MIDDLEFIELD BANC CORP
Form 10-Q
August 11, 2011

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

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

For the quarterly period ended June 30, 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 þ NO o

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 þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 o	**Accelerated filer o**	**Non-accelerated filer o**	**Small reporting company þ**

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

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

Class: Common Stock, without par value
Outstanding at August 11, 2011: 1,653,660

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

	(Unaudited) June 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 15,540	$ 10,473
Federal funds sold	19,364	20,162
Cash and cash equivalents	34,904	30,635
Investment securities available for sale	193,821	201,772
Loans	385,339	372,498
Less allowance for loan losses	7,027	6,221
Net loans	378,312	366,277
Premises and equipment	7,939	8,179
Goodwill	4,559	4,559
Bank-owned life insurance	8,118	7,979
Accrued interest and other assets	11,921	12,796
TOTAL ASSETS	$ 639,574	$ 632,197
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 58,219	$ 53,391
Interest-bearing demand	55,315	48,869
Money market	74,482	71,105
Savings	160,141	146,993
Time	221,588	244,893
Total deposits	569,745	565,251
Short-term borrowings	6,787	7,632
Other borrowings	18,694	19,321
Accrued interest and other liabilities	2,045	1,971
TOTAL LIABILITIES	597,271	594,175
STOCKHOLDERS EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 1,843,190 and 1,780,553 shares issued	29,485	28,429
Retained earnings	16,712	15,840
Accumulated other comprehensive income	2,840	487
Treasury stock, at cost; 189,530 shares	(6,734)	(6,734)

TOTAL STOCKHOLDERS EQUITY		42,303		38,022
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	639,574	$	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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
INTEREST INCOME				
Interest and fees on loans	$ 5,399	$ 5,299	$ 10,700	$ 10,396
Interest-bearing deposits in other institutions	2	3	4	7
Federal funds sold	4	12	13	23
Investment securities:				
Taxable interest	1,289	1,339	2,612	2,542
Tax-exempt interest	702	647	1,400	1,239
Dividends on stock	25	32	51	49
Total interest income	7,421	7,332	14,780	14,256
INTEREST EXPENSE				
Deposits	2,004	2,373	4,041	4,858
Short term borrowings	59	62	118	120
Other borrowings	104	183	213	373
Trust preferred securities	137	128	273	264
Total interest expense	2,304	2,746	4,645	5,615
NET INTEREST INCOME	5,117	4,586	10,135	8,641
Provision for loan losses	700	690	1,565	1,129
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,417	3,896	8,570	7,512
NONINTEREST INCOME				
Service charges on deposit accounts	416	433	844	848
Investment securities gains (losses), net	(37)	18	(22)	27
Earnings on bank-owned life insurance	66	65	139	132
Other income	149	169	332	287
Total noninterest income	594	685	1,293	1,294
NONINTEREST EXPENSE				
Salaries and employee benefits	1,944	1,713	3,634	3,224

Occupancy expense	223	217	495	493
Equipment expense	155	204	313	402
Data processing costs	173	172	353	415
Ohio state franchise tax	97	134	225	270
Federal deposit insurance expense	272	190	497	392
Professional fees	185	188	396	380
Losses on other real estate owned	323	175	303	214
Other expense	920	835	1,781	1,596
Total noninterest expense	4,292	3,828	7,997	7,386
Income before income taxes	719	753	1,866	1,420
Income taxes (benefit)	(1)	38	144	60
NET INCOME	$ 720	$ 715	$ 1,722	$ 1,360
EARNINGS PER SHARE				
Basic	$ 0.44	$ 0.46	$ 1.05	$ 0.87
Diluted	0.44	0.45	1.05	0.87
DIVIDENDS DECLARED PER SHARE	$ 0.26	$ 0.26	$ 0.52	$ 0.52

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		1,722			1,722	$ 1,722
Other comprehensive income:						
Unrealized gain on available for sale securities net of taxes of $1,212, net of reclassification adjustment			2,353		2,353	2,353
Comprehensive income						$ 4,075
Stock-based compensation expense	59				59	
Common stock issuance (44,750 shares)	716				716	
Dividend reinvestment and purchase plan (15,487 shares)	281				281	
Cash dividends ($0.52 per share)		(850)			(850)	
Balance, June 30, 2011	$ 29,485	$ 16,712	$ 2,840	$ (6,734)	$ 42,303	

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)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
OPERATING ACTIVITIES		
Net income	$ 1,722	$ 1,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,565	1,129
Investment securities (gains) losses, net	22	(26)
Depreciation and amortization	425	381
Amortization of premium and discount on investment securities	151	(104)
Amortization of deferred loan fees, net	(80)	(18)
Earnings on bank-owned life insurance	(139)	(132)
Deferred income taxes	(329)	(403)
Stock based compensation expense	59	
Losses on other real estate owned	303	214
Increase (decrease) in accrued interest receivable	118	(27)
Increase (decrease) in accrued interest payable	(35)	27
Decrease in prepaid federal deposit insurance	423	363
Other, net	(715)	(1,046)
Net cash provided by operating activities	3,490	1,718
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	21,260	15,067
Proceeds from sale of securities	10,072	5,140
Purchases	(19,989)	(59,185)
Increase in loans, net	(14,080)	(11,855)
Proceeds from the sale of other real estate owned	414	540
Purchase of premises and equipment	(66)	(269)
Net cash used for investing activities	(2,389)	(50,562)
FINANCING ACTIVITIES		
Net increase in deposits	4,494	45,990
Increase (decrease) in short-term borrowings, net	(845)	401
Repayment of other borrowings	(627)	(825)
Common stock issuance	716	
Proceeds from dividend reinvestment & purchase plan	281	282
Cash dividends	(850)	(816)
Net cash provided by financing activities	3,169	45,032

Increase (decrease) in cash and cash equivalents		4,270		(3,812)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		30,635		41,153
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	34,904	$	37,341
SUPPLEMENTAL INFORMATION				
Cash paid during the year for:				
Interest on deposits and borrowings	$	4,681	$	5,588
Income taxes		515		750
Non-cash investing transactions:				
Transfers from loans to other real estate owned	$	560	$	476

See accompanying notes to the unaudited consolidated financial statements.

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 (GAAP). 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 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 2010-18, *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.

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 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 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 in not expected to have a significant impact on the Company s financial statements.

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 statements.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The main objective in developing this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this Update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The amendments require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

NOTE 2 STOCK-BASED COMPENSATION

The Company has no unrecognized stock-based compensation costs or unvested stock options outstanding as of June 30, 2011.

Stock option activity during the six months ended June 30, 2011 and 2010 is as follows:

	2011	Weighted-average Exercise Price	2010	Weighted-average Exercise Price
Outstanding, January 1	89,077	$ 27.87		