MIDDLEFIELD BANC CORP
Form 10-Q
May 15, 2009

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 March 31, 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 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 o **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 May 13, 2009: 1,541,247

MIDDLEFIELD BANC CORP.

INDEX

	Page Number
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheet (Unaudited) as of March 31, 2009 and December 31, 2008	3
Consolidated Statement of Income (Unaudited) for the Three Months ended March 31, 2009 and 2008	4
Consolidated Statement of Changes in Stockholders Equity (Unaudited) for the Three Months ended March 31, 2009	5
Consolidated Statement of Cash Flows (Unaudited) for the Three Months ended March 31, 2009 and 2008	6
Notes to Unaudited Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	19
Item 4. Controls and Procedures	20
PART II OTHER INFORMATION	20
Item 1. Legal Proceedings	20
Item 1A. Risk Factors	
Item 2. Unregistered sales of equity securities and use of proceeds	21
Item 3. Default Upon Senior Securities	21
Item 4. Submissions of Matters to a Vote of Security Holders	21
Item 5. Other Information	21
Item 6. Exhibits and Reports on Form 8 - K	21
SIGNATURES	25

Exhibit 31.1
Exhibit 31.2
Exhibit 32
Exhibit 99

Table of Contents

MIDDLEFIELD BANC CORP.
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2009	December 31 2008
ASSETS		
Cash and due from banks	$ 12,569,069	$ 9,795,248
Federal funds sold	5,780,125	7,548,000
Interest-bearing deposits in other institutions	118,694	112,215
Cash and cash equivalents	18,467,888	17,455,463
Investment securities available for sale	102,323,856	104,270,366
Loans	326,688,314	321,575,293
Less allowance for loan losses	3,620,618	3,556,763
Net loans	323,067,696	318,018,530
Premises and equipment	8,332,898	8,448,915
Goodwill	4,558,687	4,558,687
Bank-owned life insurance	7,509,264	7,440,687
Accrued interest and other assets	9,113,608	7,654,287
TOTAL ASSETS	$ 473,373,898	$ 467,846,935
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 43,271,194	$ 42,357,154
Interest-bearing demand	29,753,343	26,404,660
Money market	31,058,973	27,845,438
Savings	77,705,826	68,968,844
Time	222,296,346	229,243,506
Total deposits	404,085,682	394,819,602
Short-term borrowings	1,532,609	1,886,253
Other borrowings	30,889,915	33,903,019
Accrued interest and other liabilities	2,007,485	2,178,813
TOTAL LIABILITIES	438,515,691	432,787,687
STOCKHOLDERS EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 1,730,777 and 1,725,381 shares issued	27,427,697	27,301,403
Retained earnings	14,990,150	14,786,353
Accumulated other comprehensive loss	(826,033)	(294,901)
Treasury stock, at cost; 189,530 shares in 2009 and 2008	(6,733,607)	(6,733,607)

TOTAL STOCKHOLDERS EQUITY	34,858,207	35,059,248
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 473,373,898	$ 467,846,935

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
INTEREST INCOME		
Interest and fees on loans	$ 4,998,102	$ 5,455,274
Interest-bearing deposits in other institutions	7,235	5,203
Federal funds sold	3,756	79,304
Investment securities:		
Taxable interest	853,197	565,079
Tax-exempt interest	446,324	453,943
Dividends on FHLB stock	15,369	29,400
Total interest income	6,323,983	6,588,203
INTEREST EXPENSE		
Deposits	2,716,220	3,333,980
Short-term borrowings	5,663	9,895
Other borrowings	388,655	414,111
Total interest expense	3,110,539	3,757,986
NET INTEREST INCOME	3,213,444	2,830,217
Provision for loan losses	154,000	75,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,059,444	2,755,217
NONINTEREST INCOME		
Service charges on deposit accounts	438,913	465,528
Earnings on bank-owned life insurance	68,577	70,088
Other income	115,961	101,835
Total noninterest income	623,451	637,451
NONINTEREST EXPENSE		
Salaries and employee benefits	1,370,580	1,194,419
Occupancy expense	254,916	231,183
Equipment expense	122,695	146,110
Data processing costs	248,882	209,280
Ohio state franchise tax	123,300	117,000

Other expense	875,415	617,680
Total noninterest expense	2,995,788	2,515,672
Income before income taxes	687,107	876,996
Income taxes	84,000	140,000
NET INCOME	$ 603,107	$ 736,996
EARNINGS PER SHARE		
Basic	$ 0.39	$ 0.48
Diluted	0.39	0.47
DIVIDENDS DECLARED PER SHARE	$ 0.260	$ 0.250

See accompanying notes to the unaudited consolidated financial statements.

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, 2008	$ 27,301,403	$ 14,786,353	$ (294,901)	$ (6,733,607)	$ 35,059,248	
Net income		603,107			603,107	$ 603,107
Other comprehensive income:						
Unrealized loss on available for sale securities net of tax benefit of $273,607			(531,132)		(531,132)	(531,132)
Comprehensive income						$ 71,975
Stock based compensation expense recognized in earnings	15,147				15,147	
Dividend reinvestment and purchase plan	111,147				111,147	
Cash dividends ($0.26 per share)		(399,310)			(399,310)	
Balance, March 31, 2009	$ 27,427,697	$ 14,990,150	$ (826,033)	$ (6,733,607)	$ 34,858,207	

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2009	2008
OPERATING ACTIVITIES		
Net income	$ 603,107	$ 736,996
Adjustments to reconcile net income to net cash used for operating activities:		
Provision for loan losses	154,000	75,000
Depreciation	144,100	126,213
Amortization of premium and discount on investment securities	(45,286)	49,451
Amortization of deferred loan fees, net	(6,579)	(27,932)
Earnings on bank-owned life insurance	(68,577)	(70,088)
Compensation for stock option expense	15,147	3,762
Increase in accrued interest receivable	(611,354)	(442,313)
Increase (decrease) in accrued interest payable	(139,441)	(40,545)
Other, net	(367,861)	(533,826)
Net cash used for operating activities	(322,744)	(123,283)
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	3,934,802	5,565,823
Purchases	(2,747,751)	(18,144,564)
Increase in loans, net	(5,420,867)	(5,464,478)
Purchase of Federal Home Loan Bank stock	(14,100)	(38,800)
Purchase of premises and equipment	(28,084)	(452,880)
Net cash used for investing activities	(4,276,000)	(18,534,899)
FINANCING ACTIVITIES		
Net increase in deposits	9,266,080	14,855,106
Increase (decrease) in short-term borrowings, net	(353,644)	579,479
Repayment of other borrowings	(3,013,104)	(972,154)
Proceeds from other borrowings		1,000,000
Purchase of treasury stock		(492,693)
Proceeds from dividend reinvestment & purchase plan	111,147	194,716
Cash dividends	(399,310)	(387,138)
Net cash provided by financing activities	5,611,169	14,777,316
Increase (decrease) in cash and cash equivalents	1,012,425	(3,880,866)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,455,463	17,815,322

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 18,467,888	$ 13,934,456
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 3,249,980	$ 3,798,531
Income taxes	150,000	150,000

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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.

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 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 December 2007, the FASB issued FAS No. 141 (revised 2007), *Business Combinations* (FAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. 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 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. In February 2008, the FASB issued Staff Position No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS No. 157. Also in February 2008, the FASB issued Staff Position No.157-2, *Partial Deferral of the Effective Date of Statement 157*, which deferred the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact the adoption of the standard will have on the Company s results of operations.

In December 2007, the FASB issued FAS No. 160, *Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. FAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. FAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact the adoption of the standard will have on the Company s results of operations.

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, to require enhanced disclosures about derivative instruments and hedging activities. The new standard has revised financial reporting for derivative instruments and hedging activities by requiring more transparency about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for

under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. FAS No. 161 requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also requires entities to provide more information about their liquidity by requiring disclosure of derivative features that are credit risk-related. Further, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encourage. 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 2008, the FASB ratified EITF Issue No. 08-4, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjusted Conversion Ratios*. This Issue provides transition guidance for conforming changes made to EITF Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjusted Conversion Ratios*, that resulted from EITF Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments,* and FAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity*. The conforming changes are effective for financial statements issued for fiscal years ending after December 15, 2008, with earlier application permitted. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement*. This FSP provides guidance on the accounting for certain types of convertible debt instruments that may be settled in cash upon conversion. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

In February 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. This FSP concludes that a transferor and transferee should not separately account for a transfer of a financial asset and a related repurchase financing unless (a) the two transactions have a valid and distinct business or economic purpose for being entered into separately and (b) the repurchase financing does not result in the initial transferor regaining control over the financial asset. The FSP is effective for financial statements issued for fiscal years beginning on or after November 15, 2008, and interim periods within those fiscal years. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing assumptions about renewal or extension used in estimating the useful life of a recognized intangible asset under FAS No. 142*, Goodwill and Other Intangible Assets*. This standard is intended to improve the consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141R and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The measurement provisions of this standard will apply only to intangible assets of the Company acquired after the effective date. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that instruments granted in share-based payment transactions can be participating securities prior to the requisite service having been rendered. A basic principle of the FSP is that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of EPS pursuant to the two-class method. The provisions of this FSP are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented (including interim financial statements, summaries of earnings, and selected financial data) are required to be adjusted retrospectively to conform with the provisions of the FSP. The adoption of this FSP is not expected to have a material effect on the Company s results of operations or financial position.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies.* This FSP requires companies acquiring contingent assets or assuming contingent liabilities in business combination to either (a) if the assets or liabilities fair value can be determined, recognize them at fair value, at the acquisition date, or (b) if the assets or liabilities fair value cannot be determined, but (i) it is probable that an asset existed or that a liability had been incurred at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated, recognize them at their estimated amount, at the

acquisition date. If the fair value of these contingencies cannot be determined and they are not probable or cannot be reasonably estimated, then companies should not recognize these contingencies as of the acquisition date and instead should account for them in subsequent periods by following other applicable GAAP. This FSP also eliminates the FAS 141R requirement of disclosing in the footnotes to the financial statements the range of expected outcomes for a recognized contingency. This FSP shall be effective for assets or liabilities arising from contingencies in 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, 2008. The Company is currently evaluating the impact the adoption of the FSP will have on the Company s results of operations.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP relates to 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. FSP No. FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The Company is currently evaluating the impact the adoption of the FSP will have on the Company s results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of 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. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. FSP No. FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The Company is currently evaluating the impact the adoption of the FSP will have on the Company s results of operations.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. FSP No. FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The Company is currently evaluating the impact the adoption of the FSP will have on the Company s results of operations.

NOTE 2 STOCK-BASED COMPENSATION

During the three months ended March 31, 2009, the Company recorded $15,147 in unrecognized compensation cost. As of March 31, 2009, there was approximately $51,823 of unrecognized compensation cost related to the unvested share-based compensation awards granted. That cost is expected to be recognized in 2009.

Stock option activity during the three months ended March 31, 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	$ 28.34
Granted			1,337	36.25
Exercised			(175)	23.70
Forfeited	(2,265)	37.33		
Outstanding, March 31	108,200	$ 27.00	89,373	$ 28.47

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

Table of Contents

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 March 31,	
	2009	2008
Weighted average common shares outstanding	1,726,460	1,702,587
Average treasury stock shares	(189,530)	(154,544)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	1,536,930	1,548,043
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	1,604	20,337
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	1,538,534	1,568,380

Options to purchase 97,926 shares of common stock at prices ranging from $22.33 to $40.24 were outstanding during the three months ended March 31, 2009 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, 2009. For the three months ended March 31, 2008, there were 25,897 options to purchase shares of common stock at prices ranging from $36.73 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, 2009, this activity is shown under the heading Comprehensive Income as presented in the Consolidated Statement of Changes in Stockholders Equity (Unaudited).

Table of Contents

The following shows the components and activity of comprehensive income during the periods ended March 31, 2009 and 2008 (net of the income tax effect):

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Unrealized holding gains (losses) arising during the period on securities held	$ (531,132)	$ 231,984
Reclassification adjustment for gains included in net income		
Net change in unrealized gains (losses) during the period	(531,132)	231,984
Unrealized holding losses, beginning of period	(294,901)	(52,969)
Unrealized holding gain (losses), end of period	(826,033)	179,015
Net income	603,107	736,996
Other comprehensive income, net of tax:		
Unrealized holding gains (losses) arising during the period	(531,132)	231,984
Comprehensive income	$ 71,975	$ 968,980

NOTE 5 FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Association adopted FAS No. 157, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. FAS No. 157 establishes a hierarchal disclosure framework associated with the level of pricing observe ability utilized in measuring assets and liabilities at fair value. The three broad levels defined by FAS No. 157 hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observe ability as of the reported date. These items do not have two-way markets and are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following tables present the assets measured on a recurring basis on the consolidated statements of financial condition at their fair value as of March 31, 2009 and December 31, 2009 by level within the fair value hierarchy. As required by FAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2009			
	Level I	Level II	Level III	Total
Assets Measured on a Recurring Basis:				
Investment securities available for sale	$ 955,508	$ 95,928,221	$ 5,440,127	$ 102,323,856

	December 31, 2008			
	Level I	Level II	Level III	Total
Assets Measured on a Recurring Basis:				
Investment securities available for sale	$ 1,022,162	$ 96,568,054	$ 6,680,150	$ 104,270,366

Financial instruments are considered Level III when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The following table presents the changes in the Level III fair-value category for the year ended March 31, 2009.
The following represent fair value measurements using significant unobservable inputs (Level III):

	Available-for-Sale Securities
Balance, December 31,2008	$ 6,680,150
Total gains or losses (realized/unrealizes)	
Included in earnings	
Included in other comprehensive loss	(1,240,023)
Purchases, issuances, and settlements	
Transfers in and/or out of Level III	
Balance, March 31, 2009	$ 5,440,127
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$

Gains and losses (realized and unrealized) included in earnings (or changes in net assets) for the quarter ended March 31, 2009 are reported as investment securities gains (losses), net on the Consolidated Statement of Income.
At December 31, 2008, the Company changed its valuation technique for certain private-label collateralized mortgage obligations (CMOs). Previously, the Company relied on prices compiled by third party vendors using observable market data (Level II) to determine the values of these securities. However, FAS 157 assumes that fair values of financial assets are determined in an orderly transaction and not a forced liquidation or distressed sale at the measurement date. Based on financial market conditions at December 31, 2008, the Company concluded the fair values obtained from third-party vendors reflected forced liquidation or distressed sales for these CMOs. Therefore, the Company estimated fair value based on a discounted cash flow methodology using appropriately adjusted discount rates reflecting nonperformance and liquidity risks. The change in the valuation technique for these CMOs resulted in

a transfer of $6,680,150 into Level III financial assets.

The following tables present the assets measured on a nonrecurring basis on the consolidated statements of financial condition at their fair value as of March 31, 2009 and December 31, 2008, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loan include: quoted market prices for identical assets classified as Level I inputs; observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

	March 31, 2009			
	Level I	Level II	Level III	Total
Assets Measured on a non-recurring Basis:				
Impaired loans	$	$ 2,490,020	$ 1,892,826	$ 4,382,847

	December 31, 2008			
	Level I	Level II	Level III	Total
Assets Measured on a non-recurring Basis:				
Impaired loans	$	$ 1,194,594	$ 1,027,366	$ 2,221,960

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

The following discussion and analysis provides further detail to the financial condition and results of operations of the Company. The MD&A should be read in conjunction with the notes and financial statements presented in this report.

CHANGES IN FINANCIAL CONDITION

General. The Company s total assets ended the March 31, 2009 quarter at $473.4 million an increased of $5.5 million or 1.2% from end of year December 31, 2008. Cash and cash equivalents, loans receivable and accrued interest and other assets increased $1.0 million, $5.1 million and $1.5 million respectively. The increase in total assets reflected a corresponding increase in total liabilities of $5.7 million or 1.3% and a decline in stockholders equity of $201,000 or .6%. The increase in total liabilities was primarily the result of deposit growth of $9.3 million or 2.3%. This was partially offset by decreases to other borrowing and short term borrowing of $3.0 million and $354,000 respectively for the quarter. The decline in stockholders equity was the result of an increase in accumulated other comprehensive loss of $531,000. This increase was practically offset by increases in retained earnings and common stock of $204,000 and $126,000 respectively.

Cash and cash equivalents. Cash on hand and due from banks, Federal funds sold and interest-bearing deposits in other institutions represent cash and cash equivalents. Cash equivalents increased a combined $1.0 million or 5.8% to $18.5 million at March 31, 2009 from $17.5 million at December 31, 2008. Deposits from customers into savings and checking accounts, loan and security repayments and proceeds from borrowed funds typically increase these accounts. Decreases result from customer withdrawals, new loan originations, security purchases and repayments of borrowed funds. A decline in Federal Funds Sold for the first three months was used to fund the loan and investment portfolios.

Investment securities. Investment securities available for sale ended the March 31, 2008 quarter at $102.3 million a decline of $2.0 million or 1.9% from $104.3 million at December 31, 2008. During this period the Company recorded purchases of available for sale securities of $2.7 million, consisting of purchases of municipal and U. S. government bonds. Offsetting some of the purchases of securities were repayments and maturities of $3.9 million during the three months ended March 31, 2009. In addition, the securities portfolio decreased approximately $805,000 due to a decline in the market value. These fair value adjustments represent temporary fluctuations resulting from changes in market rates in relation to average yields in the available for sale portfolio. If securities are held to their respective maturity dates, no fair value gain or loss is realized.

Loans receivable. The loans receivable category consists primarily of single family mortgage loans used to purchase or refinance personal residences located within the Company s market area and commercial real estate loans used to

finance properties that are used in the borrowers businesses or to finance investor-owned rental properties, and to a lesser extent commercial and consumer loans. Net loans receivable increased $5.1 million or 1.6% to $323.1 million as of March 31, 2009 from $318.0 million at December 31, 2008. Included in this increase was an improvement in the commercial and industrial loan portfolio of $7.6 million or 11.5% during the three months ended March 31, 2009. The Company s lending philosophy is to focus on the commercial loans and to attempt to grow the portfolio. To attract and build the commercial loan portfolio, the Corporation has taken a proactive approach in contacting new and current clients to ensure that the Corporation is servicing its client s needs. These lending relationships generally offer more attractive returns than residential loans and also offer opportunities for attracting larger balance deposit relationships. However, the shift in loan portfolio mix from residential real estate to commercial oriented loans may increase credit risk.

Table of Contents

Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the performance of the loan portfolio considering economic conditions, changes in interest rates and the effect of such changes on real estate values and changes in the amount and composition of the loan portfolio. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term. Such evaluation, which includes a review of all loans for which full collectibility may not be reasonably assured, considers among other matters, historical loan loss experience, the estimated fair value of the underlying collateral, economic conditions, current interest rates, trends in the borrower s industry and other factors that management believes warrant recognition in providing for an appropriate allowance for loan losses. Future additions to the allowance for loan losses will be dependent on these factors. Additionally, the Company utilizes an outside party to conduct an independent review of commercial and commercial real estate loans. The Company uses the results of this review to help determine the effectiveness of the existing policies and procedures, and to provide an independent assessment of the allowance for loan losses allocated to these types of loans. Management believes that the allowance for loan losses was appropriately stated at March 31, 2009. Based on the variables involved and the fact that management must make judgments about outcomes that are uncertain, the determination of the allowance for loan losses is considered a critical accounting policy.

Non-performing assets. Non-performing assets included non-accrual loans, renegotiated loans, loans 90 days or more past due, other real estate, and repossessed assets. A loan is classified as non-accrual when, in the opinion of management, there are serious doubts about collectibility of interest and principal. At the time the accrual of interest is discontinued, future income is recognized only when cash is received. Renegotiated loans are those loans which terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deterioration of the borrower. Non-performing loans amounted to $13.4 million or 4.1% and $8.5 million or 2.6% of total loans at March 31, 2009 and December 31, 2008, respectively. The increase in nonperforming assets has occurred primarily in real estate mortgage loans and other real estate owned. Non-performing loans secured by real estate totaled $7.3 million as of March 31, 2009, up $2.8 million from $4.5 million at December 31, 2008. The depressed state of the economy and rising levels of unemployment have contributed to this trend, as well as the decline in the housing market across our geographic footprint that reflected declining home prices and increasing inventories of houses for sale. Real estate owned is written down to fair value at its initial recording and continually monitored.

Nonperforming Assets and Allowance for Loan Losses. The following table indicates asset quality data over the past five quarters.

Asset Quality History
(Dollars in thousands)

	3/31/2009	12/31/2008	9/30/2008	6/30/2008	3/31/2008
Nonperforming loans	$ 13,370	$ 8,481	$ 6,749	$ 6,530	$ 6,784
Real estate owned	1,331	1,106	1,108	911	
Nonperforming assets	$ 14,701	$ 9,587	$ 7,857	$ 7,441	$ 6,784
Allowance for loan losses	$ 3,621	$ 3,557	$ 3,614	$ 3,435	$ 3,351
Ratios					
Nonperforming loans to total loans	4.09%	2.64%	2.11%	2.04%	2.15%
Nonperforming assets to total assets	3.11%	2.05%	1.73%	1.66%	1.51%
Allowance for loan losses to total loans	1.11%	1.11%	1.13%	1.08%	1.06%
	27.08%	41.94%	53.55%	52.60%	49.40%

Allowance for loan losses to
nonperforming loans

A major factor in determining the appropriateness of the allowance for loan losses is the type of collateral which secures the loans. Of the total nonperforming loans at March 31, 2009, 82% were secured by real estate. Although this does not insure against all losses, the real estate provides substantial recovery, even in a distressed-sale and declining-value environment. In response to the poor economic conditions which have eroded the performance of the Company s loan portfolio, additional resources have been allocated to the loan workout process. The Company s objective is to work with the borrower to minimize the burden of the debt service and to minimize the future loss exposure to the Company.

Deposits. The Company considers various sources when evaluating funding needs, including but not limited to deposits, which are a significant source of funds totaling $404.1 million or 92.6% of the Company s total funding sources at March 31, 2009. Total deposits increased $9.2 million or 2.3% to $404.1 million at March 31, 2009 from $394.8 million at December 31, 2008. The increase in deposits is primarily related to the growth of savings that totaled $77.7 million at March 31, 2009 an increase of $8.7 million or 12.7% for the year. Interest-bearing demand and money market accounts increased $3.3 million and $3.2 million respectively. These increases were partially offset by a decline in certificates of deposits of $7.0 million during the three months ended March 31, 2009.

Borrowed funds. The Company utilizes short and long-term borrowings as another source of funding used for asset growth and liquidity needs. These borrowings primarily include FHLB advances, junior subordinated debt and repurchase agreements. Short-term borrowings decreased $354,000 or 18.7% to $1.5 million as of March 31, 2009 from $1.9 million at December 31, 2008. Other borrowings declined $3.0 million for the quarter which represents advances from the Federal Home Loan Bank of Cincinnati. The decline in FHLB advances was the result of $1.0 million and $2.0 million of maturing advances to the Middlefield Banking Company and Emerald Bank respectively.

Stockholders equity. Stockholders equity decreased $201,000 or .6% to $34.9 million at March 31, 2009 from $35.1 million at December 31, 2008. The decrease in stockholders equity was the result of increases in common stock and retained earnings of $126,000 and $204,000, respectively, offset by an increase in accumulated other comprehensive loss of $531,000. The increase of accumulated other comprehensive loss was the result of a decrease in the mark to market of the Company s securities available for sale portfolio. The increase in common stock was the result of the issuing 5,396 shares of the bank s common stock at an average price of $20.60 since December 31, 2008.

RESULTS OF OPERATIONS

General. The first quarter continued to prove to be a difficult period for the banking community with a continually changing yield curve and a challenging competitive environment. Net income for the first quarter of 2009 totaled $603,107, or 18.2% less than the $736,996 reported for the same period in 2008. Diluted earnings per share for the first quarter of 2009 was $0.39 a 18.8% decrease from 2008 s first quarter diluted earnings per share of $0.47.

Net interest income. Net interest income, the primary source of revenue for the Company, is determined by the Company s interest rate spread, which is defined as the difference between income on earning assets and the cost of funds supporting those assets, and the relative amounts of interest earning assets and interest bearing liabilities. Management periodically adjusts the mix of assets and liabilities, as well as the rates earned or paid on those assets and liabilities in order to manage and improve net interest income. The level of interest rates and changes in the amount and composition of interest earning assets and liabilities affect the Company s net interest income. Historically from an interest rate risk perspective, it has been management s perception that differing interest rate environments can cause sensitivity to the Company s net interest income, these being extended low long-term interest rates or rapidly rising short-term interest rates.

Net interest income for the first quarter totaled $3.2 million, an increase of 13.5% from the $2.8 million reported for the comparable period of 2008. The net interest margin was 3.21% for the first quarter of 2009, up from the 2.96% reported for the same quarter of 2008. The increase is primarily attributable to lower deposit costs and competitive pricing on lending opportunities associated with the current interest rate environment. Deposit growth at the banks has primarily been in products such as savings and money market accounts, which generally carry lower interest costs than other deposit alternatives.

Interest income. Interest income decreased $264,000, or 4.0%, for the three months ended March 31, 2009, compared to the same period in the prior year. This decline can be attributed to decrease in interest earned on loans receivable of $457,000 which was partially offset by a $280,000 increase in interest earned on investment securities for the quarter.

Interest earned on loans receivable decreased $457,000, or 8.4%, for the three months ended March 31, 2009, compared to the same period in the prior year. This decrease was attributed to a decline in the yield on the total loan portfolio to 6.27% for the three months ended March 31, 2009 from 7.03% for the same period in the prior year. The decline in the loan portfolio yield was due to a sharp reduction in the average quarterly prime rate of 295 basis point as compared to the 1st quarter of 2008.

Interest earned on securities increased $283,000, or 27.6%, for the three months ended March 31, 2009, compared to the same period in the prior year. This increase was primarily the result of an increase in the average balance of the securities portfolio of $10.6 million, or 11.3%, to $105.0 million at March 31, 2009 from $94.4 million for the same period in the prior year. Interest income on investment securities was also affected by an increase in the portfolio yield. The total securities portfolio yield of 5.94% for the three months ended March 31, 2009 increased by 59 basis points from 5.35% for the same period in the prior year.

Interest expense. Interest expense decreased $647,000, or 17.2%, for the three months ended March 31, 2009, compared to the same period in the prior year. This decline in interest expense can be attributed to decreases in

interest incurred on deposits and borrowings of $618,000 and $30,000, respectively. This reduction in interest cost was mainly due to the rate paid on interest-bearing liabilities which declined by 88 basis points when comparing the two quarters.

Interest incurred on deposits, the largest component of the Company s interest-bearing liabilities, declined $618,000, or 18.5%, for the three months ended March 31, 2009, compared to the same period in the prior year. This decrease was attributed to a decline in average rate paid on deposits of 3.11% for the three months ended March 31, 2009 from 4.09% for the same period in the prior year. The improvement in interest cost due to rate was partially offset by an increase in the average balance of interest-bearing deposits of $23.2 million, or 7.0%, to $354.0 million for the three months ended March 31, 2009, compared to $330.9 million for the same period in the prior year. This increase is reflected in the quarterly rate volume report presented below which depicts that the decrease to the costs associated with the interest-bearing liabilities. The Company diligently monitors the interest rates on its products as well as the rates being offered by its competition and utilizing rate surveys to keep its total interest expense costs down.
Interest incurred on borrowed funds, declined by $30,000, or 7.1%, for the three months ended March 31, 2009, compared the same period in the prior year. This decline was primarily attributable to the reduction in the average rate of borrowed funds of 30 basis points, or 6.1%, to 4.63% for the three months ended March 31, 2009, compared to 4.93%for the same period in the prior year.

Provision for loan losses. The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management s assessment of the estimated probable incurred credit losses inherent in the loan portfolio. Each quarter management performs a review of estimated probable incurred credit losses in the loan portfolio. Based on this review, a provision for loan losses of $154,000 was recorded for the quarter ended March 31, 2009 compared to $75,000 for the quarter ended March 31, 2008. The provision for loan losses was higher for the current quarter due to increases in net charge-offs, increases in nonperforming and delinquent loans and the current distressed state of the economy. Nonperforming loans were $13.4 million, or 4.1% of total loans at March, 2009 compared with $6.7 million, or 2.1% at March 31, 2008. Net charge-offs were $90,000 for the quarter ended March 31, 2009 compared with $23,000 for the quarter ended March 31, 2008. Total loans were $326.7 million at March 31, 2009 compared with $314.9 million at March 31, 2008.

Non-interest income. Non-interest income decreased $14,000 for the three-month period of 2009 over the comparable 2008 period. This decrease was the result of lower service charge revenue associated with deposit accounts, as well as a decrease in the earnings rate on bank-owned life insurance. An increase in other non-interest income was driven by greater ATM/Debit card usage and an increase in revenue from investment services.

Non-interest expense. Non-interest expense of $2,996,000 for the first quarter of 2009 was 19.1%, or $480,000, higher than the first quarter of 2008. Increases in salaries and employee benefits of $176,000 and occupancy expense of $24,000 are primarily attributable to the growth of the company. The Middlefield Banking Company opened its Cortland, Ohio, office in June 2008, while Emerald Bank acquired its Westerville, Ohio, office in November 2008. The increase in data processing costs is also attributable to the expansion that was undertaken during the prior year. Other expense grew $258,000 over the 2008 quarter. The greatest portion of this change, $155,000, was an increase in deposit insurance premiums payable to the FDIC. In addition to an overall increase in deposit insurance premiums for 2009, the company s two banks have begun to accrue for a proposed special assessment to be levied by the FDIC on deposits as of June 30, 2009. An additional $21,000 of expense was recognized in 2009 s first quarter directly tied to increased audit/exam/regulation requirements. Higher costs associated with consulting fees, which saw an increase of $15,000, other insurance, which was higher by $11,000, and stationary and printing expense, which grew $16,000, also contributed to the increase in other expenses for the quarter.

Provision for income taxes. The Company recognized $84,000 in income tax expense, which reflected an effective tax rate of 12.0% for the three months, ended March 31, 2009, as compared to $140,000 with an effective tax rate of 16.0% for the respective 2008 period. The decline in the tax provision can be associated with a 21.7% or $190,000 decline in net income before income taxes.

CRITICAL ACCOUNTING ESTIMATES

The Company s critical accounting estimates involving the more significant judgments and assumptions used in the preparation of the consolidated financial statements as of March 31, 2009, have remained unchanged from December 31, 2008.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resultant average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resultant average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average balances are calculated using monthly averages and the average loan balances include non-accrual loans and exclude the allowance for loan losses, and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis utilizing a federal tax rate of 34%. Yields and rates have been calculated on an annualized basis utilizing monthly interest amounts.

	For the Three Months Ended March 31,					
	2009			2008		
	Average Balance	Interest (1)	(4) Average Yield/Cost	Average Balance	Interest (1)	(4) Average Yield/Cost
	(Dollars in thousands)			(Dollars in thousands)		
Interest-earning assets:						
Loans receivable	323,330	$ 4,998	6.27%	311,236	$ 5,455	7.03%
Investments securities (taxable equivalent)	104,973	1,307	5.94%	94,357	1,024	5.35%
Interest-bearing deposits with other banks	6,805	19	1.14%	9,402	109	4.64%
Total interest-earning assets	435,108	6,324	6.11%	414,994	6,588	6.59%
Noninterest-earning assets	35,503			32,307		
Total assets	$ 470,611			$ 447,301		
Interest-bearing liabilities:						
Interest bearing demand deposits	27,722	61	0.89%	$ 21,072	74	1.41%
Money market deposits	28,796	151	2.12%	23,048	205	3.57%
Savings deposits	71,406	246	1.40%	72,391	443	2.45%
Certificates of deposit	226,107	2,259	4.05%	214,372	2,612	4.89%
Borrowings	34,520	394	4.63%	34,475	424	4.93%
Total interest-bearing liabilities	388,552	3,111	3.25%	365,357	3,758	4.13%
Noninterest-bearing liabilities						
Other liabilities	47,100			46,839		
Stockholders equity	34,959			35,105		
Total liabilities and stockholders equity	$ 470,611			$ 447,301		
Net interest income		$ 3,213			$ 2,830	

Interest rate spread (2)	2.86%	2.47%
Net yield on interest-earning assets (3)	3.21%	2.96%
Ratio of average interest-earning assets to average interest-bearing liabilities	111.98%	113.59%

(1) Interest income and expense are for the period that banking operations were in effect.

(2) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(3) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

(4) Average yields are computed using annualized interest income and expense for the periods.

Analysis of Changes in Net Interest Income. The following tables analyzes the changes in interest income and interest expense, between the three periods ended March 31, 2009 and 2008, in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Company s interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior period volume), changes in volume (changes in volume multiplied by prior period rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The

changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on securities reflects the changes in interest income on a fully tax equivalent basis.

	2009 versus 2008 Increase (decrease) due to		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Loans receivable	212	-669	-457
Investments securities	142	141	283
Interest-bearing deposits with other banks	-30	-60	-90
Total interest-earning assets	324	-588	-264
Interest-bearing liabilities:			
Interest bearing demand deposits	23	-36	-13
Money market deposits	51	-105	-54
Savings deposits	-6	-191	-197
Certificates of deposit	143	-496	-353
Borrowings	1	-30	-30
Total interest-bearing liabilities	212	-859	-647
Net interest income	$ 111	$ 271	$ 382

LIQUIDITY

Management s objective in managing liquidity is maintaining the ability to continue meeting the cash flow needs of its customers, such as borrowings or deposit withdrawals, as well as its own financial commitments. The principal sources of liquidity are net income, loan payments, maturing and principal reductions on securities and sales of securities available for sale, federal funds sold and cash and deposits with banks. Along with its liquid assets, the Company has additional sources of liquidity available to ensure that adequate funds are available as needed. These include, but are not limited to, the purchase of federal funds, and the ability to borrow funds under line of credit agreements with correspondent banks and a borrowing agreement with the Federal Home Loan Bank of Cincinnati, Ohio and the adjustment of interest rates to obtain depositors. Management feels that it has the capital adequacy, profitability and reputation to meet the current and projected needs of its customers.

For the three months ended March 31, 2009, the adjustments to reconcile net income to net cash from operating activities consisted mainly of depreciation and amortization of premises and equipment, the provision for loan losses, net amortization of securities and net changes in other assets and liabilities. Cash and cash equivalents increased as a result of the purchasing of government agency securities. For a more detailed illustration of sources and uses of cash, refer to the condensed consolidated statements of cash flows.

INFLATION

Substantially all of the Company s assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with U.S. Generally Accepted Accounting Principles. GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, with the exception of securities available for sale, impaired loans and other real estate loans that are measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management s opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other, but do not always move in correlation with each other. The Company s ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company s performance.

REGULATORY MATTERS

The Company is subject to the regulatory requirements of The Federal Reserve System as a multi-bank holding company. The affiliate banks are subject to regulations of the Federal Deposit Insurance Corporation (FDIC) and the State of Ohio, Division of Financial Institutions.

REGULATORY CAPITAL REQUIREMENTS

The Company is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the company s operations.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion and plans for capital restoration are required.

Table of Contents

The following table illustrates the Company s risk-weighted capital ratios at March 31, 2009:

	Middlefield Banc Corp. March 31, 2009		The Middlefield Banking Co. March 31, 2009		Emerald Bank March 31, 2009	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)						
Actual	$ 43,424,752	13.20	$ 33,756,945	11.93	$ 7,615,060	16.58
For Capital Adequacy Purposes	26,324,000	8.00	22,640,800	8.00	3,674,815	8.00
To Be Well Capitalized	32,905,000	10.00	28,301,000	10.00	4,593,518	10.00
Tier I Capital (to Risk-weighted Assets)						
Actual	$ 39,799,083	12.10	$ 30,816,645	10.89%	$ 7,039,560	15.32
For Capital Adequacy Purposes	13,162,000	4.00	11,320,400	4.00	1,837,407	4.00
To Be Well Capitalized	19,743,000	6.00	16,980,600	5.00	2,756,111	6.00
Tier I Capital (to Average Assets)						
Actual	$ 39,799,083	8.51	$ 30,816,645	7.66	$ 7,039,560	11.79
For Capital Adequacy Purposes	18,717,922	4.00	16,097,072	4.00	2,387,641	4.00
To Be Well Capitalized	23,397,402	5.00	20,121,340	5.00	2,984,551	5.00

Item 3 Quantitative and Qualitative Disclosures about Market Risk

ASSET AND LIABILITY MANAGEMENT

The primary objective of the Company s asset and liability management function is to maximize the Company s net interest income while simultaneously maintaining an acceptable level of interest rate risk given the Company s operating environment, capital and liquidity requirements, performance objectives and overall business focus. The principal determinant of the exposure of the Company s earnings to interest rate risk is the timing difference between the repricing and maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities. The Company s asset and liability management policies are designed to decrease interest rate sensitivity primarily by shortening the maturities of interest-earning assets while at the same time extending the maturities of interest-bearing liabilities. The Board of Directors of the Company continues to believe in strong asset/liability management in order to insulate the Company from material and prolonged increases in interest rates. As a result of this policy, the Company emphasizes a larger, more diversified portfolio of residential mortgage loans in the form of mortgage-backed securities. Mortgage-backed securities generally increase the quality of the Company s assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company.

The Company s Board of Directors has established an Asset and Liability Management Committee consisting of four outside directors, the President and Chief Executive Officer, Executive/Vice President/ Chief Operating Officer, Senior Vice President/Chief Financial Officer and Senior Vice President/Commercial Lending. This committee, which meets quarterly, generally monitors various asset and liability management policies and strategies, which were

implemented by the Company over the past few years. These strategies have included: (i) an emphasis on the investment in adjustable-rate and shorter duration mortgage-backed securities; (ii) an emphasis on the origination of single-family residential adjustable-rate mortgages (ARMs), residential construction loans and commercial real estate loans, which generally have adjustable or floating interest rates and/or shorter maturities than traditional single-family residential loans, and consumer loans, which generally have shorter terms and higher interest rates than mortgage loans; (iii) increase the duration of the liability base of the Company by extending the maturities of savings deposits, borrowed funds and repurchase agreements.

The Company has established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a 200 basis point parallel and gradual increase or decrease in market interest rates, net interest income may not change by more than 10% for a one-year period.

Table of Contents

Portfolio equity simulation. Portfolio equity is the net present value of the Company s existing assets and liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 20% of stockholders equity.

The following table presents the simulated impact of a 200 basis point upward and a 200 basis point downward shift of market interest rates on net interest income and the change in portfolio equity. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at March 31, 2007 remained constant. The impact of the market rate movements was developed by simulating the effects of rates changing gradually over a one-year period from the March 31, 2008 levels for net interest income. The impact of market rate movements was developed by simulating the effects of an immediate and permanent change in rates at March 31, 2009 for portfolio equity:

	Increase 200 Basis Points	Decrease 200 Basis Points
Net interest income increase (decrease)	(3.60)%	5.70%
Portfolio equity increase (decrease)	(6.83)%	(6.16)%

ITEM 4.

Controls and Procedures Disclosure

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation s reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(e) and 15d-14(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures are, to the best of their knowledge, effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that there were no significant changes in internal control or in other factors that could significantly affect its internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Corporation s internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Corporation s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1a. There are no material changes to the risk factors set forth in Part I, Item 1A, Risk Factors, of the Company s Annual Report on Form 10-K for the year ended December 31, 2008. Please refer to that section for disclosures regarding the risks and uncertainties related to the Company s business.

20

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
On May 12, 2008, the Company announced the adoption of a stock repurchase program that authorizes the repurchase of up to 4.99% or approximately 76,936 shares of its outstanding common stock in the open market or in privately negotiated transactions. This program expires in May 2009.
Item 3. Defaults by the Company on its senior securities
None
Item 4. Submission of matters to a vote of security holders
None
Item 5. Other information
None
Item 6. Exhibits
Exhibit list for Middlefield Banc Corp. s Form 10-Q Quarterly Report for the Period Ended March 31, 2009

exhibit number	description	location
3.1	Second Amended and Restated Articles of Incorporation of Middlefield Banc Corp., as amended	Incorporated by reference to Exhibit 3.1 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2005, filed on March 29, 2006
3.2	Regulations of Middlefield Banc Corp.	Incorporated by reference to Exhibit 3.2 of Middlefield Banc Corp. s registration statement on Form 10 filed on April 17, 2001
4.0	Specimen stock certificate	Incorporated by reference to Exhibit 4 of Middlefield Banc Corp. s registration statement on Form 10 filed on April 17, 2001
4.1	Amended and Restated Trust Agreement, dated as of December 21, 2006, between Middlefield Banc Corp., as Depositor, Wilmington Trust Company, as Property trustee, Wilmington Trust Company, as Delaware Trustee, and Administrative Trustees	Incorporated by reference to Exhibit 4.1 of Middlefield Banc Corp. s Form 8-K Current Report filed on December 27, 2006
4.2	Junior Subordinated Indenture, dated as of December 21, 2006, between Middlefield Banc Corp. and Wilmington Trust Company	Incorporated by reference to Exhibit 4.2 of Middlefield Banc Corp. s Form 8-K Current Report filed on December 27, 2006
4.3	Guarantee Agreement, dated as of December 21, 2006, between Middlefield Banc Corp. and Wilmington Trust Company	Incorporated by reference to Exhibit 4.3 of Middlefield Banc Corp. s Form 8-K Current Report filed on December 27, 2006
10.1.0*	1999 Stock Option Plan of Middlefield Banc Corp.	Incorporated by reference to Exhibit 10.1 of Middlefield Banc Corp. s registration statement on Form 10 filed on April 17, 2001

Table of Contents

exhibit number	description	location
10.1.1*	2007 Omnibus Equity Plan	Incorporated by reference to Middlefield Banc Corp. s definitive proxy statement for the 2008 Annual Meeting of Shareholders, Appendix A, filed on April 7, 2008
10.2*	Severance Agreement between Middlefield Banc Corp. and Thomas G. Caldwell, dated January 7, 2008	Incorporated by reference to Exhibit 10.2 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.3*	Severance Agreement between Middlefield Banc Corp. and James R. Heslop, II, dated January 7, 2008	Incorporated by reference to Exhibit 10.3 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.4.0*	Severance Agreement between Middlefield Banc Corp. and Jay P. Giles, dated January 7, 2008	Incorporated by reference to Exhibit 10.4 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.4.1*	Severance Agreement between Middlefield Banc Corp. and Teresa M. Hetrick, dated January 7, 2008	Incorporated by reference to Exhibit 10.4.1 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.4.2*	Severance Agreement between Middlefield Banc Corp. and Jack L. Lester, dated January 7, 2008	Incorporated by reference to Exhibit 10.4.2 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.4.3*	Severance Agreement between Middlefield Banc Corp. and Donald L. Stacy, dated January 7, 2008	Incorporated by reference to Exhibit 10.4.3 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.4.4*	Severance Agreement between Middlefield Banc Corp. and Alfred F. Thompson Jr., dated January 7, 2008	Incorporated by reference to Exhibit 10.4.4 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.5	Federal Home Loan Bank of Cincinnati Agreement for Advances and Security Agreement dated September 14, 2000	Incorporated by reference to Exhibit 10.4 of Middlefield Banc Corp. s registration statement on Form 10 filed on April 17, 2001
10.6*	Amended Director Retirement Agreement with Richard T. Coyne	Incorporated by reference to Exhibit 10.6 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.7*	Amended Director Retirement Agreement with Frances H. Frank	Incorporated by reference to Exhibit 10.7 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.8*		

	Amended Director Retirement Agreement with Thomas C. Halstead	Incorporated by reference to Exhibit 10.8 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.9*	Director Retirement Agreement with George F. Hasman	Incorporated by reference to Exhibit 10.9 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002

Table of Contents

exhibit number	description	location
10.10*	Director Retirement Agreement with Donald D. Hunter	Incorporated by reference to Exhibit 10.10 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002
10.11*	Director Retirement Agreement with Martin S. Paul	Incorporated by reference to Exhibit 10.11 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002
10.12*	Amended Director Retirement Agreement with Donald E. Villers	Incorporated by reference to Exhibit 10.12 of Middlefield Banc Corp. s Form 8-K Current Report filed on January 9, 2008
10.13*	Executive Survivor Income Agreement (aka DBO agreement [death benefit only]) with Donald L. Stacy	Incorporated by reference to Exhibit 10.14 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.14*	DBO Agreement with Jay P. Giles	Incorporated by reference to Exhibit 10.15 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.15*	DBO Agreement with Alfred F. Thompson Jr.	Incorporated by reference to Exhibit 10.16 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.16*	DBO Agreement with Nancy C. Snow	Incorporated by reference to Exhibit 10.17 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.17*	DBO Agreement with Theresa M. Hetrick	Incorporated by reference to Exhibit 10.18 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.18*	DBO Agreement with Jack L. Lester	Incorporated by reference to Exhibit 10.19 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.19*	DBO Agreement with James R. Heslop, II	Incorporated by reference to Exhibit 10.20 of Middlefield Banc Corp. s Annual Report on

		Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.20*	DBO Agreement with Thomas G. Caldwell	Incorporated by reference to Exhibit 10.21 of Middlefield Banc Corp. s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.21*	Form of Indemnification Agreement with directors of Middlefield Banc Corp. and with executive officers of Middlefield Banc Corp. and The Middlefield Banking Company	Incorporated by reference to Exhibit 99.1 of Middlefield Banc Corp. s registration statement on Form 10, Amendment No. 1, filed on June 14, 2001

exhibit number	description	location
10.22*	Annual Incentive Plan Summary	Incorporated by reference to the summary description of the annual incentive plan included as Exhibit 10.22 of Middlefield Banc Corp. s Form 8-K Current Report filed on December 16, 2005
10.23*	Amended Executive Deferred Compensation Agreement with Thomas G. Caldwell	Incorporated by reference to Exhibit 10.23 of Middlefield Banc Corp. s Form 8-K Current Report filed on May 9, 2008
10.24*	Amended Executive Deferred Compensation Agreement with James R. Heslop, II	Incorporated by reference to Exhibit 10.24 of Middlefield Banc Corp. s Form 8-K Current Report filed on May 9, 2008
10.25*	Amended Executive Deferred Compensation Agreement with Donald L. Stacy	Incorporated by reference to Exhibit 10.25 of Middlefield Banc Corp. s Form 8-K Current Report filed on May 9, 2008
31.1	Rule 13a-14(a) certification of Chief Executive Officer	filed herewith
31.2	Rule 13a-14(a) certification of Chief Financial Officer	filed herewith
32	Rule 13a-14(b) certification	filed herewith
99	Report of independent registered public accounting firm	filed herewith

* management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned and hereunto duly authorized.

	MIDDLEFIELD BANC CORP.
Date: May 13, 2009	By: /s/ Thomas G. Caldwell Thomas G. Caldwell President and Chief Executive Officer
Date: May 13, 2009	By: /s/ Donald L. Stacy Donald L. Stacy Principal Financial and Accounting Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
31.1	Rule 13a-14(a) certification of Chief Executive Officer
31.2	Rule 13a-14(a) certification of Chief Financial Officer
32	Rule 13a-14(b) certification
99	Report of independent registered public accounting firm