brookfield, Wisconsin. QCBT previously owned 80% of m2. In August 2012, QCBT entered into an amendment to the operating agreement of m2 and purchased the remaining 20% noncontrolling interest. See Note 21 to the consolidated financial statements for further discussion of the acquisition.

Velie Plantation Holding Company (VPHC), previously owned 91% by the Company, was engaged in holding the real estate property known as the Velie Plantation in Moline, Illinois, which is the location for the Company s headquarters. In October 2012, the Company acquired the remaining 9% noncontrolling interest, and effective December 31, 2012, VPHC was dissolved and liquidated.

Quad City Bancard, Inc. (Bancard), previously a wholly-owned subsidiary of the Company, conducted the Company s credit card issuing and merchant credit cards acquiring operations. 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 comparative financial results associated with the merchant credit card acquiring business have been reflected as discontinued operations throughout the annual report. Effective December 31, 2009, Bancard was dissolved and liquidated. The credit card issuing operation was merged in as a department of QCBT. In January 2013, QCBT sold its credit card portfolio and the related credit card issuing operations to a third party. In connection with the transaction, the Company expects a pre-tax gain, net of transaction-related costs, of approximately $800 thousand to be realized in the first quarter of 2013.

In February 2013, the Company entered into a definitive agreement to acquire Community National Bancorporation (Community National). The transaction is expected to close in the second quarter of 2013. Based on the closing price of the Company s common stock on February 13, 2013, the implied valuation of the acquisition is approximately $20.1 million. See Note 23 to the consolidated financial statements for further discussion of the acquisition.

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

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Subsidiary Banks. QCBT was capitalized on October 13, 1993, and commenced operations on January 7, 1994. QCBT 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. QCBT 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. QCBT, on a consolidated basis with m2, had total segment assets of $1.18 billion and $1.11 billion as of December 31, 2012 and 2011, respectively.

CRBT 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 a branch of QCBT. The Cedar Rapids branch operation then began functioning under the CRBT charter in September 2001. CRBT 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 CRBT is located in downtown Cedar Rapids, and its branch location is located in northern Cedar Rapids. CRBT had total segment assets of $625.7 million and $560.1 million as of December 31, 2012 and 2011, respectively.

RB&T 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 a branch of QCBT, and that operation began functioning under the RB&T charter in January 2005. RB&T 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. RB&T had total segment assets of $313.8 million and $294.4 million as of December 31, 2012 and 2011, respectively.

See Note 20 to the consolidated financial statements for additional business segment information.

Other Operating Subsidiaries. m2, 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. On August 26, 2005, QCBT acquired 80% of the membership units of m2. John Engelbrecht, the President and Chief Executive Officer of m2, retained 20% of the membership units. On August 31, 2012, QCBT acquired the 20% noncontrolling interest previously owned by John Engelbrecht.

VPHC was engaged in holding the real estate property known as the Velie Plantation Mansion in Moline, Illinois. Beginning in 1998, the Company held a 20% equity investment in VPHC. The Company acquired additional membership units in 2006 (37%), in 2009 (16%), and in 2010 (18%), bringing its total equity investment to 91%. During the fourth quarter of 2012, the Company acquired the remaining 9% noncontrolling interest and, effective as of December 31, 2012, VPHC was dissolved and liquidated.

On January 1, 2008, QCBT acquired 100% of the membership units of CMG Investment Advisors, LLC, which is an investment management and advisory company. During 2010, the operating subsidiary was renamed Quad City Investment Advisors, LLC.

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, 2012 and 2011:

Name	Date Issued	Amount Issued	Interest Rate	Interest Rate as of 12/31/12	Interest Rate as of 12/31/11
QCR Holdings Statutory Trust II	February 2004	$ 12,372,000	2.85% over 3-month LIBOR*	3.21%	3.22%
QCR Holdings Statutory Trust III	February 2004	8,248,000	2.85% over 3-month LIBOR	3.21%	3.22%
QCR Holdings Statutory Trust IV	May 2005	5,155,000	1.80% over 3-month LIBOR	2.14%	2.20%
QCR Holdings Statutory Trust V	February 2006	10,310,000	1.55% over 3-month LIBOR**	1.89%	1.95%
		$ 36,085,000	Weighted Average Rate	2.68%	2.71%

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* Rate was fixed at 6.93% until March 31, 2011 when it became variable based on 3-month LIBOR plus 2.85%, reset quarterly.
** Rate was fixed at 6.62% until April 7, 2011 when it became variable based on 3-month LIBOR plus 1.55%, reset quarterly.
Securities issued by Trust II, Trust III, Trust IV, and Trust V mature thirty years from the date of issuance, but are all currently callable at par at anytime.

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 subsidiaries, the Company owns a 20% equity position in Nobel Real Estate Investors, LLC. In June 2005, CRBT entered into a joint venture as a 50% owner of Cedar Rapids Mortgage Company, LLC.

The Company previously owned a 2.25% equity investment in Trisource Solutions, LLC (Trisource). On July 2, 2010, the Company exercised a put option and sold its equity investment back to the majority owner of Trisource for $750 thousand received in monthly installments of $10 thousand through July 2012, and a final balloon payment of $584 thousand received in August 2012. The gain (materially all of the sales proceeds) was recognized on a cash basis.

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. Its operating results also can be affected by trust fees, investment advisory and management fees, deposit service charge fees, gains on the sale of residential real estate and government guaranteed loans, earnings from bank-owned life insurance 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 Company and its subsidiaries collectively employed 356 and 355 full-time equivalents (FTEs) at December 31, 2012 and 2011, respectively.

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, QCBT and CRBT are regulated by the Iowa Superintendent of Banking (Iowa Superintendent) and RB&T is regulated by the State of Illinois Department of Financial and Professional Regulation (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 Company has an established lending/leasing policy which includes a number of underwriting factors to be considered in making a loan/lease, 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 QCBT and CRBT, calculated as 15% of aggregate capital, was $14.9 million and $8.4 million, respectively, as of December 31, 2012. In accordance with Illinois regulation, the legal lending limit to one borrower for RB&T, calculated as 25% of aggregate capital, totaled $9.4 million as of December 31, 2012.

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The Company recognizes the need to prevent excessive concentrations of credit exposure to any one borrower or group of related borrowers. As such, the Company has established an in-house lending limit, which is lower than each subsidiary bank s legal lending limit, in an effort to manage individual borrower exposure levels.

The in-house lending limit is the maximum amount of credit each subsidiary bank will extend to a single borrowing entity or group of related entities. Under the in-house limit, total credit exposure to a single borrowing entity or group of related entities will not exceed the following, subject to certain exceptions:

Quad City Bank & Trust:	$ 7.5 million
Cedar Rapids Bank & Trust:	$ 6.5 million
Rockford Bank & Trust:	$ 3.7 million

On a consolidated basis, the in-house lending limit is $10.0 million, which is the maximum amount of credit that all affiliated banks, when combined, will extend to a single borrowing entity or group of related entities, subject to certain exceptions.

In addition, m2 s in-house lending limit is $1.0 million to a single leasing entity or group of related entities.

As part of the loan monitoring activity at the three subsidiary banks, credit administration personnel interact closely with senior bank management. For example, the internal loan committee of each subsidiary bank meets weekly. 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 those situations.

The Company recognizes that a diversified loan/lease portfolio contributes to reducing risk in the overall loan/lease portfolio. The specific loan/lease portfolio mix is subject to change based on loan/lease demand, the business environment and various economic factors. The Company actively monitors concentrations within the loan/lease portfolio to ensure appropriate diversification and concentration risk is maintained.

Specifically, each subsidiary bank s total loans as a percentage of average assets may not exceed 85%. In addition, following are established policy limits and the actual allocations for the three subsidiary banks as of December 31, 2012 for the loan portfolio on a per loan type basis, reflected as a percentage of the subsidiary bank s average gross loans:

	Maximum Percentage	As of December 31, 2012		
Type of Loan*	per Loan Policy**	QCBT	CRBT	RB&T
One-to-four family residential	30%	15%	11%	19%
Multi-family	15%	4%	8%	5%
Farmland	5%	0%	0%	1%
Non-farm, nonresidential	50%	28%	40%	45%
Construction and land development	20%	5%	5%	3%
Commercial and industrial	60%	20%	30%	24%
Loans to individuals	10%	3%	2%	1%
Lease financing	20%	16%	0%	0%
All other loans	10%	9%	4%	2%
		100%	100%	100%
Bank stock loans***	15%	7%	0%	1%

* The loan types above are as defined and reported in the subsidiary banks quarterly Reports of Condition and Income (also known as Call Reports).

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** The maximum percentages listed are the same for all subsidiary banks except for CRBT, where the maximum percentage for one-to-four family residential is 25%, the maximum percentage for construction and land development is 15%, and the maximum percentage for lease financing receivables is 5%. Additionally, both CRBT and RB&T have maximum percentages for bank stock loans of 10%.

*** Bank stock loans are not a separate reportable line item on the Call Reports. The loans are reported within all other loans above.

The following table presents total loans/leases by major loan/lease type and subsidiary as of December 31, 2012 and 2011. 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	
	$	%	$	%	$	%	$	%	$	$	%
As of December 31, 2012:					(dollars in thousands)						
Commercial and industrial loans	$ 203,542	36%	$	0%	$ 130,261	35%	$ 60,441	26%	$	$ 394,244	31%
Commercial real estate loans	258,133	45%		0%	201,659	54%	136,025	58%	(1,838)	593,979	46%
Direct financing leases		0%	103,686	96%		0%		0%		103,686	8%
Residential real estate loans	60,666	11%		0%	27,863	7%	27,053	11%		115,582	9%
Installment and other consumer loans	47,621	8%		0%	17,425	4%	11,675	5%		76,721	6%
Deferred loan/lease origination costs, net of fees	(77)	0%	3,907	4%	(738)	0%	84	0%		3,176	0%
	$ 569,885	100%	$ 107,593	100%	$ 376,470	100%	$ 235,278	100%	$ (1,838)	$ 1,287,388	100%
As of December 31, 2011:											
Commercial and industrial loans	$ 177,069	34%	$	0%	$ 116,714	34%	$ 57,011	25%	$	$ 350,794	29%
Commercial real estate loans	260,895	49%		0%	184,338	53%	134,580	59%	(2,009)	577,804	48%
Direct financing leases		0%	93,212	97%		0%		0%		93,212	8%
Residential real estate loans	43,405	8%		0%	29,847	8%	24,855	11%		98,107	8%
Installment and other consumer loans	48,590	9%		0%	17,846	5%	11,787	5%		78,223	7%
Deferred loan/lease origination costs, net of fees	56	0%	3,217	3%	(703)	0%	35	0%		2,605	0%
	$ 530,015	100%	$ 96,429	100%	$ 348,042	100%	$ 228,268	100%	$ (2,009)	$ 1,200,745	100%

Proper pricing of loans is necessary to provide adequate return to the Company s stockholders. Loan pricing, as established by the subsidiary banks Asset/Liability Committee, shall include consideration for the cost of funds, loan maturity and risk, origination and maintenance costs, appropriate stockholder return, competitive factors, and the economic environment. The portfolio contains a mix of loans with fixed and floating interest rates. Management attempts to maximize the use of interest rate floors on its variable rate loan portfolio.

Commercial and Industrial Lending. As noted above, the subsidiary banks are active commercial and industrial lenders. The current areas of emphasis include loans to small and mid-sized businesses with a wide range of operations such as 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. Since 2010, the subsidiary banks have been active in participating in lending programs offered by the Small Business Administration (SBA) and the United States Department of Agriculture (USDA). Under these programs, the government entities will generally provide a guarantee of repayment ranging from 50% to 85% of the principal amount of the qualifying loan.

Loan approval is generally based on the following factors:

Ability and stability of current management of the borrower;

Stable earnings with positive financial trends;

Sufficient cash flow to support debt repayment;

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Earnings projections based on reasonable assumptions;

Financial strength of the industry and business; and

Value and marketability of collateral.

For commercial and industrial loans, the Company assigns internal risk ratings which are largely dependent upon the aforementioned approval factors. The risk rating is reviewed annually or on an as needed basis depending on the specific circumstances of the loan. See Note 1 to the consolidated financial statements for additional information, including the internal risk rating scale.

As part of the underwriting process, management reviews current borrower financial statements. When appropriate, certain commercial and industrial loans may contain covenants requiring maintenance of financial performance ratios such as, but not limited to:

Minimum debt service coverage ratio;

Minimum current ratio;

Maximum debt to tangible net worth ratio; and/or

Minimum tangible net worth

Establishment of these financial performance ratios depends on a number of factors, including risk rating and the specific industry.

Collateral for these loans generally includes accounts receivable, inventory, equipment, and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans must exceed the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash. Approved non-real estate collateral types and corresponding maximum advance percentages for each are listed below.

Approved Collateral Type	Maximum Advance %
Financial Instruments	
U.S. Government Securities	90% of market value
Securities of Federal Agencies	90% of market value
Municipal Bonds rated by Moody s As A or better	80% of market value
Listed Stocks	75% of market value
Mutual Funds	75% of market value
Cash Value Life Insurance	95%, less policy loans
Savings/Time Deposits (Bank)	100% of current value
General Business	
Accounts Receivable	80% of eligible accounts
Inventory	50% of value
Fixed Assets (Existing)	50% of net book value, or 75% of orderly liquidation appraised value
Fixed Assets (New)	80% of cost
Leasehold Improvements	0%

Generally, if the above collateral is part of a cross-collateralization with other approved assets, then the maximum advance percentage may be higher.

The lending policy specifies maximum term limits for commercial and industrial loans. For term loans, the maximum term is generally 7 years. Generally, term loans range from 3 to 5 years. For lines of credit, the maximum term is typically 365 days.

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In addition, the subsidiary banks often take personal guarantees or cosignors to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Commercial Real Estate Lending. The subsidiary banks also make commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those standards and processes specific to real estate loans. Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of commercial real estate (commercial real estate loans on improved property, raw land, land development, and commercial construction). These limits are the same limits as, or in some situations, more conservative than, those established by regulatory authorities. Following is a listing of these limits as well as some of the other guidelines included in the lending policy for the major categories of commercial real estate loans:

Commercial Real Estate Loan Types	Maximum Advance Rate**	Maximum Term
Commercial Real Estate Loans on Improved Property*	80%	7 years
Raw Land	Lesser of 90% of project cost, or 65% of as is appraised value	12 months
Land Development	Lesser of 90% of project cost, or 75% of appraised value	24 months
Commerical Construction Loans	Lesser of 90% of project cost, or 80% of appraised value	365 days

* Generally, the debt service coverage ratio must be a minimum of 1.25x for non-owner occupied loans and 1.15x for owner-occupied loans. For loans greater than $500 thousand, the subsidiary banks sensitivity test this ratio for deteriorated economic conditions, major changes in interest rates, and/or significant increases in vacancy rates.

** These maximum rates are consistent with , or in some situations, more conservative than, those established by regulatory authorities.

The lending policy also includes guidelines for real estate appraisals and evaluations, including minimum appraisal and evaluation standards based on certain transactions. In addition, the subsidiary banks often take personal guarantees to help assure repayment.

In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. Owner-occupied loans are generally considered to have less risk. As of December 31, 2012 and 2011, approximately 35% and 29%, respectively, of the commercial real estate loan portfolio was owner-occupied.

The Company s lending policy limits non-owner occupied commercial real estate lending to 300% of total risk-based capital, and limits construction, land development, and other land loans to 100% of total risk-based capital. Exceeding these limits warrants the use of heightened risk management practices in accordance with regulatory guidelines. As of December 31, 2012, all three subsidiary banks were in compliance with these limits.

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Following is a listing of the significant industries within the Company s commercial real estate loan portfolio as of December 31, 2012 and 2011:

	2012		2011	
	Amount	%	Amount	%
		(dollars in thousands)		
Lessors of Nonresidential Buildings	$ 178,060	30%	$ 179,511	31%
Lessors of Residential Buildings	61,460	10%	50,029	9%
Land Subdivision	28,854	5%	33,252	6%
New Car Dealers	27,079	5%	25,223	4%
Hotels	26,710	4%	19,061	3%
Lessors of Other Real Estate Property	12,765	2%	15,830	3%
New Single Family Construction	10,746	2%	10,788	2%
Other*	248,305	42%	244,110	42%
Total Commercial Real Estate Loans	$ 593,979	100%	$ 577,804	100%

* Other consists of all other industries. None of these had concentrations greater than $10.0 million, or 2.0% of total commercial real estate loans.

Direct Financing Leasing. m2 leases machinery and equipment to commercial and industrial customers under direct financing leases. All lease requests are subject to the credit requirements and criteria as set forth in the lending/leasing policy. In all cases, a formal independent credit analysis of the lessee is performed.

The following private and public sector business assets are generally acceptable to consider for lease funding:

- Computer systems
- Photocopy systems
- Fire trucks
- Specialized road maintenance equipment
- Medical equipment
- Commercial business furnishings
- Vehicles classified as heavy equipment
- Aircraft

- Equipment classified as plant or office equipment
- Marine boat lifts

m2 will generally refrain from funding leases of the following type:

- Leases collateralized by non-marketable items
- Leases collateralized by consumer items, such as vehicles, household goods, recreational vehicles, boats, etc.
- Leases collateralized by used equipment, unless its remaining useful life can be readily determined
- Leases with a repayment schedule exceeding 7 years

Residential Real Estate Lending. Generally, the subsidiary banks residential real estate 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 adjust in one to five years, and then retain these loans in their portfolios. During 2011 and 2012, the subsidiary banks originated and held a limited amount of 15-year fixed rate

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residential real estate loans that met certain credit guidelines. Servicing rights are not presently retained on the loans sold in the secondary market. The lending policy establishes minimum appraisal and other credit guidelines.

As mentioned above, 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,		
	2012	2011	2010
		(dollars in thousands)	
Originations of residential real estate loans	$ 151,676	$ 117,914	$ 164,572
Sales of residential real estate loans	$ 104,740	$ 83,926	$ 134,304
Percentage of sales to originations	69%	71%	82%

Installment and Other Consumer Lending. The consumer lending department of each subsidiary bank provides many types of consumer loans, including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type. In particular, for home equity loans and home equity lines of credit, the minimum credit bureau score is 680. For both home equity loans and lines of credit, the maximum advance rate is 90% of value with a minimum credit bureau score of 720, and the maximum advance rate is 80% of value with a credit bureau score of 680 to 719. The maximum term on home equity loans is 10 years and maximum amortization is 15 years. The maximum term on home equity lines of credit is 5 years.

In some instances for all loans/leases, it may be appropriate to originate or purchase loans/leases that are exceptions to the guidelines and limits established within the lending policy described above. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are generally noted as such and specifically identified in loan/lease approval documents.

Competition. The Company currently operates in the highly competitive Quad Cities, 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.

Internet Site, Securities Filings and Governance Documents. The Company maintains Internet sites for itself and each of 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 Securities Exchange Act of 1934 after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Also available are many of its corporate governance documents, including the Code of Conduct and Ethics Policy. The sites are www.qcrh.com, www.qcbt.com, www.crbt.com, and www.rkfdbank.com.

Supervision and Regulation

General. Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state

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statutes and by the regulations and policies of various bank regulatory authorities, including the Iowa Superintendent of Banking (the Iowa Superintendent), the Illinois Department of Financial and Professional Regulation (the DFPR), the Board of Governors of the Federal Reserve System (the Federal Reserve), the Federal Deposit Insurance Corporation (the FDIC) and the newly-created Bureau of Consumer Financial Protection (the CFPB). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (the FASB) and securities laws administered by the Securities and Exchange Commission (the SEC) and state securities authorities have an impact on the business of the Company. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the operations and results of the Company and its subsidiary Banks, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of financial institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These federal and state laws, and the regulations of the bank regulatory authorities issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends. Moreover, turmoil in the credit markets in recent years prompted the enactment of unprecedented legislation that has allowed the U.S. Department of the Treasury (the Treasury) to make equity capital available to qualifying financial institutions to help restore confidence and stability in the U.S. financial markets, which imposes additional requirements on institutions in which the Treasury invests.

The Company and its subsidiary Banks are also subject to regular examination by their respective regulatory authorities, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory or regulatory provision.

Financial Regulatory Reform. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) into law. The Dodd-Frank Act represents a sweeping reform of the supervisory and regulatory framework applicable to financial institutions and capital markets in the United States, certain aspects of which are described below in more detail. The Dodd-Frank Act creates new federal governmental entities responsible for overseeing different aspects of the U.S. financial services industry, including identifying emerging systemic risks. It also shifts certain authorities and responsibilities among federal financial institution regulators, including the supervision of holding company affiliates and the regulation of consumer financial services and products. In particular, and among other things, the Dodd-Frank Act: creates the CFPB, which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; narrows the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expands the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; imposes more stringent capital requirements on bank holding companies and subjects certain activities, including interstate mergers and acquisitions, to heightened capital conditions; significantly expands underwriting requirements applicable to

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loans secured by 1-4 family residential real property; restricts the interchange fees payable on debit card transactions for issuers with $10 billion in assets or greater; requires the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards to be determined by regulation; creates a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; provides for enhanced regulation of advisers to private funds and of the derivatives markets; enhances oversight of credit rating agencies; and prohibits banking agency requirements tied to credit ratings.

Numerous provisions of the Dodd-Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but there remain a number that have yet to be released in any form. Furthermore, while the reforms primarily target systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. Management of the Company will continue to evaluate the effect of the changes; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and its subsidiaries.

The Increasing Regulatory Emphasis on Capital. The Company is subject to various regulatory capital requirements administered by the federal and state banking regulators noted above. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (described below), the Company must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classifications are also subject to judgments by the regulators regarding qualitative components, risk weightings and other factors.

While capital has historically been one of the key measures of the financial health of both bank holding companies and depository institutions, its role is becoming fundamentally more important in the wake of the financial crisis, as the regulators have recognized that the amount and quality of capital held by banking organizations was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, will ultimately establish strengthened capital standards for banks and bank holding companies, will require more capital to be held in the form of common stock and will disallow certain funds from being included in capital determinations. Once fully implemented, these provisions will represent regulatory capital requirements that are meaningfully more stringent than those in place currently.

Company and Bank Required Capital Levels. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and were able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for bank holding companies on a consolidated basis that are as stringent as those required for insured depository institutions. As a consequence, over a phase-in period of three years, the components of holding company permanent capital known as Tier 1 capital are being restricted to capital instruments that are considered to be Tier 1 capital for insured depository institutions. A result of this change is that the proceeds of trust preferred securities are being excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets. Because the Company has assets of less than $15 billion, it is able to maintain its trust preferred proceeds as Tier 1 capital but will have to comply with new capital mandates in other respects, and will not be able to raise Tier 1 capital in the future through the issuance of trust preferred securities. In addition, the Basel III proposal, discussed below, includes a phase-out of trust preferred securities for all bank holding companies, including the Company.

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The Company owns three subsidiary banks (collectively, the Banks): Quad City Bank and Trust Company (QCBT), Cedar Rapids Bank and Trust Company (CRBT), and Rockford Bank and Trust Company (RB&T). Under current federal regulations, the Banks are subject to, and, after the phase-in period, the Company will be subject to, the following minimum capital standards:

- a leverage requirement, consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and

- a risk-based capital requirement, consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. For this purpose, Tier 1 capital consists primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus Tier 2 capital, which includes other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 capital, and a portion of the Banks allowance for loan and leases losses.

The capital standards described above are minimum requirements. Federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept brokered deposits. Under the capital regulations of the Federal Reserve, in order to be well-capitalized, a banking organization must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater. The Federal Reserve s guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the Federal Reserve will continue to consider a tangible tier 1 leverage ratio (deducting all intangibles) in evaluating proposals for expansion or to engage in new activity.

Higher capital levels may also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 capital less all intangible assets), well above the minimum levels.

Prompt Corrective Action**.** A banking organization s capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators powers depends on whether the institution in question is adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized, in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution s asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2012: (i) none of the Banks was subject to a directive from the Federal Reserve to increase capital to an amount in excess of the minimum regulatory capital requirements; (ii) each Bank exceeded its minimum regulatory capital requirements under Federal Reserve capital adequacy guidelines; and (iii) each Bank was well-capitalized, as defined by Federal Reserve regulations. As of December 31, 2012, the Company had regulatory capital in excess of the Federal Reserve s requirements and met the Dodd-Frank capital requirements.

Basel III**.** The current risk-based capital guidelines described above, which apply to the Banks and are being phased in for the Company, are based upon the 1988 capital accord known as Basel I adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking regulators on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as Basel II, for large or core international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more). Basel II emphasized internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. Basel III requires, among other things:

- a new required ratio of minimum common equity equal to 4.5% of risk-weighted assets,

- an increase in the minimum required amount of Tier 1 capital from the current level of 4% of total assets to 6% of risk-weighted assets, and

- a continuation of the current minimum required amount of total capital at 8% of risk-weighted assets.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in common equity attributable to a capital conservation buffer to be phased in over three years. The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the ratios depicted above to 7% for common equity, 8.5% for Tier 1 capital and 10.5% for total capital.

On June 12, 2012, the federal banking regulators (the Office of the Comptroller of the Currency, the Federal Reserve and the FDIC) (the Agencies) formally proposed for comment, in three separate but related proposals, rules to implement Basel III in the United States. The proposals are: (i) the Basel III Proposal, which applies the Basel III capital framework to almost all U.S. banking organizations; (ii) the Standardized Approach Proposal, which applies certain elements of the Basel II standardized approach for credit risk weightings to almost all U.S. banking organizations; and (iii) the Advanced Approaches Proposal, which applies changes made to Basel II and Basel III in the past few years to large U.S. banking organizations subject to the advanced Basel II capital framework. The comment period for these notices of proposed rulemaking ended October 22, 2012.

The Basel III Proposal and the Standardized Approach Proposal are expected to have a direct impact on the Company and the Banks. The Basel III Proposal is applicable to all U.S. banks that are subject to minimum capital requirements, including federal and state banks, as well as to bank and savings and loan holding companies other than small bank holding companies (generally bank holding companies with consolidated assets of less than $500 million). There will be separate phase-in/phase-out periods for: (i) minimum capital ratios; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; (iv) capital conservation and countercyclical capital buffers; (v) a supplemental leverage ratio for advanced approaches banks; and (vi) changes to the FDIC s prompt corrective action rules.

The criteria in the U.S. proposal for common equity and additional Tier 1 capital instruments, as well as Tier 2 capital instruments, are broadly consistent with the Basel III criteria. A number of instruments that now qualify as Tier 1 capital will not qualify, or their qualification will change, if the Basel III Proposal becomes final. For example, cumulative preferred stock and certain hybrid capital instruments, including trust preferred securities, which the Company may retain under the Dodd-Frank Act, will no longer qualify as Tier 1 capital of any kind. Noncumulative perpetual preferred stock, which now qualifies as simple Tier 1 capital, would not qualify as common equity Tier 1 capital, but would qualify as additional Tier 1 capital.

In addition to the changes in capital requirements included within the Basel III Proposal, the Standardized Approach Proposal revises a large number of the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios. For nearly every class of assets, the proposal requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings. For example, under the current risk-weighting rules, residential mortgages have a risk weighting of 50%. Under the proposed new rules, two categories of residential mortgage lending would be created: (i) traditional lending would be category 1, where the risk weightings range from 35 to 100%; and (ii) nontraditional loans would fall within category 2, where the risk weightings would range from 50 to 150%. There is concern in the U.S. that the proposed methodology for risk weighting residential mortgage exposures and the higher risk weightings for certain types of mortgage products will increase costs to consumers and reduce their access to mortgage credit.

In addition, there is significant concern noted by the financial industry in connection with the Basel III rulemaking as to the proposed treatment of accumulated other comprehensive income (AOCI). The proposed treatment of AOCI would require unrealized gains and losses on available-for-sale securities to flow through to regulatory capital as opposed to the current treatment, which neutralizes such effects. There is concern that this treatment would introduce capital volatility, due not only to credit risk but also to interest rate risk, and affect the composition of firms securities holdings.

While the Basel III accord called for national jurisdictions to implement the new requirements beginning January 1, 2013, in light of the volume of comments received by the Agencies and the concerns expressed above, the Agencies have indicated that the commencement date for the proposed Basel III rules has been delayed and it is unclear when the Basel III regime, as it may be implemented by final rules, will become effective in the United States.

The Company.

General**.** The Company, as the sole stockholder of the Banks, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the BHCA). In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, the Company is legally obligated to act as a source of financial strength to the Banks and to commit resources to support the Banks in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is also required to file with the Federal Reserve periodic reports of the Company s operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA and the Dodd-Frank Act), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore,

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in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see The Increasing Regulatory Emphasis on Capital above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be so closely related to banking. as to be a proper incident thereto. This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, the Company has not elected to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring control of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. Control is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements**.** Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see The Increasing Regulatory Emphasis on Capital above. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

U.S. Government Investment in Bank Holding Companies**.** Events in the U.S. and global financial markets in 2008 and 2009, including the deterioration of the worldwide credit markets, created significant challenges for financial institutions throughout the country. In response to this crisis affecting the U.S. banking system and financial markets, on October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the EESA). The EESA authorized the Secretary of the Treasury to implement various temporary emergency programs designed to strengthen the capital positions of financial institutions and stimulate the availability of credit within the U.S. financial system. Financial institutions participating in certain of the programs established under the EESA are required to adopt the Treasury s standards for executive compensation and corporate governance.

On October 14, 2008, the Treasury announced that it would provide Tier 1 capital (in the form of perpetual preferred stock) to eligible financial institutions. This program, known as the TARP Capital Purchase Program (the TCPP), allocated $250 billion from the $700 billion authorized by the EESA to the Treasury for the purchase of senior preferred shares from qualifying financial institutions (the TCPP Preferred Stock). Under the program, eligible institutions were able to sell equity interests to the Treasury in amounts equal to between 1% and 3% of the institution s risk-weighted assets. In conjunction with the purchase of the TCPP Preferred

Stock, the Treasury received warrants to purchase common stock from the participating public institutions with an aggregate market price equal to 15% of the preferred stock investment. Participating financial institutions were required to adopt the Treasury s standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TCPP.

Pursuant to the TCPP, on February 13, 2009, the Company entered into a Letter Agreement with the Treasury, pursuant to which the Company issued (i) 38,237 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series D (the Series D Preferred Stock) and (ii) a warrant to purchase 521,888 shares of the Company s common stock for an aggregate purchase price of $38.237 million in cash.

Small Business Lending Fund and TCPP Redemption. Under the Small Business Jobs Act of 2010, the Treasury established a Small Business Lending Fund (the SBLF), a $30 billion fund that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. The Company applied for the SBLF program, was accepted, and on September 15, 2011, entered into a Securities Purchase Agreement (the Purchase Agreement) with the Treasury, pursuant to which it issued and sold to the Treasury 40,090 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series F (the Series F Preferred Stock), having a liquidation preference of $1,000 per share (the Liquidation Amount), for aggregate proceeds of $40,090,000. On the same date, the Company redeemed from the Treasury, using the proceeds from the issuance of the Series F Preferred Stock, all 38,237 outstanding shares of its Series D Preferred Stock issued under the TCPP, for a redemption price of approximately $38.4 million, including accrued but unpaid dividends to the date of redemption. The Treasury remitted a cash payment to the Company in the amount of approximately $1.7 million to cover the difference between the outstanding balance of the Series D Preferred Stock and the proceeds from the issuance of the Series F Preferred Stock. As a result of its redemption of the Series D Preferred Stock, the Company is no longer subject to the limits on executive compensation and other restrictions stipulated under the TCPP. The Company also repurchased the warrant issued to the Treasury in November of 2011 for an aggregate purchase price of $1.1 million.

On June 29, 2012, the Company redeemed 10,223 shares of the Series F Preferred Stock from the Treasury for an aggregate redemption amount of $10,223,000 plus unpaid dividends to the date of redemption of $124,948. The remaining Series F Preferred Stock may be redeemed at any time at the option of the Company, subject to the approval of the Company s primary federal banking regulator. All redemptions must be in amounts equal to at least 25% of the number of originally issued shares, or 100% of the then-outstanding shares (if less than 25% of the originally issued shares).

Dividend Payments. 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. As a Delaware corporation, the Company is subject to the limitations of the Delaware General Corporation Law (the DGCL), which allow the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

As a general matter, the Federal Reserve indicates that the board of directors of a bank holding company should eliminate, defer or significantly reduce the dividends if: (i) the company s net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company s capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

The terms of the Series F Preferred Stock issued in connection with the SBLF impose limits on the Company s ability to pay dividends on and repurchase shares of its common stock and other securities. In general, the Company

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may declare and pay dividends on its common stock or any other stock junior to the Series F Preferred Stock, or repurchase shares of any such stock, only, if after payment of such dividends or repurchase of such shares, the Company s Tier 1 Capital would be at least 90% of the Signing Date Tier 1 Capital (as defined and set forth in the Certificate of Designation), excluding any subsequent net charge-offs and any redemption of the Series F Preferred Stock (the Tier 1 Dividend Threshold). The Tier 1 Dividend Threshold is subject to reduction, beginning on the 2nd anniversary and ending on the 10th anniversary of issuance of the Series F Preferred Stock, by 10% for each one 1% increase in the Banks QSBL over the baseline level. If, however, the Company fails to declare and pay dividends on the Series F Preferred Stock in a given quarter, then during such quarter and for the next three quarters following such missed dividend payment the Company may not pay dividends on or repurchase any common stock or any other securities that are junior to (or in parity with) the Series F Preferred Stock, except in very limited circumstances. If any Series F Preferred Stock remains outstanding on the 10th anniversary of issuance, the Company may not pay any further dividends on its common stock or any other junior stock until the Series F Preferred Stock is redeemed in full.

Federal Securities Regulation**.** The Company s common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance**.** The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company s proxy materials. The legislation also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Banks.

General**.** The Company owns three subsidiary banks: QCBT and CRBT are chartered under Iowa law (collectively, the Iowa Banks) and RB&T is chartered under Illinois law. The deposit accounts of the Banks are insured by the FDIC s Deposit Insurance Fund (DIF) to the maximum extent provided under federal law and FDIC regulations. The Banks are also members of the Federal Reserve System (member banks).

As Iowa-chartered, FDIC-insured member banks, the Iowa Banks are subject to the examination, supervision, reporting and enforcement requirements of the Iowa Superintendent, as the chartering authority for Iowa banks. As an Illinois-chartered, FDIC-insured member bank, RB&T is subject to the examination, supervision, reporting and enforcement requirements of the DFPR, as the chartering authority for Illinois banks. The Banks are also subject to the examination, reporting and enforcement requirements of the Federal Reserve, as the primary federal regulator of member banks. In addition, the FDIC, as administrator of the DIF, has regulatory authority over the Banks.

Deposit Insurance**.** As FDIC-insured institutions, the Banks are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

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. As such, on December 31, 2009, the Banks prepaid the FDIC its assessments. The FDIC determined each institution s prepaid assessment based on the institution s: (i) actual September 30, 2009

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assessment base, increased quarterly by a 5% annual growth rate through the fourth quarter of 2012; and (ii) total base assessment rate in effect on September 30, 2009, increased by an annualized three basis points beginning in 2011. The FDIC began to offset prepaid assessments on March 30, 2010, representing payment of the regular quarterly risk-based deposit insurance assessment for the fourth quarter of 2009. Any prepaid assessment not exhausted after collection of the amount due on June 30, 2013, will be returned to the institution.

Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution s deposit insurance premiums paid to the DIF will be calculated. Under the amendments, the assessment base will no longer be the institution s deposit base, but rather its average consolidated total assets less its average tangible equity. This may shift the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC is given until September 3, 2020 to meet the 1.35% reserve ratio target. Several of these provisions could increase the Banks FDIC deposit insurance premiums.

The Dodd-Frank Act permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per insured depositor, retroactive to January 1, 2009. Although the legislation provided that non-interest-bearing transaction accounts had unlimited deposit insurance coverage through December 31, 2012.

FICO Assessments. The Financing Corporation (FICO) is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO s authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO s outstanding obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2012, the FICO assessment rate was approximately 0.0066%, which reflects the change from an assessment base computed on deposits to an assessment base computed on assets as required by the Dodd-Frank Act.

Supervisory Assessments. Each of the Banks is required to pay supervisory assessments to its respective state banking regulator to fund the operations of that agency. The amount of the assessment payable by each Bank is calculated on the basis of that Bank s total assets. During the year ended December 31, 2012, the Iowa Banks paid supervisory assessments to the Iowa Superintendent totaling $160 thousand and RB&T paid supervisory assessments to the DFPR totaling $48 thousand.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see The Increasing Regulatory Emphasis on Capital above.

Liability of Commonly Controlled Institutions. Under federal law, institutions insured by the FDIC may be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of commonly controlled FDIC-insured depository institutions or any assistance provided by the FDIC to commonly controlled FDIC-insured depository institutions in danger of default. Because the Company controls each of the Banks, the Banks are commonly controlled for purposes of these provisions of federal law.

Dividend Payments. The primary source of funds for the Company is dividends from the Banks. In general, the Banks may only pay dividends either out of their historical net income after any required transfers to surplus or reserves have been made or out of their retained earnings. The Federal Reserve Act also imposes limitations on the amount of dividends that may be paid by state member banks, such as the Banks. Without prior Federal

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Reserve approval, a state member bank may not pay dividends in any calendar year that, in the aggregate, exceed the bank s calendar year-to-date net income plus the bank s retained net income for the two preceding calendar years.

The payment of dividends by any financial institution 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. As described above, each of the Banks exceeded its minimum capital requirements under applicable guidelines as of December 31, 2012. As of December 31, 2012, approximately $10.9 million was available to be paid as dividends by the Banks. Notwithstanding the availability of funds for dividends, however, the Federal Reserve may prohibit the payment of any dividends by the Banks if the Federal Reserve determines such payment would constitute an unsafe or unsound practice.

Insider Transactions**.** The Banks are subject to certain restrictions imposed by federal law on covered transactions between the Banks and their affiliates. The Company is an affiliate of each Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Banks. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates as of July 21, 2011, including an expansion of the definition of covered transactions and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Banks to directors and officers, to directors and officers of the Company, to principal stockholders of the Company and to related interests of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Banks, or a principal stockholder of the Company, may obtain credit from banks with which the Banks maintain correspondent relationships.

Safety and Soundness Standards**.** The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator s order is cured, the regulator may restrict the institution s rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority**.** The Iowa Banks have the authority under Iowa law to establish branches anywhere in the State of Iowa, subject to receipt of all required regulatory approvals. In 1997, the Company formed a de novo Illinois bank that was merged into QCBT, resulting in QCBT establishing a branch office in Illinois. Under Illinois law, QCBT may continue to establish offices in Illinois to the same extent permitted for an Illinois bank

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(subject to certain conditions, including certain regulatory notice requirements). Similarly, RB&T has the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) has historically been permitted only in those states the laws of which expressly authorize such expansion. However, the Dodd-Frank Act permits well-capitalized and well-managed banks to establish new branches across state lines without these impediments.

State Bank Investments and Activities**.** The Banks are permitted to make investments and engage in activities directly or through subsidiaries as authorized by Iowa or Illinois law, as applicable. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Banks.

Transaction Account Reserves**.** Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2013: the first $12.4 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than $12.4 million to $79.5 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $79.5 million, the reserve requirement is $2,013,000 plus 10% of the aggregate amount of total transaction accounts in excess of $79.5 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Banks are in compliance with the foregoing requirements.

Consumer Financial Service.

There are numerous developments in federal and state laws regarding consumer financial products and services that impact the Banks business. Importantly, the current structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Banks, as well as the authority to prohibit unfair, deceptive or abusive acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like the Banks, will continue to be examined by their applicable bank regulators.

Ability-to-Repay Requirement and Qualified Mortgage Rule**.** The Dodd-Frank Act contains additional provisions that affect consumer mortgage lending. First, it significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property and augments federal law combating predatory lending practices. In addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower s ability to repay, while also establishing a presumption of compliance for certain qualified mortgages. Most significantly, the new standards limit the total points and fees that the Banks and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells and other asset-backed securities that the securitizer issues if the loans have not complied with the ability-to-repay standards. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.

On January 10, 2013, the CFPB issued a final rule, effective January 10, 2014, which implements the Dodd-Frank Act s ability-to-repay requirements and clarifies the presumption of compliance for qualified mortgages. In assessing a borrower s ability to repay a mortgage-related obligation, lenders generally must consider eight underwriting factors: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) monthly payment on the subject transaction; (iv) monthly payment on any simultaneous loan; (v) monthly payment for all mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) monthly debt-to-income ratio or residual income; and (viii) credit history. The final rule also includes guidance regarding the application of, and methodology for evaluating, these factors.

Further, the final rule also clarifies that qualified mortgages do not include no-doc loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the monthly payment must be calculated on the highest payment that will occur in the first five years of the loan, and the borrower s total debt-to-income ratio generally may not be more than 43%. The final rule also provides that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership) or the U.S. Department of Housing and Urban Development, Department of Veterans Affairs, or Department of Agriculture or Rural Housing Service are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provides for a rebuttable presumption of lender compliance for those loans. The final rule also applies the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (*i.e.*, a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibits prepayment penalties (subject to certain exceptions) and sets forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Changes to Mortgage Loan Originator Compensation**.** Effective April 2, 2011, previously existing regulations concerning the compensation of mortgage loan originators were amended. As a result of these amendments, mortgage loan originators may not receive compensation based on a mortgage transaction s terms or conditions other than the amount of credit extended under the mortgage loan. Further, the new standards limit the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from steering consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Foreclosure and Loan Modifications**.** Federal and state laws further impact foreclosures and loan modifications, with many of such laws having the effect of delaying or impeding the foreclosure process on real estate secured loans in default. Mortgages on commercial property can be modified, such as by reducing the principal amount of the loan or the interest rate, or by extending the term of the loan, through plans confirmed under Chapter 11 of the Bankruptcy Code. In recent years, legislation has been introduced in the U.S. Congress that would amend the Bankruptcy Code to permit the modification of mortgages secured by residences, although at this time the enactment of such legislation is not presently proposed. The scope, duration and terms of potential future legislation with similar effect continue to be discussed. We cannot predict whether any such legislation will be passed or the impact, if any, it would have on our business.

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Properties of QCR Holdings

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*
5405 Utica Ridge Road in Davenport, IA	7,400	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 was previously owned by VPHC. With the acquisition of the remaining 9% noncontrolling interest and the subsequent dissolution of VPHC, the Company now owns 100% of the building as of December 31, 2012.

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.

Legal Proceedings

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

Stock Information

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, 2012, there were 4,918,202 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.

	2012 Sales Price		2011 Sales Price		2010 Sales Price	
	High	Low	High	Low	High	Low
First quarter	$ 12.450	$ 8.500	$ 8.670	$ 7.220	$ 10.000	$ 7.650
Second quarter	14.500	10.700	9.470	7.290	14.400	8.730
Third quarter	14.980	12.620	9.928	8.701	10.970	8.930
Fourth quarter	15.500	11.400	9.234	8.420	9.520	6.745

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Dividends on Common Stock. On May 2, 2012, the Company declared a cash dividend of $0.04 per share, or $189 thousand, which was paid on July 6, 2012, to stockholders of record as of June 21, 2012. On November 8, 2012, the Company declared a cash dividend of $0.04 per share, or $192 thousand, which was paid on January 7, 2013, to stockholders of record as of December 22, 2012. 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 to redeem the Series F Noncumulative Perpetual Preferred Stock (the Series F Preferred Stock (see Note 10 to the consolidated financial statements for a detailed discussion of preferred stock) in the short-term and for continued growth in the long-term, 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. Additionally, the Company has issued shares of non-cumulative perpetual preferred stock and under the terms of this preferred stock, the Company may be prohibited, under certain circumstances, from paying dividends on shares of its common stock. See Note 10 to the consolidated financial statements for additional detail on the preferred stock. None of these circumstances existed through the date of filing of this Form S-4 filed with the Securities and Exchange Commission.

Purchase of Equity Securities by the Company. There were no purchases of common stock by the Company for the years ended December 31, 2012, 2011, and 2010.

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Directors and Executive Officers

Our directors are divided into three classes having staggered terms of three years. At QCR s next annual meeting, scheduled for May 1, 2013, stockholders have been asked to elect four Class II directors for a term expiring in 2016. The board has considered and nominated current directors Patrick S. Baird, Larry J. Helling, Douglas M. Hultquist and Mark C. Kilmer to serve as Class II directors of QCR Holdings. Charles M. Peters, a Class II director since 2007, informed the board that he would not seek re-election for an additional term as a director of QCR Holdings, and accordingly, the board did not re-nominate him for election at this year s meeting. As a result, his directorship will end at the 2013 annual meeting of stockholders. Following the merger, Michael L. Peterson, CNB s current Chairman of the Board, will be appointed to the board as a Class III director.

Name - (Age)	**Director Since**	**Positions with QCR Holdings and subsidiaries**
CLASS II *(Pending re-election at the May 1, 2013 stockholder meeting (New term will expire in 2016)*		
Patrick S. Baird (Age 59)	2010	Vice Chairman of the Board and Director of QCR Holdings; Vice Chairman of the Board and Director of Cedar Rapids Bank and Trust
Larry J. Helling (Age 57)	2001	Director of QCR Holdings; President, Chief Executive Officer and Director of Cedar Rapids Bank and Trust; Director of Quad City Bank and Trust; Director of m2 Lease Funds
Douglas M. Hultquist (Age 57)	1993	President, Chief Executive Officer and Director of QCR Holdings; Director of Quad City Bank and Trust; Director of Rockford Bank and Trust; Director of m2 Lease Funds
Mark C. Kilmer (Age 54)	2004	Director of QCR Holdings; Chairman of the Board and Director of Quad City Bank and Trust
CLASS III (Term expires 2014)		
John K. Lawson (Age 73)	2000	Director of QCR Holdings
Ronald G. Peterson (Age 69)	1993	Director of QCR Holdings; Director of Quad City Bank and Trust
John D. Whitcher (Age 58)	2008	Director of QCR Holdings; Chairman of the Board and Director of Rockford Bank and Trust
Marie Z. Ziegler (Age 55)	2008	Director of QCR Holdings; Director of Quad City Bank and Trust
Michael L. Peterson (Age 51)		Chairman of the Board and Director of Community National and Community National Bank; will be appointed to QCR Holdings board following the merger
CLASS I (Term Expires 2015)		
James J. Brownson (Age 67)	1997	Chairman of the Board and Director of QCR Holdings; Director of Quad City Bank and Trust
Lindsay Y. Corby (Age 35)	2012	Director of QCR Holdings
Todd A. Gipple (Age 49)	2009	Director of QCR Holdings; Executive Vice President, Chief Operating Officer, and Chief Financial Officer of QCR Holdings; Director of Quad City Bank and Trust; Director of Cedar Rapids Bank and Trust; Director of Rockford Bank and Trust
Donna J. Sorensen (Age 63)	2009	Director of QCR Holdings; Chairman of the Board and Director of Cedar Rapids Bank and Trust

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All of our continuing directors and nominees will hold office for the terms indicated, or until their earlier death, resignation, removal, disqualification, or ineligibility due to exceeding age eligibility requirements (a person who has reached age 72 before the date of the annual meeting is not eligible for election to the board) and until their respective successors are duly elected and qualified. All of our executive officers hold office for a term of one year. There are no arrangements or understandings between any of the directors, executive officers or any other person pursuant to which any of our directors or executive officers have been selected for their respective positions. Mr. Hultquist is a director of United Fire Group, Inc. and Mr. Baird is a director of National Financial Partners Corp, both companies with securities registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). No other nominee or director has been a director of another company with securities registered under the Exchange Act within the past five years.

The business experience of each of the directors of QCR Holdings following the merger for the past five years, as well as their qualifications to serve on the board, are as follows:

Patrick S. Baird is the retired President and Chief Executive Officer of AEGON USA, LLC, the U.S. subsidiary of the AEGON Insurance Group, a leading multinational insurance organization. Mr. Baird joined the AEGON USA companies in 1976. He was appointed to that position in March 2002, having previously served as Executive Vice President and Chief Operating Officer, Chief Financial Officer and Chief Tax Officer. He is a graduate of the University of Iowa, and is a Certified Public Accountant. Mr. Baird was appointed by the Governor of the State of Iowa to the Ijobs Commission as Vice Chairman and also serves as a Commissioner for the Eastern Iowa Airport. Mr. Baird is also a founding board member and Treasurer of the Zach Johnson Foundation. He currently serves as a director, audit committee member and compensation committee member for National Financial Partners, a NYSE listed firm. Mr. Baird has been a director of Cedar Rapids Bank and Trust since its formation in 2001. We consider Mr. Baird to be a qualified candidate for service on the board and on the committees he is a member of due to his experience as the President and Chief Executive Officer of a successful insurance company in Cedar Rapids, Iowa, one of our market areas, his knowledge of the business community in this area and his broad based financial acumen.

James J. Brownson is President of W.E. Brownson Co., a manufacturers representative agency located in Eldridge, Iowa involved in the sale of custom engineered products to OEM manufacturers in the Midwest, and has been in that position since 1978. Mr. Brownson is a graduate of St. Ambrose University, Davenport, Iowa and the Graduate School of Banking, University of Wisconsin, Madison, Wisconsin. He began his career in 1967 as a member of the audit staff at Arthur Young & Co., in Chicago, Illinois. From 1969 until 1978, Mr. Brownson was employed by Davenport Bank and Trust Company, where he left as Senior Vice President and Cashier. He is a past member of the National Sales Representative Council of Crane Plastics, Columbus, Ohio, and Dayton Rogers Manufacturing Co., Minneapolis, Minnesota. Mr. Brownson has been a featured speaker at national *Bank Director Magazine* and *SNL Financial* conferences on the role of the board of directors in executive compensation, strategic planning and the boards strategic role in successful community banking. Mr. Brownson has served on the board of directors of the United Way of the Quad Cities, Junior Achievement of the Quad Cities, St. Ambrose University Alumni Association and United Cerebral Palsy of the Quad Cities. Mr. Brownson has been a director of Quad City Bank and Trust since its formation in October 1993. We consider Mr. Brownson to be a qualified candidate for service on the board and the committees he is a member of due to his experience as the President of a successful manufacturer s representative business in Davenport, Iowa, one of our market areas, his prior experience in banking and public accounting, his educational background in banking, his participation in numerous national banking conferences, and his knowledge of the business community throughout the Midwest.

Lindsay Y. Corby is a Principal at BXM Holdings, Inc., based in Chicago, Illinois, a financial services company formed to facilitate recapitalization transactions in depository institutions. Ms. Corby joined BXM Holdings, Inc. in February 2011. Prior to joining BXM Holdings, Ms. Corby was a Vice President in the investment banking group of Keefe, Bruyette & Woods, holding various positions since 2001. During her years at KBW, she focused on mergers and acquisitions, capital markets transactions, complex recapitalizations and valuation activities for U.S. financial institutions. Prior to joining KBW, Ms. Corby worked at Merrill Lynch as an analyst in its Technology Investment Banking Group. Ms. Corby received a M.S. in Accounting, a B.A. in Spanish and a B.B.A. in Accounting from Southern Methodist University. Ms. Corby is a graduate of the Kellogg Executive Education, Women s Senior Leadership Program, and is a Registered Certified Public Accountant. We consider Ms. Corby to be a qualified candidate for service on the board and the committees she is a member of due to her experience in the investment banking area advising financial institutions and her education and training.

Todd A. Gipple is a Certified Public Accountant and began his career with KPMG Peat Marwick in 1985. In 1991, McGladrey & Pullen acquired the Quad Cities practice of KPMG. Mr. Gipple was named Tax Partner with McGladrey & Pullen in 1994 and served as the Tax Partner-in-Charge of the firm s Mississippi Valley Practice and as one of five Regional Tax Coordinators for the national firm. He specialized in Financial Institutions Taxation and Mergers and Acquisitions throughout his 14-year career in Public Accounting. He joined QCR Holdings in January of 2000, and currently serves as Executive Vice President, Chief Operating Officer and Chief Financial Officer. He also serves as a Director of Quad City Bank and Trust, Cedar Rapids Bank and Trust, and Rockford Bank and Trust. Mr. Gipple previously served on the board of directors and the Executive Committee of the Davenport Chamber of Commerce, United Way of the Quad Cities and the Scott County Beautification Foundation, and was a member of the original Governing Body for the Quad City s Success by 6 Initiative. Mr. Gipple currently serves on the Audit Committee for the Community Foundation of the Great River Bend. He is also Chairman of the board of directors of SAL Family and Community Services, and is a member of the American Institute of CPAs and the Iowa Society of CPAs. We consider Mr. Gipple to be a qualified candidate for service on the board and the committees he is a member of due to his experience as the Chief Financial Officer and Chief Operating Officer of QCR Holdings and his prior experience as a tax partner in public accounting.

Larry J. Helling was previously the Executive Vice President and Regional Commercial Banking Manager of Firstar Bank in Cedar Rapids with a focus on the Cedar Rapids metropolitan area and the Eastern Iowa region. Prior to his six years with Firstar, Mr. Helling spent twelve years with Omaha National Bank. Mr. Helling is a graduate of the Cedar Rapids Leadership for Five Seasons program and currently serves on the board of trustees of the United Way of East Central Iowa and the board of trustees of Junior Achievement. He is past President and a member of the Rotary Club of Cedar Rapids, on the board of the Entrepreneurial Development Center, is past Chairman and board member of the Downtown Cedar Rapids Self-Supported Municipal Improvement District and is on the board of the Human Services Campus of East Central Iowa. We consider Mr. Helling to be a qualified candidate for service on the board and the committees he is a member of due to his past experience as an executive officer of Firstar Bank, located in Cedar Rapids, Iowa, one of our market areas, and his prior banking experience.

Douglas M. Hultquist is a certified public accountant and previously served as a tax partner with two major accounting firms. He began his career with KPMG Peat Marwick in 1977 and was named a partner in 1987. In 1991, the Quad Cities office of KPMG Peat Marwick merged with McGladrey & Pullen. Mr. Hultquist served as a tax partner in the Illinois Quad Cities office of McGladrey & Pullen from 1991 until co-founding QCR Holdings in 1993. During his public accounting career, Mr. Hultquist specialized in bank taxation, taxation of closely held businesses, and mergers and acquisitions. Mr. Hultquist served on the board of directors of the PGA TOUR John Deere Classic and was its Chairman for the July 2001 tournament. Mr. Hultquist serves on the board of United Fire Group, Inc., and is chair of its Risk Management Committee, is past chairman of the Augustana College board of trustees, a past president of the Quad City Estate Planning Council, past finance chairman of Butterworth Memorial Trust and previously served on the board of the Illinois Bankers Association. He is also a member of the American Institute of CPAs and the Iowa Society of CPAs, and was recently selected as the Iowa Society of CPAs Outstanding CPA in Business and Industry for 2011. Mr. Hultquist is a member of the Quad Cities Chamber of Commerce board of directors, and is Chair of its Finance Committee, is a board member of the Rock Island County Children s Advocacy Center and participates in Big Brothers/Big Sisters. He received his undergraduate degree from Augustana College in Accounting and Economics in 1977 and in 2009 received an

Honorary Doctorate degree from the college. Along with QCR Holdings co-founder Mr. Michael A. Bauer, Mr. Hultquist received the 1998 Ernst & Young Entrepreneur of the Year award for the Iowa and Nebraska region and was inducted into the Quad Cities Area Junior Achievement Business Hall of Fame in 2003. We consider Mr. Hultquist to be a qualified candidate for service on the board and the committees he is a member of due to his experience as the President and Chief Executive Officer of QCR Holdings and his prior public accounting experience as a tax partner.

Mark C. Kilmer is President of The Republic Companies, a family-owned group of businesses founded in 1916 and headquartered in Davenport, Iowa involved in the wholesale equipment and supplies distribution of energy management, electrical, refrigeration, heating, air-conditioning and sign support systems. Prior to joining Republic in 1984, Mr. Kilmer worked in the Management Information Systems Department of Standard Oil of California (Chevron) in San Francisco. Mr. Kilmer currently is a board member of The Genesis Health System and serves on the board of directors of IMARK Group, Inc., a national member-owned purchasing cooperative of electric supplies and equipment distributors. He is a two-term past chairman of the PGA TOUR John Deere Classic and the past chairman of the Scott County YMCA s board of directors. Mr. Kilmer is the past chairman of the board of Genesis Medical Center, and has served on the board of directors of The Genesis Heart Institute, St. Luke s Hospital, Rejuvenate Davenport, The Vera French Foundation and Trinity Lutheran Church. He was a four-time project business consultant for Junior Achievement. Mr. Kilmer has been a director of Quad City Bank and Trust since February 1996 and named its Chairman in January 2007. Prior to joining the board of Quad City Bank and Trust, Mr. Kilmer served on the board of Citizen s Federal Savings Bank in Davenport, Iowa. We consider Mr. Kilmer to be a qualified candidate for service on the board and the committees he is a member of due to his experience as the President of a successful wholesale and supply distribution business in Davenport, Iowa, one of our market areas, prior service on a bank board and his knowledge of the business community in this area.

John K. Lawson began his career with Deere & Company in 1958 as an engineering co-op trainee and worked in various positions with Deere & Company until his retirement in 2002. He received his mechanical engineering degree in 1962 from Iowa State University. Mr. Lawson held a variety of positions in several manufacturing operations, including General Manager in Dubuque and Davenport. In 1985, Mr. Lawson was named Vice President, Manufacturing, Agricultural Equipment Division. In 1992, he became President of the Construction Division. In his final position with Deere & Company as Senior Vice President, Technology and Engineering for Deere & Company, Mr. Lawson was responsible for the company s engineering, business computer systems, quality, supply management and communications areas. He is a member of the board of governors of the Iowa State University Foundation, the board of directors of Junior Achievement of the Heartland Foundation, and the Moline Foundation Finance Committee. Mr. Lawson also serves as a board member for Kent Corporation, located in Muscatine, Iowa. Mr. Lawson has been director of Quad City Bank and Trust since July 1997. Prior to joining the board of Quad City Bank and Trust, Mr. Lawson served on the board of First of America in Rock Island, Illinois. We consider Mr. Lawson to be a qualified candidate for service on the board and the committees he is a member of due to his past experience as an executive officer of Deere & Company, prior service on a bank board, and his knowledge of, and prominence in, our Iowa and Illinois market areas.

Michael L. Peterson is Chairman of Community National Bancorporation and Community National Bank, based in Waterloo, Iowa, and will be appointed to the board of directors of QCR Holdings following the merger. Mr. Peterson is also owner and President of Peterson Genetics, Inc., based in Cedar Falls, Iowa, providing soybean genetics to seed companies for over 25 years. Mr. Peterson is a graduate of Iowa State University with a B.S. in Agricultural Business. He is a past President of the Iowa Seed Association, past Chair of the Soybean Division of the American Seed Trade Association and past Chairman of the American Seed Trade Association. We consider Mr. Peterson qualified for service on the board due to his experience in the banking industry and his business connections in and extensive knowledge of our market areas.

Ronald G. Peterson is the retired President and Chief Executive Officer of the First State Bank of Illinois, located in La Harpe, Illinois. Prior to his retirement, he served in that position since 1982. Mr. Peterson serves on

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the board of directors of First State Bank of Illinois, and is Treasurer and Vice President of First State Bancorporation, Inc. He currently serves as a member of the board of directors and Vice President of the La Harpe Educational Foundation, and is a member of the Macomb Rotary Club. He is a past co-chairman of the McDonough District Hospital Development Council, past President of the Macomb Rotary Club, past Treasurer of the Western Illinois University Foundation and is a current member of the Foundation s Executive Committee. In 2005, Mr. Peterson was named Banker of the Year by the Illinois Bankers Association. Mr. Peterson has been a director of Quad City Bank and Trust since its formation in October 1993, and currently serves as Chair of its Loan Committee. We consider Mr. Peterson to be a qualified candidate for service on the board and the committees he is a member of due to his experience in the banking industry serving as the President and Chief Executive Officer of First State Bank of Illinois, located in La Harpe, Illinois.

Donna J. Sorensen is President of Sorensen Consulting, a management consulting and executive coaching firm. Ms. Sorensen earned her undergraduate degree from Marycrest College and her Juris Doctorate degree from the University of Iowa College of Law. She has twenty years of prior experience in trust and investment management serving as Executive Vice President Institutional Trust for U.S. Bank (formerly Firstar Bank). Ms. Sorensen currently serves on the boards of the University of Iowa Obermann Center for Advanced Research and the Greater Cedar Rapids Community Foundation Agency Investment Advisory Council and is a member of the Iowa State Bar Association. She has been a director of Cedar Rapids Bank and Trust since 2002, and she currently serves as Chair of its Board, as well as serving on its Loan and Wealth Management Committee. We consider Ms. Sorensen to be a qualified candidate for service on the board and the committees she is a member of due to her experience as the President of a consulting firm in Iowa City, Iowa, her prior banking experience and her education and training as an attorney.

John D. Whitcher is Vice President and General Counsel, as well as Director and Shareholder, of Viking Chemical Company. Mr. Whitcher earned his undergraduate and Juris Doctorate degrees from Southern Methodist University. He is a past director of Rockford Health System, the largest health system in the region, and previously served as chairman of the audit committee and is a past member of the finance committee, the planning committee and the executive compensation committee. He is a past chairman of the board of both the Northern Illinois Chapter of Big Brothers/Big Sisters and the Crusader Clinic Health Foundation and remains active in the Rockford community. Mr. Whitcher has been a director of Rockford Bank and Trust since its formation in January 2005, and was named its Chairman in May 2009. We consider Mr. Whitcher to be a qualified candidate for service on the board and the committees he is a member of due to his experience as Vice President and General Counsel of a chemical company in Rockford, Illinois, one of our market areas, his knowledge of the business community in this area and his education and training as an attorney.

Marie Z. Ziegler is Vice President and Deputy Financial Officer of Deere & Company. Ms. Ziegler joined Deere & Company in 1978 as a consolidation accountant and has held management positions in finance, treasury operations, strategic planning and investor and banking relations. Most recently, she served as Vice President and Treasurer for the company. Ms. Ziegler is a 1978 graduate of St. Ambrose University, with a bachelor of arts in accounting. She received her CPA in 1979 and an MBA from the University of Iowa in 1985. Ms. Ziegler is on the board of trustees for the Two Rivers YMCA (Moline, Illinois) and on the fundraising committee of Playcrafters Barn Theatre (Moline, Illinois). She is a member of The University of Iowa s College of Business Board of Visitors. Ms. Ziegler is a past member of Unified Growth Strategy Committee of the Illinois Quad City Chamber of Commerce, and a past member of the board of the Girl Scouts of the Mississippi Valley, Inc., Trinity Regional Health System and Trinity Medical Center. She also served on the Deere & Company Credit Union board, and as a member of the board of the United Way of the Quad Cities, chaired its 2003 Quad Cities United Way Campaign. She also is past treasurer of fundraising for Playcrafters Barn Theatre, Moline. We consider Ms. Ziegler to be a qualified candidate for service on the board and the committees she is a member of due primarily to the knowledge and experience regarding public companies she gained in her role as Vice President and Treasurer of Deere & Company, a publicly-traded company with over $36 billion in annual revenues. At Deere & Company, Ms. Ziegler regularly interacts with banks, institutional investors and sell side analysts as a company representative, and this experience with participants in the public marketplace makes her a valuable contributor as a director of QCR Holdings. Ms. Ziegler is also involved with a number of charitable organizations headquartered in communities served by QCR Holdings, providing her with business connections and extensive knowledge of our market areas.

Our executive officers consist of Douglas M. Hultquist, Todd A. Gipple and Larry J. Helling, each of whom is also a director of QCR Holdings. Mr. Hultquist has served as the President and Chief Executive Officer of QCR Holdings since 1993; Mr. Gipple has served as the Executive Vice President, Chief Operating Officer and Chief Financial Officer since 2008, and he previously served as Executive Vice President and Chief Financial Officer since 2000; and Mr. Helling has served as President and Chief Executive Officer of Cedar Rapids Bank and Trust since 2001.

Generally, the board oversees our business and monitors the performance of our management. In accordance with our corporate governance procedures, the board does not involve itself in the day-to-day operations of QCR Holdings, which is monitored by our executive officers and management. Our directors fulfill their duties and responsibilities by attending regular meetings of the full board, which are held no less frequently than quarterly. Our directors also discuss business and other matters with Mr. Hultquist, our Chief Executive Officer, other key executives and our principal external advisors (legal counsel, auditors and other consultants). Director Corby was appointed to the Board on September 21, 2012 after the Board of Directors increased the number of directors constituting the full Board from 12 to 13, to fill the resultant vacancy. Following the merger, Michael L. Peterson will be appointed to the board.

Directors Baird, Brownson, Corby, Kilmer, Lawson, Ronald G. Peterson, Sorensen, Whitcher and Ziegler are deemed to be independent as that term is defined by Nasdaq. Following his appointment, Director Michael L. Peterson will be considered independent. Directors Gipple, Helling, and Hultquist are not considered to be independent because they also serve as executive officers of either QCR Holdings or one of our subsidiaries.

Executive Compensation

The Compensation Committee has overall responsibility for evaluating the compensation plans, policies and programs relating to the executive officers of QCR Holdings. The Compensation Committee relies upon the input of management, particularly Mr. Hultquist, when carrying out its responsibilities in establishing executive compensation. Management provides the committee with evaluations as to employee performance, guidance on establishing performance targets and objectives and recommends salary levels and equity awards. The committee also consults with management on matters that are related to executive compensation and benefit plans where board or stockholder action is expected, including the adoption of new plans or the amendment of existing plans. No executive officer participates in any recommendation or decision regarding his or her own compensation.

The Compensation Committee s charter gives it the authority to hire outside consultants to further its objectives and responsibilities. During 2012, the Compensation Committee retained Pearl Meyer & Partners, LLC to provide services to the committee in connection with a review of the compensation paid or provided to QCR Holdings s named executive officers. Pearl Meyer & Partners, LLC does not provide any services, other than those performed at the direction of the Compensation Committee, to QCR Holdings. The committee s charter also gives it the ability to delegate its authority to subcommittees and employees to facilitate the operation and administration of compensation plans.

QCR Holdings maintains a comprehensive compensation program. The compensation program is designed to attract and retain key employees, motivate the key employees to achieve, and reward key employees for, superior performance. The overall design of the compensation program strives to balance short- and long-term performance goals, with the ultimate goal being the increase of stockholder value over the long term. With respect to the individuals named in the Summary Compensation Table, the compensation program includes the following: salary, annual cash incentive bonus, long-term incentive compensation (which is delivered primarily through equity awards) and other benefits and perquisites. The executive compensation program is administered by the Compensation Committee.

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Regulatory Impact on Compensation. Under its long-standing *Interagency Guidelines Establishing Standards for Safety and Soundness*, the FDIC has long held that excessive compensation is prohibited as an unsafe and unsound practice. In describing a framework within which to make a determination as to whether compensation is to be considered excessive, the FDIC has indicated that financial institutions should consider whether aggregate cash amounts paid, or noncash benefits provided, to employees are unreasonable or disproportionate to the services performed by an employee. The FDIC encourages financial institutions to review an employee s compensation history and to consider internal pay equity, and, as appropriate, to consider benchmarking compensation to peer groups. Finally, the FDIC provides that, in order to give proper context, such an assessment must be made in light of the institution s overall financial condition.

In addition to the *Safety and Soundness* standards, the Compensation Committee must also take into account the joint agency *Guidance on Sound Incentive Compensation Policies*. Various financial institution regulatory agencies worked together to issue the *Guidance*, which is intended to serve as a compliment to the *Safety and Soundness* standards. The *Guidance* sets forth a framework for assessing and mitigating risk associated with incentive compensation plans, programs and arrangements maintained by financial institutions. The *Guidance* is more narrow in scope than the *Safety and Soundness* standards because it applies only to senior executive officers and those other individuals who, either alone or as a group, could pose a material risk to an institution. With respect to such individuals, the *Guidance* is intended to focus an institution s attention on balanced risk-taking incentives, compatibility of incentives with effective controls and risk management, and a focus on general principles of strong corporate governance in establishing, reviewing and maintaining incentive compensation programs.

The Compensation Committee, with the assistance of its advisors and management, continues to monitor the status of compensation-related rules and regulations expected to be finalized or issued under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). While the committee believes its own risk assessment procedures are effective, the committee is prepared to implement any additional steps that may be deemed necessary to fully comply with such rules and regulations when finally finalized or issued. The Compensation Committee does note, however, that the proposed risk assessment rules issued under the Dodd-Frank Act nearly mirror the *Safety and Soundness* standards and the framework of the *Guidance*. As such, the committee already adheres, in many respects, with the proposed rules and regulations under the Dodd-Frank Act.

Finally, in addition to the foregoing, as a publicly-traded corporation, QCR Holdings is also subject to the Securities and Exchange Commission rules regarding risk assessment. Those rules require a publicly-traded company to determine whether any of its existing incentive compensation plans, programs or arrangements create risks that are reasonably likely to have a material adverse effect on the company.

The Compensation Committee continues to believe in and practice a sensible approach to balancing risk-taking and rewarding reasonable, but not necessarily easily attainable, goals, and this has always been a component of its overall assessment of the compensation plans, programs and arrangements it has put in place for QCR Holdings s named executive officers. In this regard, the committee has regularly revisited the components of the frameworks set forth in the *Safety and Soundness* standards and the *Guidance* as an effective tool for conducting its own assessment of the balance between risk and reward built into QCR Holdings s compensation programs for its named executive officers. The committee believes there are adequate policies and procedures in place to balance and control any risk-taking that may be incentivized by the employee compensation plans. The Compensation Committee further believes that such policies and procedures will work to limit the risk that any employee would manipulate reporting earnings in an effort to enhance his or her compensation.

2012 Say-On-Pay. QCR Holdings successfully received 94.3% of votes cast in support of executive compensation during the 2012 annual stockholder s meeting. QCR Holdings, the board and the Compensation Committee pay careful attention to communications received from stockholders regarding executive compensation, including the results of these non-binding advisory votes. The committee considered the results of the advisory vote, but not for specific 2012 compensation decisions. The committee believes that the vote reflects

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our stockholders agreement with our compensation philosophy and the manner in which we compensate our named executive officers, as such the committee did not alter our compensation philosophy for 2012 as a result of the 2012 vote.

Summary of Compensation Paid to Named Executive Officers. The table below sets forth the following information for the years ended December 31, 2012 and 2011: (i) the dollar value of base salary earned; (ii) the aggregate grant date fair value of stock awards granted, calculated in accordance with FASB ASC Topic 718; (iii) the aggregate grant date fair value of option awards granted, calculated in accordance with FASB ASC Topic 718; (iv) the dollar value of earnings for services pursuant to awards granted under non-equity incentive plans; (v) above-market earnings on nonqualified deferred compensation; (vi) all other compensation; and, finally, (vii) the dollar value of total compensation.

Summary Compensation Table

Name and principal position (a)	Year (b)	Salary ($) (c)	Stock awards ($)[1] (e)	Option awards ($)[1] (f)	Non-equity incentive plan compensation ($) (g)	Nonqualified deferred compensation earnings ($) [2] (h)	All other compensation ($) (i)	Total ($) (j)
Douglas M. Hultquist,	2012	$ 290,000	$ 124,872	$ 27,476	$ 236,594[3]	$ 8,831	$ 71,954[5]	$ 759,727
President & CEO	2011	$ 275,000	$ 107,500		$ 68,690[4]	$ 8,057	$ 66,392[6]	$ 525,639
Todd A. Gipple,	2012	$ 240,000	$ 95,649	$ 14,191	$ 123,556[3]		$ 53,136[7]	$ 526,532
EVP, COO & CFO	2011	$ 230,000	$ 103,750		$ 39,026[4]		$ 45,756[8]	$ 418,532
Larry J. Helling,	2012	$ 240,000	$ 46,308	$ 46,308	$ 141,109[3]	$ 5,632	$ 96,851[9]	$ 576,208
President & CEO of Cedar Rapids Bank	2011	$ 230,000	$ 103,750		$ 127,347[4]	$ 4,597	$ 45,814[10]	$ 511,508

(1) In accordance with the Securities and Exchange Commission reporting requirements, we report all equity awards at full grant date fair value of each award calculated in accordance with FASB ASC Topic 718. For restricted stock, the fair value per share is equal to the closing price of our stock on the date of the grant. The restricted stock was granted pursuant to the applicable exception to the bonus prohibition set forth in the TARP rules. For stock options, the fair value per share is based on certain assumptions that are explained in the footnotes to our financial statements, which are included in our Annual Report on Form 10-K. To the extent it was the subject of a written employment agreement between a named executive officer and QCR Holdings (or a subsidiary) or otherwise satisfied an exception to the TARP bonus prohibition, any such equity award granted during the TARP period was not subject to the TARP bonus prohibition.

(2) As determined in accordance with, and for purposes of, proxy disclosure rules only, represents above market earnings (generally over 120% of the applicable federal long-term rate) under the deferred compensation arrangement.

(3) The Compensation Committee defined specific threshold, target, and maximum award opportunities as a percentage of salary for each named executive officer. The specific percentages were based on the individual executive s position and competitive market data for similar positions. The 2012 awards were contingent primarily on performance relative to goals for net income, non performing assets and deposit growth. The performance criteria were weighted to reflect QCR Holdings s strategic objectives. In addition, certain executives also had individual performance goals that were consistent with QCR Holdings s 2012 strategic objectives and more closely aligned with their specific role with QCR Holdings.

(4) The Compensation Committee defined specific threshold, target, and maximum award opportunities as a percentage of salary for each named executive officer. The specific percentages were based on the individual executive s position and competitive market data for similar positions. The 2011 awards were contingent primarily on performance relative to goals for net income, nonperforming assets and deposit

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growth. The performance criteria were weighted to reflect QCR Holdings s strategic objectives. In addition, certain executives also had individual performance goals that were consistent with QCR Holdings s 2011 strategic objectives and more closely aligned with their specific role with QCR Holdings. The awards reflected here are with respect to only that portion of 2011 that followed QCR Holdings s exit from TARP.

(5) Mr. Hultquist had contributions made to the QCR Holdings 401(k)/Profit Sharing Plan (the 401(k) Plan) for his benefit in the amount of $13,162; reimbursement for tax preparation services in the amount of $2,250; car allowance of $12,000; annual physical examination of $3,418 and dividends paid on his restricted stock of $1,781. In addition, pursuant to the deferred compensation arrangement, QCR Holdings made a matching contribution for his benefit in the amount of $20,000. QCR Holdings also provided a life insurance benefit to Mr. Hultquist that was valued, pursuant to Internal Revenue Code rules, at $19,343.

(6) Mr. Hultquist had contributions made to the 401(k) Plan for his benefit in the amount of $12,653; reimbursement for tax preparation services in the amount of $2,190; car allowance of $12,000; annual physical examination of $4,032 and dividends paid on his restricted stock of $961. In addition, pursuant to the deferred compensation arrangement, QCR Holdings made a matching contribution for his benefit in the amount of $20,000. QCR Holdings also provided a life insurance benefit to Mr. Hultquist that was valued, pursuant to Internal Revenue Code rules, at $14,556.

(7) Mr. Gipple had contributions made to the 401(k) Plan for his benefit in the amount of $13,162; reimbursement for tax preparation services in the amount of $2,250; car allowance of $8,000; annual physical examination of $2,911 and dividends paid on his restricted stock of $1,514. In addition, pursuant to the deferred compensation arrangement, QCR Holdings made a matching contribution for his benefit in the amount of $15,000. QCR Holdings also provided a life insurance benefit to Mr. Gipple that was valued, pursuant to Internal Revenue Code rules, at $10,299.

(8) Mr. Gipple had contributions made to the 401(k) Plan for his benefit in the amount of $12,048; reimbursement for tax preparation services in the amount of $2,190; car allowance of $8,000; and dividends paid on his restricted stock of $768. In addition, pursuant to the deferred compensation arrangement, QCR Holdings made a matching contribution for his benefit in the amount of $15,000. QCR Holdings also provided a life insurance benefit to Mr. Gipple that was valued, pursuant to Internal Revenue Code rules, at $7,750.

(9) Mr. Helling had contributions made to the 401(k) Plan for his benefit in the amount of $11,166; reimbursement for tax preparation services in the amount of $970; car allowance of $6,000; annual physical examination of $2,750 and dividends paid on his restricted stock of $1,309. In addition, pursuant to the deferred compensation arrangement, QCR Holdings made a matching contribution for his benefit in the amount of $15,000 and made a contribution under the Long-Term Deferred Incentive Compensation Program in the amount of $40,000. QCR Holdings also provided a life insurance benefit to Mr. Helling that was valued, pursuant to Internal Revenue Code rules, at $19,701.

(10) Mr. Helling had contributions made to the 401(k) Plan for his benefit in the amount of $8,396; reimbursement for tax preparation services in the amount of $895; car allowance of $6,000; and dividends paid on his restricted stock of $698. In addition, pursuant to the deferred compensation arrangement, QCR Holdings made a matching contribution for his benefit in the amount of $15,000. QCR Holdings also provided a life insurance benefit to Mr. Helling that was valued, pursuant to Internal Revenue Code rules, at $14,825.

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The following table sets forth information on outstanding equity awards held by the individuals named in the Summary Compensation Table at December 31, 2012, including the number of shares underlying both exercisable and unexercisable portions of each stock option as well as the exercise price and the expiration date of each outstanding option. Other than what is footnoted below, the options expire 10 years from the date of grant and vest in five equal annual portions beginning one year from the date of grant. All stock awards are restricted stock. The market value of stock awards is based on our closing stock price on December 31, 2012, which was $13.22.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards	
Name (a)	Number of securities underlying unexercised options (#) Exercisable (b)	Number of securities underlying unexercised options (#) Unexercisable (c)	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#) (d)	Option exercise price ($) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (g)	Market value of shares or units of stock that have not vested ($) (h)
Douglas M. Hultquist							
	5,000			$ 21.00	1/28/2015		
	3,900			$ 19.05	1/27/2016		
	2,450			$ 16.85	1/26/2017		
	25,785			$ 15.62	5/7/2018		
	11,282			$ 9.30	2/2/2019		
	6,452 (1)	3,225 (1)		$ 9.00	2/1/2020		
		9,848(1)		$ 9.30	2/1/2022	1,035 (2)	$ 13,683
						13,454 (3)	$ 177,862
						10,471 (4)	$ 138,427
						2,954(5)	$ 39,052
Todd A. Gipple	1,125			$ 18.67	1/5/2014		
	750			$ 22.00	1/5/2015		
	1,500			$ 21.00	1/28/2015		
	1,250			$ 19.05	1/27/2016		
	375			$ 17.60	10/26/2016		
	1,125			$ 16.85	1/26/2017		
	5,920			$ 15.62	5/7/2018		

	4,914		$ 9.30	2/2/2019		
	2,332 (1)	1,166 (1)	$ 9.00	2/1/2020		
		5,086 (1)	$ 9.30	2/1/2022	374 (2)	$ 4,944
					12,985 (3)	$ 171,662
					8,758 (4)	$ 115,781
					1,525 (5)	$ 20,161
Larry J. Helling	2,000		$ 21.00	1/28/2015		
	2,350		$ 19.05	1/27/2016		
	2,800		$ 16.85	1/26/2017		
	5,021		$ 15.62	5/7/2018		
	4,581		$ 9.30	2/2/2019		
	2,791 (1)	1,395 (1)	$ 9.00	2/1/2020		
		16,597 (1)	$ 9.30	2/1/2022	448 (2)	$ 5,923
					12,985 (3)	$ 171,662
					4,978 (5)	$ 65,809

(1) Options vest in three equal annual portions beginning one year from date of grant. Because the stock options granted during the TARP period were the subject of a written employment agreement between a named executive officer and QCR Holdings (or a subsidiary), they were not subject to the TARP bonus prohibition.

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(2) Unvested stock awards were granted on February 2, 2010 and vest in three equal annual portions beginning one year from date of grant.

(3) Unvested stock awards were granted on February 1, 2011 and, in accordance with applicable TARP rules, vest two years following the date of grant on February 1, 2013. Because QCR Holdings has exited TARP, these shares will be freely transferable as of the vesting date, February 1, 2013.

(4) Unvested stock awards were granted on February 1, 2012, and, in accordance with applicable TARP rules, vest two years following the date of grant on February 1, 2014. Because QCR Holdings has exited TARP, these shares will be freely transferable as of the vesting date, February 1, 2014.

(5) Unvested stock awards were granted on February 1, 2012 and vest in three equal annual portions beginning one year from date of grant.

The following table sets forth information for each of the individuals named in the Summary Compensation Table regarding stock option exercises and vesting of stock awards during 2012.

Option (and SAR) Exercises and Stock Vested in 2012

	Option Awards		Stock Awards	
(a)	(b)	(c)	(d)	(e)
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Douglas M. Hultquist			2,127	$ 19,783
Todd A. Gipple	1,181	$ 2,261	850	$ 7,905
Larry J. Helling			891	$ 8,287

The following table sets forth the present value of accumulated benefits payable to each of the individuals named in the Summary Compensation Table, including the number of years of service credited to each under the QCR Holdings, Inc. Non-qualified Supplemental Executive Retirement Plan (the Supplemental Executive Retirement Plan) determined using interest rate and mortality rate assumptions consistent with those used in our financial statements.

Non-Qualified Supplemental Executive Retirement Plan

Name (a)	Plan name (b)	Number of years credited service (#) (c)	Present value of accumulated benefit ($) (d)(1)	Payments during last fiscal year ($) (e)
Douglas M. Hultquist	Supplemental Executive Retirement Plan	18	962,004	
Todd A. Gipple	Supplemental Executive Retirement Plan	12	431,012	
Larry J. Helling	Supplemental Executive Retirement Plan	11	467,217	

(1) Each calendar year, QCR Holdings accrues an expense with respect to the Supplemental Executive Retirement Plan in accordance with generally accepted accounting principles. During 2012, the following amounts were accrued with respect to each of our named executive officers: Mr. Hultquist $152,252; Mr. Gipple $61,135; and Mr. Helling $19,662.

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The following table sets forth information concerning our non-qualified deferred compensation agreements with each individual named in the Summary Compensation Table. The agreements are discussed in detail on page 27 of this proxy statement.

Non-Qualified Deferred Compensation

Name (a)	Executive contributions in 2012 ($) (b)	Registrant contributions in 2012 ($) (c)	Aggregate earnings in 2012 ($) (d)	Aggregate withdrawals/ distributions ($) (e)	Aggregate balance at 12/31/12 ($) (f)
Douglas M. Hultquist	$ 30,000	$ 20,000	$ 60,494		$ 829,085
Todd A.Gipple	$ 15,000	$ 15,000	$ 20,773		$ 382,443
Larry J.Helling	$ 15,000	$ 55,000	$ 38,097		$ 531,165

Terms of Mr. Douglas M. Hultquist s Employment Agreement. On January 1, 2004, we entered into an employment agreement with Mr. Hultquist. In 2008, certain provisions of the employment agreement were amended in order to bring such provisions into compliance with the applicable provisions of Section 409A of the Internal Revenue Code of 1986, as amended (and guidance issued thereunder). The agreement has a three-year term and in the absence of notice from either party to the contrary, the employment term extends for an additional one year on the anniversary of the agreement. Pursuant to the agreement, Mr. Hultquist will receive a minimum salary of $175,000. The agreement includes provisions for the possible increase of compensation on an annual basis, performance bonuses, membership in various local clubs, an automobile allowance and participation in our benefit plans. The agreement also provides term life insurance coverage of two times Mr. Hultquist s base salary and average annual bonus as of the date of the agreement, which may be provided through a group term carve-out plan. The agreement further provides for severance compensation equal to one year of salary plus average annual bonus and three months of outplacement services in the event Mr. Hultquist is terminated without cause; and three times the sum of salary and average annual bonus and three years of continued health insurance if he is terminated within one year following a change in control or if he voluntarily terminates employment within six months of a change in control. Under the agreement, Mr. Hultquist is subject to a two-year non-compete provision following the termination of his employment.

Terms of Mr. Todd A. Gipple s Employment Agreement. On January 1, 2004, we entered into an employment agreement with Mr. Gipple. In 2008, certain provisions of the employment agreement were amended in order to bring such provisions into compliance with the applicable provisions of Section 409A of the Internal Revenue Code of 1986, as amended (and guidance issued thereunder). The agreement has a three-year term and in the absence of notice from either party to the contrary, the employment term extends for an additional one year on the anniversary of the agreement. Mr. Gipple s employment agreement provides that Mr. Gipple is to receive a minimum salary of $140,500. The agreement includes a provision for the possible increase in compensation on an annual basis, performance bonuses, membership in a country club, a monthly automobile allowance and participation in our benefit plans. Mr. Gipple s agreement also provides term life insurance coverage of two times the sum of his base salary and average annual bonus as of the date of the agreement, which may be provided through a group term carve-out plan. The agreement further provides that he is entitled to a payment equal to the sum of one-half of his then-current annual salary plus one-half of his average annual bonus and three months of outplacement services if he is terminated without cause; and two times the sum of his annual salary and average annual bonus and three years of continued health insurance if he is terminated within one year following a change in control or if he voluntarily terminates employment within six months of a change in control. Under the agreement, Mr. Gipple is subject to a two-year non-compete provision following the termination of his employment

Terms of Mr. Larry J. Helling s Employment Agreement. On January 1, 2004, we entered into an employment agreement with Mr. Helling. In 2008, certain provisions of the employment agreement were amended in order to bring such provisions into compliance with the applicable provisions of Section 409A of the

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Internal Revenue Code of 1986, as amended (and guidance issued thereunder). The agreement has a two-year term and in the absence of notice from either party to the contrary, the employment term extends for an additional one year on the anniversary of the agreement. Mr. Helling s employment agreement provides that Mr. Helling is to receive a minimum salary of $167,000. The agreement includes a provision for the possible increase in compensation on an annual basis, performance bonuses, a monthly automobile allowance, membership in various country clubs and participation in our benefit plans. Mr. Helling s agreement also provides term life insurance coverage of two times the sum of his base salary and average annual bonus as of the date of the agreement, which may be provided through a group term carve-out plan. The agreement further provides for a severance payment equal to six months of his salary in the event of a termination without cause and two times his annual salary in the event he is terminated within one year following a change in control or if he voluntarily terminates employment within six months of a change in control. Under the agreement, Mr. Helling is subject to a two-year non-compete provision following the termination of his employment. Additionally, Mr. Helling s agreement allowed him to participate in the Cedar Rapids Long-term Deferred Incentive Compensation Program. Under the agreement, Mr. Helling was allocated a total of 40% of amounts paid pursuant to the incentive program.

Beginning in 2009, QCR Holdings no longer reimburses Messrs. Hultquist, Gipple, and Helling for country club memberships.

Stock Ownership and Retention Guidelines. As indicated previously, to reinforce our philosophy of equity ownership for executives and to further align the interests of our executives with our stockholders, we have share retention and ownership guidelines for our executives. The stock ownership guidelines vary based upon position, and for our named executive officers, is 30,000 shares of QCR Holdings common stock. Currently all named executive officers exceed these ownership guidelines.

Long-Term Incentive Plans.

2004 Stock Incentive Plan. In 2004, we adopted the QCR Holdings, Inc. 2004 Stock Incentive Plan for the benefit of our directors, officers and employees. The plan was approved by stockholders and authorized 150,000 shares for issuance under the plan. This plan provides for the issuance of incentive stock options, nonqualified stock options, restricted stock, tax benefit rights and stock appreciation rights. As of the approval of the 2008 Stock Incentive Plan, all of the remaining shares available for grant transferred to the 2008 Stock Incentive Plan.

2008 Equity Incentive Plan. In 2008, we adopted the QCR Holdings, Inc. 2008 Equity Incentive Plan for the benefit of our directors, officers and employees. The plan was approved by stockholders and authorized 250,000 shares for issuance under the plan plus unissued shares under prior plans. This plan provides for the issuance of incentive stock options, nonqualified stock options, restricted stock and stock appreciation rights. As of December 31, 2012, there were 14,922 remaining shares available for grant under this plan.

2010 Equity Incentive Plan. In 2010, we adopted the QCR Holdings, Inc. 2010 Equity Incentive Plan for the benefit of our directors, officers and employees. The plan was approved by stockholders and authorized 350,000 shares for issuance under the plan. This plan provides for the issuance of incentive stock options, nonqualified stock options, restricted stock and stock appreciation rights. As of December 31, 2012, there were 57,872 remaining shares available for grant under this plan.

2013 Equity Incentive Plan. In 2013, our board of directors, subject to stockholder approval, adopted the QCR Holdings, Inc. 2013 Equity Incentive Plan for the benefit of our directors, officers and employees. The plan is being presented to stockholders at our 2013 annual meeting and, if approved, will have 350,000 shares authorized for issuance. This plan provides for the issuance of nonqualified stock options, restricted stock, stock appreciation rights and other stock and cash-based awards. If adopted by our stockholders, this plan will replace the 2008 Equity Incentive Plan and the 2010 Equity Incentive Plan.

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Employee Stock Purchase Plan. QCR Holdings adopted and stockholders approved the QCR Holdings Employee Stock Purchase Plan to be effective in 2003, and in May 2012, the stockholders approved the amended and restated plan. The plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. The plan allows employees of QCR Holdings and our subsidiaries to purchase shares of common stock available under the plan. The purchase price is currently 90% of the lesser of the fair market value at the date of the grant or the investment date. The investment date is the date common stock is purchased after the end of each calendar quarter during an offering period. Beginning January 1, 2007, the maximum percentage that any one participant can elect to contribute is 8% of his or her compensation. During 2012, 31,554 shares were purchased under the plan.

QCR Holdings 401(k)/Profit Sharing Plan. QCR Holdings sponsors a tax-qualified profit sharing plan qualifying under Section 401(k) of the Internal Revenue Code of 1986 (the Code). All employees are eligible to participate in the plan. Pursuant to the 401(k) Plan, QCR Holdings matches 100% of the first 3% of employee contributions and 50% of the next 3% of employee contributions, up to a maximum of 4.5% of an employee s compensation. Additionally, at its discretion, QCR Holdings may make additional contributions to the 401(k) Plan, which are allocated to the accounts of participants based on relative compensation. The total contributions under the 401(k) Plan for the benefit of our named executive officers are reflected in the Summary Compensation Table on page 20 of this proxy statement.

Non-qualified Supplemental Executive Retirement Program (SERP). QCR Holdings provides SERP benefits to its key executives, which will provide supplemental retirement income to the named executive officers. The SERP arrangements are an important, common component of competitive compensation packages and they include retention and non-competition provisions that protect QCR Holdings and help support the objective of maintaining a stable, committed, and qualified team of key executives.

QCR Holdings currently has SERP arrangements in place for Messrs. Hultquist, Gipple, and Helling. The SERP arrangements were approved by QCR Holdings in April 2004, and have an effective date of May 2004. Under the agreements, the executives will receive a supplemental retirement benefit in an annual pre-tax amount equal to 2.5% for each year of full-time service until the executive reaches age 65 (not to exceed 40 years), multiplied by the executive s average annual base salary plus cash bonus for the three most recently completed plan years, subject to a maximum of 70%.

The supplemental retirement benefit will be reduced by any contributions plus earnings thereon made by QCR Holdings to the credit of the executive pursuant to the 401(k) Plan or other deferred compensation plans. The supplemental retirement benefit payable under the plans will generally be made in monthly installments for a period of 180 months. If an executive retires after reaching age 55 (but before reaching age 65) and has at least 10 years of service, QCR Holdings will pay a supplemental early retirement benefit made in monthly installments for a period of 180 months to the executive. The SERP arrangements also provide for the payment of a survivor s benefit payable to a participating executive s beneficiary upon the executive s death.

Pursuant to the existing SERP arrangements and the TARP rules, assuming the participating executives retire on or after reaching age 55 and based on the participants salary and cash bonus paid for 2012, we will owe the following projected annual amounts at age 55 or retirement age, whichever comes later: Mr. Hultquist $78,543; Mr. Gipple $118,493; Mr. Helling $35,870.

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Non-Qualified Deferred Compensation Plan Agreements. QCR Holdings has entered into deferred compensation plan agreements with the executive officers to allow them to defer a portion of their salary or annual bonus. These plans are voluntary, non-tax qualified, deferred compensation plans that enable the executives to save for retirement by deferring a portion of their current cash compensation. QCR Holdings matches these deferrals up to certain maximums and interest is earned at the prime rate subject to certain floor and cap rates, as follows:

	Deferred Compensation Plan Agreements			
Executive	2012 Contribution	2012 Match Maximum	Interest Rate Floor and	Cap
Douglas M. Hultquist	$20,000	$20,000	8.00%	10.00%
Todd A. Gipple	$15,000	$15,000	6.00%	12.00%
Larry J. Helling	$15,000	$15,000	8.00%	12.00%

Both the SERP and the non-qualified deferred compensation plan agreements are considered unfunded general contractual obligations of QCR Holdings and are subject to the claims of our creditors. In the event that QCR Holdings becomes insolvent, the participants will be unsecured general creditors of QCR Holdings. This status with respect to these benefits should help insure that the interests of the officer participants are aligned with the long-term interests of QCR Holdings, its debt holders, and its stockholders.

Long-Term Deferred Incentive Compensation Program. QCR Holdings has entered into a Long-Term Deferred Incentive Compensation Program with certain key senior management members at Cedar Rapids Bank and Trust and Rockford Bank and Trust. The program is administered by the Compensation Committee and results in deferred incentive compensation contributions being made into the plan, for the benefit of the participants, if certain growth and earnings objectives are met. Mr. Helling was a participant in the plan for the years 2006 through 2011, and could earn between $16,000 and $120,000 annually based on the performance of Cedar Rapids Bank and Trust. Mr. Helling earned a $40,000 contribution to his deferred compensation plan in 2011 that was paid in January 2012. He did not earn any incentive compensation in 2006 through 2010.

Deferred Income Plans. QCR Holdings adopted and stockholders approved the 1997 Deferred Income Plan and 2005 Deferred Income Plan to enable directors and selected key officers of QCR Holdings and its related companies, to elect to defer all or a portion of the fees and cash compensation payable to them for their service as directors or employees. The plan then purchases shares of QCR Holdings common stock at market value.

Compensation Committee Interlocks and Insider Participation

During 2012, the Compensation Committee, which sets the salaries and compensation for our executive officers, was comprised solely of independent directors Brownson, Lawson, Ronald G. Peterson, Whitcher and Ziegler. None of these individuals was an officer or employee of QCR Holdings in 2012, and none of these individuals is a former officer or employee of QCR Holdings. In addition, during 2012, no executive officer of QCR Holdings served on the board of directors or compensation committee of any other corporation with respect to which any member of the Compensation Committee was engaged as an executive officer.

Director Compensation

QCR Holdings uses a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on the board. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties as well as the skill level required of members of the board.

Cash Compensation Paid to Board Members. In 2012, members of the board who were not employees of QCR Holdings were entitled to receive an annual cash retainer. Pursuant to the QCR Holdings, Inc. 1997 Deferred Income Plan and the 2005 Deferred Income Plan, a director may elect to defer the fees and cash

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compensation payable by us for the director s service until either the termination of such director s service on the board or the age specified in the director s deferral election. During 2012, all but five directors (at the subsidiary banks) deferred 100% of their director fees pursuant to the plan, and the total expense for the deferred fees with respect to all participating directors was $441,558 for 2012. Directors who are employees of QCR Holdings receive no compensation for their service as directors. The following table shows the director fees approved for 2013 and the fees paid for 2012 for QCR Holdings and our other affiliated boards.

	2013	2012
QCR Holdings, Inc.		
Quarterly Retainer	$ 3,500	$ 3,500
Additional Quarterly Retainers		
-Board Chairman	3,000	2,500
-Audit Committee Chairman	1,500	1,500
-Audit Committee Financial Expert	625	625
-Compensation Committee Chairman	1,250	1,000
-Nomination & Governance Committee Chairman	625	500
-Risk Oversight Committee Chairman	625	500
-Strategic Direction Committee Chairman	625	500
-Audit Committee Member	625	500
-Compensation Committee Member	625	625
-All other Committee Members	300	300
Subsidiaries		
Quarterly Retainer	1,950	1,950
Additional Quarterly Retainers		
- Board Chairman	1,000	1,000
-Asset/Liability Management Committee Chairman	500	500
-Loan Committee Chairman	500	500
-Wealth Management Committee Chairman	500	500
-All Committee Members	250	250
m2 Lease Funds, LLC		
Quarterly Retainer	1,000	1,000

Equity Awards. In February 2012, each current non-employee QCR Holdings director received a grant of 800 stock awards and each current non-employee subsidiary director received a grant of 300 stock awards at the fair market price of QCR Holdings s stock on the date of the grant, or $9.30. The awards vested immediately on the date of grant.

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The following table discloses the cash and equity awards earned, paid or awarded, as the case may be, to each of our directors during the fiscal year ended 2012.

Summary Compensation Table Directors

Name (a)	Fees earned or paid in cash ($)(1) (b)	Stock awards ($)(2) (c)	Total ($) (f)
Patrick S. Baird	28,600	10,231	38,831
James J. Brownson	44,900	10,231	55,131
Lindsay Y. Corby	5,867		5,867
Mark C. Kilmer	31,200	10,231	41,431
John K. Lawson	30,200	10,231	40,431
Charles M. Peters	26,400	10,231	36,631
Ronald G. Peterson	31,000	10,231	41,231
Donna J. Sorensen	30,500	10,231	40,731
John D. Whitcher	38,375	10,231	48,606
Marie Z. Ziegler	30,900	10,231	41,131

(1) Directors may elect to defer the receipt of all or part of their fees and retainers. All of the directors listed above defer the receipt of all their fees and retainers, and the deferred compensation is used to purchase additional shares of QCR Holdings common stock at market value through the Deferred Income Plans.

(2) We report all equity awards at full grant date fair value of each award calculated in accordance with FASB ASC Topic 718. For restricted stock, the fair value per share is equal to the closing price of our stock on the date of the grant.

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information regarding our common stock beneficially owned on December 31, 2012, by each director, by each executive officer named in the summary compensation table, by persons who are the beneficial owners of more than 5% of our common stock and by all directors and executive officers of QCR Holdings as a group. Beneficial ownership has been determined for this purpose in accordance with Rule 13d-3 under the Exchange Act, under which a person is deemed to be the beneficial owner of securities if he or she has or shares voting power or investment power in respect of such securities or has the right to acquire beneficial ownership of securities within 60 days of December 31, 2012.

Name of Stockholder and Number of Persons in Group	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Directors, Nominees and Named Executive Officers		
Patrick S. Baird	62,281(2)	1.3%
James J. Brownson	74,886(3)	1.5%
Lindsay Y. Corby	129(4)	*
Todd A. Gipple	60,033(5)	1.2%
Larry J. Helling	95,590(6)	1.9%
Douglas M. Hultquist	168,356(7)	3.4%
Mark C. Kilmer	71,449(8)	1.5%
John K. Lawson	59,321(9)	1.2%
Charles M. Peters	33,587(10)	*
Ronald G. Peterson	41,347(11)	*
Donna J. Sorensen	24,484(12)	*
John D. Whitcher	28,225(13)	*
Marie Z. Ziegler	24,713(14)	*
All directors and executive officers as a group (16 persons)	953,659(15)	18.9%

<u>5% Stockholder</u>		
The Banc Funds Company, LLP**	388,601[16]	7.9%

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* Less than 1%.

** The Banc Funds Company, LLP, 20 North Wacker Drive, Suite 3300, Chicago, Illinois 60606.

(1) Amounts reported include shares held directly, including certain shares subject to options, as well as shares held in retirement accounts, by certain members of the named individuals families or held by trusts of which the named individual is a trustee or substantial beneficiary. Inclusion of shares shall not constitute an admission of beneficial ownership or voting or investment power over included shares. The nature of beneficial ownership for shares listed in this table is sole voting and investment power, except as set forth in the following footnotes.

(2) Includes 3,100 shares subject to options which are presently exercisable and over which Mr. Baird has no voting or investment power. Also includes 42,831 shares held jointly by Mr. Baird and his spouse and 16,200 shares held in a trust, over which he has shared voting and investment power.

(3) Includes 10,750 shares subject to options which are presently exercisable and over which Mr. Brownson has no voting or investment power. Also includes 7,985 shares held jointly by Mr. Brownson and his spouse, 3,000 shares held by his spouse, 32,556 shares held in a trust, and 20,595 shares held in an IRA account, over which he has shared voting and investment power.

(4) All 129 shares are held in a trust, over which she has shared voting and investment power.

(5) Includes 19,291 shares subject to options which are presently exercisable and over which Mr. Gipple has no voting or investment power. Also includes 1,199 shares held in an IRA account, 1,300 shares held by his children, 2,000 shares held by his spouse, 2,101 shares held in the 401(k) Plan, and 668 shares held in a trust, over which he has shared voting and investment power. Excludes 6,252 option shares not presently exercisable.

(6) Includes 19,543 shares subject to options which are presently exercisable and over which shares Mr. Helling has no voting or investment power. Also includes 36,450 shares held in an IRA account, 4,178 shares held in a trust and 15,413 shares held in the 401(k) Plan, over which he has shared voting and investment power. Excludes 17,992 option shares not presently exercisable.

(7) Includes 54,869 shares subject to options which are presently exercisable and over which Mr. Hultquist has no voting or investment power. Also includes 11,337 shares held by his spouse or for the benefit of his children, 4,550 shares held in an IRA account, 9,265 shares held in a trust and 17,775 shares in the 401(k) Plan, over which he has shared voting and investment power. Excludes 13,073 option shares not presently exercisable.

(8) Includes 3,600 shares subject to options which are presently exercisable and over which Mr. Kilmer has no voting or investment power. Also includes 11,438 shares held by his spouse or children, 25,361 shares held in a trust and 3,375 shares held in an IRA account, over which he has shared voting and investment power.

(9) Includes 3,400 shares subject to options which are presently exercisable and over which Mr. Lawson has no voting or investment power. Also includes 28,256 shares held in trust, over which shares he has shared voting and investment power.

(10) Includes 1,850 shares subject to options which are presently exercisable and over which Mr. Peters has no voting or investment power. Also includes 11,500 shares held in an IRA account and 17,337 shares held in trust, over which he has shared voting and investment power.

(11) Includes 3,400 shares subject to options which are presently exercisable and over which Mr. Peterson has no voting or investment power. Also includes 2,500 shares held in an IRA account and 27,630 shares held in a trust, over which he has shared voting and investment power.

(12) Includes 1,350 shares subject to options which are presently exercisable and over which Ms. Sorensen has no voting or investment power. Also includes 6,825 shares held jointly and 13,509 shares held in a trust, over which she has shared voting and investment power.

(13) Includes 1,200 shares subject to options which are presently exercisable and over which Mr. Whitcher has no voting or investment power. Also includes 18,218 shares held in a trust, over which he has shared voting and investment power.

(14) Includes 200 shares held by her spouse and 10,398 shares held in a trust, over which she has shared voting and investment power.

(15) Excludes 43,167 option shares not presently exercisable.

(16) Includes shares held Banc Fund VI L.P., an Illinois Limited Partnership, Banc Fund VII L.P., an Illinois Limited Partnership, and Banc Fund VIII L.P., an Illinois Limited Partnership, as reported in a Schedule 13G/A filed on February 5, 2013.

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Transactions with Management and Directors

Our directors and officers and their associates were customers of and had transactions with QCR Holdings and our subsidiaries during 2012. Additional transactions are expected to take place in the future. All outstanding loans, commitments to loan, and certificates of deposit and depository relationships, in the opinion of management, were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features. All such loans are approved by the subsidiary banks board of directors in accordance with applicable bank regulatory requirements. Additionally, the Audit Committee considers any other non-lending transactions between us and a director to ensure that such transactions do not affect a director s independence.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information regarding our operations for the years ending December 31, 2012, 2011, and 2010, and our financial condition at December 31, 2012 and 2011. This discussion should be read in conjunction with Selected 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 QCBT. Over the past twenty years, the Company has grown to include two additional banking subsidiaries and a number of nonbanking subsidiaries. As of December 31, 2012, the Company had $2.09 billion in consolidated assets, including $1.29 billion in total loans/leases and $1.37 billion in deposits.

The Company recognized net income of $13.1 million for the year ended December 31, 2012, and net income attributable to QCR Holdings, Inc. of $12.6 million, which excludes the net income attributable to noncontrolling interests of $488 thousand. After preferred stock dividends of $3.5 million, the Company reported net income available to common stockholders of $9.1 million, or diluted earnings per share of $1.85. For the same period in 2011, the Company recognized net income of $10.1 million, and net income attributable to QCR Holdings, Inc. of $9.7 million, which excludes the net income attributable to noncontrolling interests of $438 thousand. After preferred stock dividends and discount accretion of $5.3 million, the Company reported net income available to common stockholders of $4.4 million, or diluted earnings per share of $0.92. The $5.3 million of preferred stock dividends and discount accretion included $1.2 million of accelerated discount accretion on the repurchased Treasury Capital Purchase Program (TCPP) preferred shares. Excluding the impact of the accelerated accretion, the Company s diluted earnings per share for 2011 would have been $1.18. By comparison, for 2010, the Company recognized net income of $6.8 million, and net income attributable to QCR Holdings, Inc. of $6.6 million, which excludes the net income attributable to noncontrolling interests of $221 thousand. After preferred stock dividends and discount accretion of $4.1 million, the Company reported net income available to common stockholders of $2.5 million, or diluted earnings per share of $0.53.

Following is a table that represents the various net income measurements for the years ended December 31, 2012, 2011, and 2010.

	Year Ended December 31, 2012	2011	2010
Net income	$ 13,106,240	$ 10,129,869	$ 6,807,726
Less: Net income attributable to noncontrolling interests	488,473	438,221	221,047
Net income attributable to QCR Holdings, Inc.	$ 12,617,767	$ 9,691,648	$ 6,586,679
Less: Preferred stock dividends and discount accretion	3,496,085	5,283,885*	4,128,104
Net income attributable to QCR Holdings, Inc. common stockholders	$ 9,121,682	$ 4,407,763	$ 2,458,575
Diluted earnings per common share	$ 1.85	$ 0.92	$ 0.53
Weighted average common and common equivalent shares outstanding	4,919,559	4,789,026	4,618,242

* Includes $1.2 million of accelerated accretion of discount on the TCPP preferred shares repurchased during the third quarter of 2011. See Note 10 to the consolidated financial statements for detailed discussion of preferred stock.

Following is a table that represents the major income and expense categories.

	Year Ended December 31,		
	2012	2011	2010
Net interest income	$ 57,649,260	$ 54,144,856	$ 49,863,768
Provision for loan/lease losses	(4,370,767)	(6,616,014)	(7,463,618)
Noninterest income	16,621,295	17,461,878	15,405,888
Noninterest expense	(52,258,947)	(50,992,652)	(48,549,063)
Federal and state income tax	(4,534,601)	(3,868,199)	(2,449,249)
Net income	$ 13,106,240	$ 10,129,869	$ 6,807,726

Net Interest Income and Margin. Net interest income, on a tax equivalent basis, grew $4.2 million, or 8% in 2012 compared to 2011. Interest income (on a tax equivalent basis) grew slightly as growth in earning assets coupled with diversification of the securities portfolio outpaced the impact of declining yields. In addition, interest expense continued its significant decline as the Company continued its shift in mix of funding from wholesale (FHLB advances, wholesale structured repurchase agreements (structured repos), and brokered time deposits) to core deposits. For 2012, average earning assets increased by $122.2 million, or 7%, while average interest-bearing liabilities grew modestly by $15.7 million, or 1%, when compared with average balances for 2011. Primarily funding the growth in average earning assets, noninterest-bearing deposits grew $95.9 million, or 30%. A comparison of yields, spreads and margins from 2012 to 2011 shows the following (on a tax equivalent basis):

The average yield on interest-earning assets decreased 27 basis points from 4.41% to 4.14%.

The average cost of interest-bearing liabilities decreased 28 basis points from 1.65% to 1.37%.

The net interest spread improved 1 basis point from 2.76% to 2.77%.

The net interest margin improved 2 basis points from 3.08% to 3.10%.

Net interest income, on a tax equivalent basis, grew $4.3 million, or 9% in 2011 compared to 2010. A decline in interest income was more than offset by a significant decline in interest expense. For 2011, average earning assets increased by $53.0 million, or 3%, and average interest-bearing liabilities declined by $25.3 million, or 2%, when compared with average balances for 2010. Offsetting this decline and primarily funding the growth in average earning assets, noninterest-bearing deposits grew $84.5 million, or 36%. A comparison of yields, spreads and margins from 2011 to 2010 shows the following (on a tax equivalent basis):

The average yield on interest-earning assets decreased 27 basis points from 4.68% to 4.41%.

The average cost of interest-bearing liabilities decreased 43 basis points from 2.08% to 1.65%.

The net interest spread improved 16 basis points from 2.60% to 2.76%.

The net interest margin improved 16 basis points from 2.92% to 3.08%.

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 leasing company is the improvement of their net interest margins. Management continually addresses this issue with pricing and other balance sheet management strategies including, but not limited to, the use of alternative funding sources. Over the past two years, the Company s management has emphasized improving its funding mix by reducing its reliance on wholesale funding, which tends to be at a higher cost than deposits. In addition, with deposit growth outpacing loan growth, the Company s management has focused on growing and diversifying its securities portfolio.

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The following strategies were executed by the Company to reduce reliance on wholesale funding or reducing the cost of portions of the Company s wholesale funding.

The Company s largest subsidiary bank, QCBT, executed a balance sheet restructuring during the first quarter of 2011. Specifically, the bank utilized excess liquidity and prepaid $15.0 million of FHLB advances with a weighted average interest rate of 4.87% and a weighted average maturity of May 2012. The fees for prepayment totaled $832 thousand. The Company sold $37.4 million of government sponsored agency securities and recognized pre-tax gains of $880 thousand which more than offset the prepayment fees. The proceeds from the sales of the government sponsored agency securities were reinvested into government guaranteed residential mortgage-backed securities with reduced risk-weighting for regulatory capital purposes and yields that were comparable to the sold securities. The resulting impacts were significant and included:

- Significantly reduced interest expense and improved net interest margin
- Stronger regulatory capital
- Reduced reliance on wholesale funding

Separately, during the first quarter of 2011, QCBT modified $20.4 million of fixed rate FHLB advances with a weighted average interest rate of 4.33% and a weighted average maturity of October 2013 into new fixed rate advances with a weighted average interest rate of 3.35% and a weighted average maturity of February 2014.

Additionally, during the fourth quarter of 2011, the Company s newest subsidiary bank, RB&T, modified $13.0 million of fixed rate FHLB advances with a weighted average interest rate of 3.37% and a weighted average maturity of March 2013 into new fixed rate FHLB advances with a weighted average interest rate of 2.29% and a weighted average maturity of February 2016.

During the second quarter of 2012, the Company modified $25.0 million of fixed rate structured repos with a weighted average interest rate of 3.77% and a weighted average maturity of December 2015 into new fixed rate structured repos with a weighted average interest rate of 3.21% and a weighted average maturity of April 2019.

These modifications serve to reduce interest expense and improve net interest margin, and minimize the exposure to rising rates through the duration extension of fixed rate liabilities.

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The Company s average balances, interest income/expense, and rates earned/paid on major balance sheet categories are presented in the following table:

	Years Ended December 31,								
	2012			2011			2010		
	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									