

MIDDLEFIELD BANC CORP

Form 10-Q

November 13, 2009

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

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

For the quarterly period ended September 30, 2009

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 November 12, 2009: 1,556,774

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MIDDLEFIELD BANC CORP.  
CONSOLIDATED BALANCE SHEET  
(Unaudited)

	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
Cash and due from banks	\$ 11,143,127	\$ 9,795,248
Federal funds sold	19,533,878	7,548,000
Interest-bearing deposits in other institutions	120,885	112,215
Cash and cash equivalents	30,797,890	17,455,463
Investment securities available for sale	116,880,660	104,270,366
Loans	345,918,924	321,575,293
Less allowance for loan losses	4,422,250	3,556,763
Net loans	341,496,674	318,018,530
Premises and equipment	8,256,905	8,448,915
Goodwill	4,558,687	4,558,687
Bank-owned life insurance	7,637,731	7,440,687
Accrued interest and other assets	8,317,212	7,654,287
<b>TOTAL ASSETS</b>	<b>\$ 517,945,759</b>	<b>\$ 467,846,935</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 40,963,722	\$ 42,357,154
Interest-bearing demand	34,877,418	26,404,660
Money market	42,078,988	27,845,438
Savings	99,322,206	68,968,844
Time	230,686,676	229,243,506
Total deposits	447,929,010	394,819,602
Short-term borrowings	1,667,967	1,886,253
Other borrowings	28,772,173	33,903,019
Accrued interest and other liabilities	2,097,903	2,178,813
<b>TOTAL LIABILITIES</b>	<b>480,467,053</b>	<b>432,787,687</b>
<b>STOCKHOLDERS EQUITY</b>		
Common stock, no par value; 10,000,000 shares authorized, 1,746,304 and 1,725,381 shares issued	27,759,557	27,301,403
Retained earnings	14,860,713	14,786,353
Accumulated other comprehensive income/(loss)	1,592,043	(294,901)
Treasury stock, at cost; 189,530 shares in 2009 and 2008	(6,733,607)	(6,733,607)

TOTAL STOCKHOLDERS EQUITY	37,478,706	35,059,248
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 517,945,759	\$ 467,846,935

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF INCOME  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 5,175,354	\$ 5,425,266	\$ 15,079,662	\$ 16,273,630
Interest-bearing deposits in other institutions	2,293	1,949	11,800	10,790
Federal funds sold	3,936	22,181	10,977	124,467
Investment securities:				
Taxable interest	975,580	622,184	2,752,897	1,793,645
Tax-exempt interest	474,629	449,351	1,374,847	1,360,226
Dividends on FHLB stock	15,847	29,514	46,611	88,526
<b>Total interest income</b>	<b>6,647,639</b>	<b>6,550,445</b>	<b>19,276,794</b>	<b>19,651,284</b>
<b>INTEREST EXPENSE</b>				
Deposits	2,501,502	2,948,998	7,776,369	9,381,666
Short term borrowings	4,987	17,610	15,161	34,793
Other borrowings	354,769	432,055	1,114,899	1,254,040
<b>Total interest expense</b>	<b>2,861,258</b>	<b>3,398,663</b>	<b>8,906,429</b>	<b>10,670,499</b>
<b>NET INTEREST INCOME</b>	<b>3,786,381</b>	<b>3,151,782</b>	<b>10,370,365</b>	<b>8,980,785</b>
Provision for loan losses	1,346,000	187,000	1,760,000	357,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>2,440,381</b>	<b>2,964,782</b>	<b>8,610,365</b>	<b>8,623,785</b>
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	488,747	493,228	1,394,312	1,417,789
Investment securities gains, net		25,758		34,508
Earnings on bank-owned life insurance	68,413	75,336	197,044	217,798
Other income	133,300	85,925	358,775	284,820
<b>Total noninterest income</b>	<b>690,460</b>	<b>680,247</b>	<b>1,950,131</b>	<b>1,954,915</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	1,395,388	1,322,026	4,303,972	3,643,199
Occupancy expense	215,768	203,298	691,538	643,884
Equipment expense	151,742	150,334	425,175	435,770

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Data processing costs	224,615	193,033	692,362	591,098
Ohio state franchise tax	123,300	117,000	369,900	351,000
FDIC assessment	86,108	71,702	529,268	117,394
Other expense	843,030	672,188	2,326,521	2,041,882
Total noninterest expense	3,039,951	2,729,581	9,338,736	7,824,227
Income before income taxes	90,890	915,448	1,221,760	2,754,473
Income taxes	(122,574)	211,000	(55,574)	530,000
NET INCOME	\$ 213,464	\$ 704,448	\$ 1,277,334	\$ 2,224,473
EARNINGS PER SHARE				
Basic	\$ 0.14	\$ 0.46	\$ 0.83	\$ 1.45
Diluted	0.14	0.46	0.83	1.44
DIVIDENDS DECLARED PER SHARE	\$ 0.26	\$ 0.26	\$ 0.78	\$ 0.77

See accompanying notes to the unaudited consolidated financial statements.



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MIDDLEFIELD BANC CORP.  
 CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY  
 (Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total Stockholders Equity	Comprehensive Income
Balance, December 31, 2008	\$ 27,301,403	\$ 14,786,353	\$ (294,901)	\$ (6,733,607)	\$ 35,059,248	
Net income		1,277,334			1,277,334	\$ 1,277,334
Other comprehensive income:						
Unrealized gains on available for sale securities net of taxes of \$972,040			1,886,944		1,886,944	1,886,944
Comprehensive income						\$ 3,164,278
Stock based compensation expense recognized in earnings	45,441				45,441	
Dividend reinvestment and purchase plan	412,713				412,713	
Cash dividends (\$0.78 per share)		(1,202,974)			(1,202,974)	
Balance, September 30, 2009	\$ 27,759,557	\$ 14,860,713	\$ 1,592,043	\$ (6,733,607)	\$ 37,478,706	

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,277,334	\$ 2,224,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,760,000	357,000
Investment securities gains, net		(34,509)
Depreciation	437,477	393,883
Amortization of premium and discount on investment securities	(385,732)	158,650
Amortization of deferred loan fees, net	(43,495)	(104,138)
Earnings on bank-owned life insurance	(197,044)	(217,799)
Compensation for stock option expense	45,441	11,286
Loss on other real estate owned	182,796	
Increase in accrued interest receivable	(408,746)	(364,938)
Decrease in accrued interest payable	(233,106)	(223,246)
Other, net	(391,146)	(123,615)
Net cash provided by operating activities	2,043,780	2,077,047
<b>INVESTING ACTIVITIES</b>		
Investment securities available for sale:		
Proceeds from repayments and maturities	14,902,736	11,598,563
Proceeds from sale of securities		2,929,439
Purchases	(24,268,290)	(27,760,155)
Increase in loans, net	(26,146,245)	(11,751,849)
Purchase of Federal Home Loan Bank stock	(14,100)	(85,200)
Proceeds from the sale of other real estate owned	100,000	
Purchase of premises and equipment	(245,468)	(1,367,701)
Net cash used for investing activities	(35,671,368)	(26,436,903)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	53,109,408	17,046,151
Increase (decrease) in short-term borrowings, net	(218,286)	183,092
Repayment of other borrowings	(5,130,846)	(7,707,395)
Proceeds from other borrowings		12,000,000
Purchase of treasury stock		(1,350,881)
Proceeds from dividend reinvestment & purchase plan	412,713	498,193
Cash dividends	(1,202,974)	(1,177,829)
Net cash provided by financing activities	46,970,015	19,491,331

Increase (decrease) in cash and cash equivalents	13,342,427	(4,868,525)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,455,463	17,815,322
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 30,797,890	\$ 12,946,797

SUPPLEMENTAL INFORMATION

Cash paid during the year for:

Interest on deposits and borrowings	\$ 9,147,651	\$ 10,901,695
Income taxes	275,000	400,000

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 ) includes its two subsidiaries The Middlefield Banking Company and Emerald Bank. All significant inter-company items have been eliminated in consolidation.

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 balance sheet at December 31, 2008, 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 the Company's Form 10-K. The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

Certain items contained in the 2008 financial statements have been reclassified to conform to the presentation for 2009. Such reclassifications had no effect on the net results of operations.

## Recent Accounting Pronouncements:

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2009-01, *Topic 105 Generally Accepted Accounting Principles FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. The Company adopted this standard for the interim reporting period ending September 30, 2009. The adoption of this standard did not have a material impact on the Company's results of operations or financial position.

In June 2009, the FASB issued FAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. FAS 167, which amends FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, (FIN 46(R)). Under FASB's Codification at ASC 105-10-65-1-d, FAS No. 167 will remain authoritative until integrated into the FASB Codification. This statement prescribes a qualitative model for identifying whether a company has a controlling financial interest in a variable interest entity (VIE) and eliminates the quantitative model prescribed by FIN 46(R). The new model identifies two primary characteristics of a controlling financial interest: (1) provides a company with the power to direct significant activities of the VIE, and (2) obligates a company to absorb losses of and/or provides rights to receive benefits from the VIE. FAS No. 167 requires a company to reassess on an ongoing basis whether it holds a controlling financial interest in a VIE. A company that holds a controlling financial interest is deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. This statement is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued new guidance impacting ASC Topic 820, *Fair Value Measurements and Disclosures*. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of this new guidance did not have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, *Financial Instruments*, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance is

effective for interim and annual periods ending after June 15, 2009. The Company has presented the necessary disclosures in Note 5 herein.

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In April 2009, the FASB issued new guidance impacting ASC 320-10, *Investments – Debt and Equity Securities*, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is effective for interim and annual periods ending after June 15, 2009. The Company has presented the necessary disclosures in Note 5 herein.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value*. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The Company is currently evaluating the impact of this standard on the Company's financial condition, results of operations, and disclosures.

**NOTE 2 STOCK-BASED COMPENSATION**

During the nine months ended September 30, 2009, the Company recorded \$45,441 in compensation cost. As of September 30, 2009, there was approximately \$21,529 of unrecognized compensation cost related to the unvested share-based compensation awards granted. The cost is expected to be recognized in 2009. The Company had 23,500 unvested stock options outstanding as of September 30, 2009.

Stock option activity during the nine months ended September 30, 2009 and 2008 is as follows:

	2009	Weighted- average Exercise Price	2008	Weighted- average Exercise Price
Outstanding, January 1	110,465	\$ 27.21	88,211	\$ 28.04
Granted			1,337	36.25
Exercised			(992)	19.80
Forfeited	(7,575)	33.60	(1,591)	23.48
Outstanding, September 30	102,890	\$ 26.74	86,965	\$ 28.34

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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 includes any dilutive effects of options, warrants, and convertible securities.

There are no convertible securities that would affect the denominator 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.

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Weighted average common shares outstanding	1,740,586	1,712,574	1,733,107	1,707,720
Average treasury stock shares	(189,530)	(189,530)	(189,530)	(173,979)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	1,551,056	1,523,044	1,543,577	&n