

MIDDLEFIELD BANC CORP

Form 10-Q

May 16, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20552  
FORM 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

Commission File Number 000-32561

Middlefield Banc Corp.

(Exact name of registrant as specified in its charter)

Ohio

34 1585111

(State or other jurisdiction of incorporation  
or organization)

(IRS Employer Identification No.)

15985 East High Street, Middlefield, Ohio 44062-9263

(Address of principal executive offices)

(440) 632-1666

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small reporting  
company

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

NO

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

Class: Common Stock, without par value

Outstanding at May 12, 2011: 1,646,609

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MIDDLEFIELD BANC CORP.  
CONSOLIDATED BALANCE SHEET  
(Dollar amounts in thousands)

	(Unaudited) March 31, 2011	December 31, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 11,555	\$ 10,473
Federal funds sold	30,581	20,162
Cash and cash equivalents	42,136	30,635
Investment securities available for sale	189,640	201,772
Loans	376,529	372,498
Less allowance for loan losses	6,685	6,221
Net loans	369,844	366,277
Premises and equipment	8,053	8,179
Goodwill	4,559	4,559
Bank-owned life insurance	8,052	7,979
Accrued interest and other assets	13,553	12,796
<b>TOTAL ASSETS</b>	<b>\$ 635,837</b>	<b>\$ 632,197</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 52,831	\$ 53,391
Interest-bearing demand	54,371	48,869
Money market	75,046	71,105
Savings	155,945	146,993
Time	230,411	244,893
Total deposits	568,604	565,251
Short-term borrowings	7,301	7,632
Other borrowings	18,956	19,321
Accrued interest and other liabilities	1,693	1,971
<b>TOTAL LIABILITIES</b>	<b>596,554</b>	<b>594,175</b>
<b>STOCKHOLDERS EQUITY</b>		
Common stock, no par value; 10,000,000 shares authorized, 1,836,139 and 1,780,553 shares issued	29,286	28,429
Retained earnings	16,418	15,840
Accumulated other comprehensive income	313	487
Treasury stock, at cost; 189,530 shares	(6,734)	(6,734)

TOTAL STOCKHOLDERS EQUITY	39,283	38,022
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 635,837	\$ 632,197

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF INCOME  
(Dollar amounts in thousands, except per share data)  
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 5,301	\$ 5,097
Interest-bearing deposits in other institutions	2	4
Federal funds sold	9	11
Investment securities:		
Taxable interest	1,323	1,203
Tax-exempt interest	698	592
Dividends on stock	26	17
<b>Total interest income</b>	<b>7,359</b>	<b>6,924</b>
<b>INTEREST EXPENSE</b>		
Deposits	2,037	2,485
Short term borrowings	59	58
Other borrowings	109	190
Trust preferred securities	136	136
<b>Total interest expense</b>	<b>2,341</b>	<b>2,869</b>
<b>NET INTEREST INCOME</b>	<b>5,018</b>	<b>4,055</b>
Provision for loan losses	865	439
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>4,153</b>	<b>3,616</b>
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	428	415
Investment securities gains, net	15	9
Earnings on bank-owned life insurance	73	67
Other income	183	118
<b>Total noninterest income</b>	<b>699</b>	<b>609</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	1,690	1,511
Occupancy expense	272	276

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Equipment expense	158	198
Data processing costs	180	243
Ohio state franchise tax	128	136
Federal deposit insurance expense	225	202
Professional fees	211	192
Loss (gain) on sale of other real estate owned	(20)	121
Other expense	861	679
Total noninterest expense	3,705	3,558
Income before income taxes	1,147	667
Income taxes	145	22
NET INCOME	\$ 1,002	\$ 645
EARNINGS PER SHARE		
Basic	\$ 0.62	\$ 0.41
Diluted	0.62	0.41
DIVIDENDS DECLARED PER SHARE	\$ 0.26	\$ 0.26

See accompanying notes to the unaudited consolidated financial statements.



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MIDDLEFIELD BANC CORP.  
 CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY  
 (Dollar amounts in thousands, except dividend per share amount)  
 (Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity	Comprehensive Income
Balance, December 31, 2010	\$ 28,429	\$ 15,840	\$ 487	\$ (6,734)	\$ 38,022	
Net income		1,002			1,002	\$ 1,002
Other comprehensive income:						
Unrealized loss on available for sale securities net of taxes of \$89, net of reclassification adjustment			(174)		(174)	(174)
Comprehensive income						\$ 828
Stock based compensation expense (2,400 shares)	43				43	
Common stock issuance (41,625 shares)	666				666	
Dividend reinvestment and purchase plan (8,436 shares)	148				148	
Cash dividends (\$0.26 per share)		(424)			(424)	
Balance, March 31, 2011	\$ 29,286	\$ 16,418	\$ 313	\$ (6,734)	\$ 39,283	

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Dollar amounts in thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,002	\$ 645
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for loan losses	865	439
Investment securities gains, net	(15)	(9)
Depreciation and amortization	211	189
Amortization of premium and discount on investment securities	116	(59)
Amortization of deferred loan fees, net	(40)	(3)
Earnings on bank-owned life insurance	(73)	(67)
Deferred income taxes	(384)	(227)
Loss on sale of other real estate owned	(20)	44
Increase in accrued interest receivable	(487)	(681)
Increase (decrease) in accrued interest payable	(31)	26
Decrease in prepaid federal deposit insurance	225	186
Other, net	(338)	(941)
Net cash provided by (used for) operating activities	1,031	(458)
<b>INVESTING ACTIVITIES</b>		
Investment securities available for sale:		
Proceeds from repayments and maturities	10,135	6,986
Proceeds from sale of securities	14,879	3,893
Purchases	(13,247)	(37,913)
Increase in loans, net	(4,487)	(6,298)
Proceeds from the sale of other real estate owned	170	96
Purchase of premises and equipment	(26)	(165)
Net cash provided by (used for) investing activities	7,423	(33,401)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	3,353	35,171
Decrease in short-term borrowings, net	(331)	(28)
Repayment of other borrowings	(365)	(491)
Common stock issuance	666	
Proceeds from dividend reinvestment & purchase plan	148	116
Cash dividends	(424)	(408)
Net cash provided by financing activities	3,047	34,360

Increase in cash and cash equivalents	11,501	501
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,635	41,153
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 42,136	\$ 41,654
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	\$ 2,372	\$ 2,843
Income taxes	850	400
Non-cash investing transactions:		
Transfers from loans to other real estate owned	\$ 96	\$ 150
See accompanying notes to the unaudited consolidated financial statements.		

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MIDDLEFIELD BANC CORP.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The consolidated financial statements of Middlefield Banc Corp. ( Company ) include its two bank subsidiaries The Middlefield Banking Company ( MB ) and Emerald Bank ( EB ) and a non-bank asset resolution subsidiary EMORECO, Inc. All significant inter-company items have been eliminated.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the instructions for Form 10-Q and Article 10 of Regulation S-X. In management's opinion, the financial statements include all adjustments, consisting of normal recurring adjustments, that the Company considers necessary to fairly state the Company's financial position and the results of operations and cash flows. The consolidated balance sheet at December 31, 2010, has been derived from the audited financial statements at that date but does not include all of the necessary informational disclosures and footnotes as required by U. S. generally accepted accounting principles. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included with Middlefield's Form 10-K (File No. 000-32561). The results of Middlefield's operations for any interim period are not necessarily indicative of the results of Middlefield's operations for any other interim period or for a full fiscal year.

Recent Accounting Pronouncements

In December 2009, the FASB issued ASU 2009-16, *Accounting for Transfer of Financial Assets*. ASU 2009-16 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASU 2009-16 is effective for annual periods beginning after November 15, 2009 and for interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash – a consensus of the FASB Emerging Issues Task Force*. ASU 2010-01 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend. ASU 2010-01 is effective for interim and annual periods ending on or after December 15, 2009 and should be applied on a retrospective basis. The adoption of this guidance did not have a material impact on the Company's financial position.

In January 2010, the FASB issued ASU 2010-05, *Compensation – Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*. ASU 2010-05 updates existing guidance to address the SEC staff's views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. ASU 2010-05 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company's financial position.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In April 2010, the FASB issued ASU 2010-13, *Compensation – Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*. ASU 2010-13 provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 is effective for fiscal years,

and interim periods within those fiscal years, beginning on or after December 15, 2010 and is not expected to have a significant impact on the Company's financial statements.

In April 2010, the FASB issued ASU 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan is a Part of a Pool That is Accounted for as a Single Asset* a consensus of the FASB Emerging Issues Task Force. ASU 2010-18 clarifies the treatment for a modified loan that was acquired as part of a pool of assets. Refinancing or restructuring the loan does not make it eligible for removal from the pool, the FASB said. The amendment will be effective for loans that are part of an asset pool and are modified during financial reporting periods that end July 15, 2010 or later and is not expected to have a significant impact on the Company's financial statements.

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In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company is currently evaluating the impact the adoption of this guidance will have on the Company's financial position or results of operations.

In August, 2010, the FASB issued ASU 2010-21, *Accounting for Technical Amendments to Various SEC Rules and Schedules*. This ASU amends various SEC paragraphs pursuant to the issuance of Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules, and Codification of Financial Reporting Policies and is not expected to have a significant impact on the Company's financial statements.

In August, 2010, the FASB issued ASU 2010-22, *Technical Corrections to SEC Paragraphs – An announcement made by the staff of the U.S. Securities and Exchange Commission*. This ASU amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics and is not expected to have a significant impact on the Company's financial statements.

In September, 2010, the FASB issued ASU 2010-25, *Plan Accounting – Defined Contribution Pension Plans*. The amendments in this ASU require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The amendments in this update are effective for fiscal years ending after December 15, 2010 and are not expected to have a significant impact on the Company's financial statements.

In October, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This ASU addresses the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2011 and are not expected to have a significant impact on the Company's financial statements.

In December, 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. This ASU is not expected to have a significant impact on the Company's financial.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual

reporting period beginning on or after December 15, 2010. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20, enabling public-entity creditors to provide those disclosures after the FASB clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this Update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed Update for determining what constitutes a troubled debt restructuring, the FASB proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

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In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. This ASU is not expected to have a significant impact on the Company's financial.

**NOTE 2 STOCK-BASED COMPENSATION**

The Company has no unrecognized stock-based compensation costs or unvested stock options outstanding as of March 31, 2011.

Stock option activity during the three months ended March 31, 2011 and 2010 is as follows:

	2011	Weighted- average Exercise Price	2010	Weighted- average Exercise Price
Outstanding, January 1	89,077	\$ 27.87	99,219	\$ 26.85
Granted				
Exercised				
Forfeited	(7,549)	29.22		
Outstanding, March 31	81,528	\$ 27.75	99,219	\$ 26.85

**NOTE 3 EARNINGS PER SHARE**

The Company provides dual presentation of Basic and Diluted earnings per share. Basic earnings per share utilizes net income as reported as the numerator and the actual average shares outstanding as the denominator. Diluted earnings per share include any dilutive effects of options, warrants, and convertible securities.

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income (Unaudited) will be used as the numerator. The following tables set forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.



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	For the Three Months Ended March 31,	
	2011	2010
Weighted average common shares outstanding	1,811,419	1,754,984
Average treasury stock shares	(189,530)	(189,530)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	1,621,889	1,565,454
Additional common stock equivalents (stock options) used to calculate diluted earnings per share		1,987
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	1,621,889	1,567,441

Options to purchase 81,528 shares of common stock at prices ranging from \$22.33 to \$40.24 were outstanding during the three months ended March 31, 2011 but were not included in the computation of diluted earnings per share as they were anti-dilutive due to the strike price being greater than the market price as of March 31, 2011. For the three months ended March 31, 2010, there were 89,077 options to purchase shares of common stock at prices ranging from \$22.33 to \$40.24 but were not included in the computation of diluted earnings per share.

**NOTE 4 COMPREHENSIVE INCOME**

The components of comprehensive income consist exclusively of unrealized gains and losses on available for sale securities. For the three months ended March 31, 2011, this activity is shown under the heading Comprehensive Income as presented in the Consolidated Statement of Changes in Stockholders' Equity (Unaudited).

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The following shows the components and activity of comprehensive income during the periods ended March 31, 2011 and 2010 (net of the income tax effect):

For the Three Months