MIDDLEFIELD BANC CORP
Form 10-Q
August 17, 2007

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

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

For the quarterly period ended June 30, 2007

Commission File Number 33-23094

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)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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 is an accelerated filer (as defined in Rule 12-b2 of the Act) YES o NO 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 10, 2007: 1,617,771

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MIDDLEFIELD BANC CORP.
CONSOLIDATED BALANCE SHEET

	June 30, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 7,590,873	$ 6,893,148
Federal funds sold	4,299,341	6,200,000
Interest-bearing deposits in other institutions	559,550	546,454
Cash and cash equivalents	12,449,764	13,639,602
Investment securities available for sale	71,874,997	63,048,135
Investment securities held to maturity (estimated market value of $130,579 and $134,306)	119,899	125,853
Loans	302,528,037	249,190,534
Less allowance for loan losses	3,283,975	2,848,887
Net loans	299,244,062	246,341,647
Premises and equipment	6,831,770	6,742,465
Goodwill	3,224,264	123,175
Bank-owned life insurance	7,012,996	6,872,743
Accrued interest and other assets	5,649,867	3,958,084
TOTAL ASSETS	$ 406,407,619	$ 340,851,704
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 41,348,568	$ 41,002,573
Interest-bearing demand	13,128,166	11,724,173
Money market	27,511,193	14,738,767
Savings	73,077,850	54,246,499
Time	171,792,572	149,338,181
Total deposits	326,858,349	271,050,193
Short-term borrowings	5,768,056	1,609,738
Other borrowings	37,225,371	36,112,738
Accrued interest and other liabilities	2,084,045	1,615,101
TOTAL LIABILITIES	371,935,821	310,387,770
STOCKHOLDERS EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 1,621,550 and 1,519,887 shares issued	23,521,438	19,507,257
Retained earnings	15,644,003	14,685,971
Accumulated other comprehensive loss	(1,288,586)	(520,987)
Treasury stock, at cost; 100,080 shares in 2007 and 95,080 shares in 2006	(3,405,057)	(3,208,307)

TOTAL STOCKHOLDERS EQUITY	34,471,798	30,463,934
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 406,407,619	$ 340,851,704

See accompanying unaudited notes to the consolidated financial statements.

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MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
INTEREST INCOME				
Interest and fees on loans	$ 5,315,387	$ 4,219,061	$ 9,845,616	$ 8,204,679
Interest-bearing deposits in other institutions	49,724	4,272	105,613	7,393
Federal funds sold	130,200	5,358	261,435	8,937
Investment securities:				
Taxable interest	254,534	289,841	520,648	595,811
Tax-exempt interest	459,595	248,440	842,380	493,591
Dividends on FHLB stock	26,272	23,341	51,767	40,538
Total interest income	6,235,712	4,790,313	11,627,459	9,350,949
INTEREST EXPENSE				
Deposits	2,869,444	1,677,832	5,184,115	3,218,694
Short-term borrowings	20,455	61,827	39,670	122,650
Other borrowings	469,473	297,890	914,885	570,864
Total interest expense	3,359,372	2,037,549	6,138,670	3,912,208
NET INTEREST INCOME	2,876,340	2,752,764	5,488,789	5,438,741
Provision for loan losses	69,391	75,000	114,391	150,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,806,949	2,677,764	5,374,398	5,288,741
NONINTEREST INCOME				
Service charges on deposit accounts	481,055	435,842	933,002	848,684
Investment securities losses, net				(5,868)
Earnings on bank-owned life insurance	68,174	59,950	140,253	113,172
Other income	99,014	98,863	196,616	188,993
Total noninterest income	648,243	594,655	1,269,871	1,144,981
NONINTEREST EXPENSE				
Salaries and employee benefits	1,040,092	835,105	2,145,000	1,830,049
Occupancy expense	198,278	113,544	367,508	267,847
Equipment expense	132,423	100,473	254,214	192,686

Data processing costs	161,471	158,279	312,719	336,786
Ohio state franchise tax	108,200	90,000	204,200	180,000
Other expense	680,369	600,631	1,310,894	1,126,395
Total noninterest expense	2,320,833	1,898,032	4,594,535	3,933,763
Income before income taxes	1,134,359	1,374,387	2,049,734	2,499,959
Income taxes	235,128	386,587	398,128	694,587
NET INCOME	$ 899,231	$ 987,800	$ 1,651,606	$ 1,805,372
EARNINGS PER SHARE				
Basic	$ 0.60	$ 0.70	$ 1.13	$ 1.28
Diluted	0.59	0.69	1.11	1.26
DIVIDENDS DECLARED PER SHARE	$ 0.240	$ 0.224	$ 0.480	$ 0.448

See accompanying unaudited notes to the 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 Loss	Treasury Stock	Total Stockholders Equity	Comprehensive Income
Balance, December 31, 2006	$ 19,507,257	$ 14,685,971	$ (520,987)	$ (3,208,307)	$ 30,463,934	
Net income		1,651,606			1,651,606	$ 1,651,606
Other comprehensive income:						
Unrealized loss on available for sale securities net of tax benefit of $395,390			(767,599)		(767,599)	(767,599)
Comprehensive income						$ 884,007
Purchase of treasury stock				(196,750)	(196,750)	
Common stock issued	3,838,276				3,838,276	
Dividend reinvestment plan	175,905				175,905	
Cash dividends ($0.24 per share)		(693,574)			(693,574)	
Balance, June 30, 2007	$ 23,521,438	$ 15,644,003	$ (1,288,586)	$ (3,405,057)	$ 34,471,798	
	23,521,438	15,644,003	(1,288,586)	(3,405,057)	34,471,798	

See accompanying unaudited notes to the consolidated financial statements.

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

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
OPERATING ACTIVITIES		
Net income	$ 1,651,606	$ 1,805,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	69,391	150,000
Investment securities losses, net		5,868
Depreciation and amortization	245,020	217,047
Amortization of premium and discount on investment securities	114,514	118,879
Amortization of deferred loan fees	(24,119)	(38,569)
Earnings on bank-owned life insurance	(140,253)	(113,172)
Increase in accrued interest receivable	(252,413)	83,472
Increase in accrued interest payable	125,237	67,380
Other, net	(380,472)	(199,086)
Net cash provided by operating activities	1,408,511	2,097,191
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	2,499,419	2,990,431
Proceeds from sale of securities		664,838
Purchases	(12,603,824)	(1,117,254)
Investment securities held to maturity:		
Proceeds from repayments and maturities	5,954	5,643
Increase in loans, net	(13,738,759)	(6,347,224)
Acquisition of subsidiary bank	(1,828,301)	
Purchase of Federal Home Loan Bank stock	(56,100)	(50,600)
Purchase of bank-owned life insurance		(1,000,000)
Purchase of premises and equipment	(98,112)	(119,723)
Net cash used for investing activities	(25,819,723)	(4,973,889)
FINANCING ACTIVITIES		
Net increase in deposits	21,739,314	4,826,133
Increase (decrease) in short-term borrowings, net	4,158,319	(3,748,267)
Repayment of other borrowings	(2,137,367)	(1,987,727)
Proceeds from other borrowings		4,000,000
Purchase of Treasury Stock	(196,750)	(205,845)
Common stock issued	175,526	253,463
Proceeds from dividend reinvestment plan	175,905	147,554
Cash dividends	(693,574)	(633,313)

Net cash provided by financing activities	23,221,373	2,651,998
Increase in cash and cash equivalents	(1,189,838)	(224,700)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,639,602	5,821,164
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 12,449,764	$ 5,596,465
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 4,399,898	$ 3,844,828
Income taxes	450,000	625,000
Summary of business acquisition:		
Fair value of tangible assets acquired	$ 42,657,925	$
Fair value of core deposit intangible acquired	103,781	
Fair value of liabilities assumed	(38,408,610)	
Stock issued for the purchase of acquired company s common stock	(3,662,750)	
Cash paid in the acquisition	(3,887,110)	
Goodwill recognized	$ (3,196,764)	$

See accompanying notes to 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. (Middlefield) includes its wholly owned subsidiary, The Middlefield Banking Company (the Bank). 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 Middlefield considers necessary to fairly state Middlefield s financial position and the results of operations and cash flows. The balance sheet at December 31, 2006, 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. 33-23094). 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 September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company s results of operations or financial position. Or The Company is currently evaluating the impact the adoption of the standard will have on the Company s results of operations.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. The objective of the FAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. FAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of FAS No. 157, *Fair Value Measurements*. The adoption of this standard is not expected to have a material effect on the Company s results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 is an interpretation of FAS No. 109, *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN No. 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoption of the standard will have on the Company s results of operations.

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-4 (EITF 06-4), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policy, that are associated with a postretirement benefit. EITF 06-4 requires that for a split-dollar life insurance arrangement within the scope of the Issue, an employer should recognize a liability for future benefits in accordance with FAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact the adoption of the EITF will have on the Company s results of operations or financial condition.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 (EITF 06-10), *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements*. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact the adoption of the EITF will have on the Company s results of operations or financial condition.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-11 (EITF 06-11), *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under FAS No. 123R, *Share-Based Payment*, and result in an income tax deduction for the employer. A consensus was reached that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified non-vested equity shares, non-vested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the EITF will have on the Company s financial condition.

NOTE 2 STOCK-BASED COMPENSATION

The Company adopted FAS 123R on January 1, 2006 and applied the modified prospective transition method. Under this transition method, the Company (1) did not restate any prior periods and (2) are recognizing compensation expense for all share-based payment awards that were outstanding, but not yet vested, as of January 1, 2006, based upon the same estimated grant-date fair values and service periods used to prepare the FAS 123 pro-forma disclosures. During the six months ended June 30, 2007, the Company recorded no compensation as no options vested during the year. As of June 30, 2007, there was approximately $26,435 of unrecognized compensation cost related to the unvested share-based compensation awards granted. That cost is expected to be recognized in 2007.

FAS 123R requires that the cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) be classified as financing cash flows. Prior to the adoption of FAS 123R, such excess tax benefits were presented as operating cash flows. Accordingly, there have been no excess tax benefits that have been classified as a financing cash inflow for the six months ended June 30, 2007 in the Consolidated Statements of Cash Flows.

Prior to adopting FAS 123R, the Company accounted for share-based payment awards using the intrinsic value method of APB 25 and related interpretations. Under APB 25, the Company did not record compensation expense for employee share options, unless the awards were modified, because the share options were granted with exercise prices equal to or greater than the fair value of our stock on the date of grant. The Company did not have any non-vested stock options outstanding during the periods ended June 30, 2006. There were no options issued during the three and six months ended June 30, 2006.

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Stock option activity during the six months ended June 30, 2007 and 2006 is as follows:

	2007	Weighted-average Exercise Price	2006	Weighted-average Exercise Price
Outstanding, January 1	73,607	$ 27.54	78,020	$ 26.79
Granted	9,864	39.62		
Exercised	(538)	26.36	(2,403)	24.21
Forfeited				
Outstanding, June 30	82,933	$ 28.99	75,617	$ 26.87

NOTE 3 EARNINGS PER SHARE

Middlefield 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 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.

	For the Three Months Ended June 30,	For the Six Months Ended June 30,
	2007	