

MIDDLEFIELD BANC CORP
Form 10-Q
May 13, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20552

FORM 10 - Q

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

For the quarterly period ended March 31, 2014

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 **(IRS Employer Identification No.)**
or organization)

15985 East High Street, Middlefield, Ohio 44062-9263

(Address of principal executive offices)

(440) 632-1666

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

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

YES NO

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

Class: Common Stock, without par value

Outstanding at May 13, 2014: 2,038,143

MIDDLEFIELD BANC CORP.

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MIDDLEFIELD BANC CORP.

CONSOLIDATED BALANCE SHEET

(Dollar amounts in thousands, except share data)

(Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$28,663	\$20,926
Federal funds sold	14,147	5,267
Cash and cash equivalents	42,810	26,193
Investment securities available for sale	155,940	157,143
Loans	443,729	435,725
Less Allowance for loan and lease losses	7,015	7,046
Net loans	436,714	428,679
Premises and equipment, net	9,797	9,828
Goodwill	4,559	4,559
Core deposit intangible	146	156
Bank-owned life insurance	8,883	8,816
Accrued interest and other assets	11,173	11,716
TOTAL ASSETS	\$670,022	\$647,090
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$88,988	\$85,905
Interest-bearing demand	60,673	53,741
Money market	75,296	77,473
Savings	179,805	177,303
Time	190,004	174,414
Total deposits	594,766	568,836
Short-term borrowings	5,320	10,809
Other borrowings	11,468	11,609
Accrued interest and other liabilities	1,774	2,363
TOTAL LIABILITIES	613,328	593,617
STOCKHOLDERS' EQUITY		
	35,115	34,979

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Common stock, no par value; 10,000,000 shares authorized, 2,226,889 and 2,221,834 shares issued; 2,037,359 and 2,032,304 shares outstanding

Retained earnings	28,699	27,465
Accumulated other comprehensive loss	(386)	(2,237)
Treasury stock, at cost; 189,530 shares	(6,734)	(6,734)
TOTAL STOCKHOLDERS' EQUITY	56,694	53,473
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$670,022	\$647,090

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF INCOME

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended	
	March 31, 2014	2013
INTEREST INCOME		
Interest and fees on loans	\$5,694	\$5,572
Interest-bearing deposits in other institutions	5	8
Federal funds sold	3	4
Investment securities:		
Taxable interest	509	674
Tax-exempt interest	755	733
Dividends on stock	23	23
Total interest income	6,989	7,014
INTEREST EXPENSE		
Deposits	940	1,297
Short-term borrowings	35	52
Other borrowings	32	46
Trust preferred securities	26	34
Total interest expense	1,033	1,429
NET INTEREST INCOME	5,956	5,585
Provision for loan losses	180	313
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,776	5,272
NONINTEREST INCOME		
Service charges on deposit accounts	441	447
Investment securities (losses) gains, net	(6)	185
Earnings on bank-owned life insurance	67	68
Other income	213	168
Total noninterest income	715	868
NONINTEREST EXPENSE		
Salaries and employee benefits	2,016	1,871
Occupancy expense	321	274

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Equipment expense	220	189
Data processing costs	214	213
Ohio state franchise tax	83	154
Federal deposit insurance expense	132	154
Professional fees	287	276
(Gain) loss on sale of other real estate owned	(5)	8
Advertising expense	123	112
Other real estate expense	63	106
Directors fees	86	105
Other expense	689	539
Total noninterest expense	4,229	4,001
Income before income taxes	2,262	2,139
Income taxes	499	482
NET INCOME	\$1,763	\$1,657
EARNINGS PER SHARE		
Basic	\$0.87	\$0.83
Diluted	0.86	0.82
DIVIDENDS DECLARED PER SHARE	\$0.26	\$0.26

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Dollar amounts in thousands)

(Unaudited)

	Three Months Ended	
	March 31, 2014	2013
Net income	\$1,763	\$1,657
Other comprehensive income (loss):		
Net unrealized holding gain (loss) on available-for-sale securities	2,799	(1,521)
Tax effect	(952)	517
Reclassification adjustment for investment securities losses (gains) included in net income	6	(185)
Tax effect	(2)	63
Total other comprehensive income (loss)	1,851	(1,126)
Comprehensive income	\$3,614	\$531

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Dollar amounts in thousands, except share data)

(Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	\$ 34,979	\$ 27,465	\$ (2,237)	\$ (6,734)	\$ 53,473
Net income		1,763			1,763
Other Comprehensive income			1,851		1,851
Dividend reinvestment and purchase plan (5,055 shares)	136				136
Cash dividends (\$0.26 per share)		(529)			(529)
Balance, March 31, 2014	\$ 35,115	\$ 28,699	\$ (386)	\$ (6,734)	\$ 56,694

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

(Unaudited)

	Three Months Ended	
	March 31, 2014	2013
OPERATING ACTIVITIES		
Net income	\$1,763	\$1,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	180	313
Investment securities losses (gains), net	6	(185)
Depreciation and amortization	202	222
Amortization of premium and discount on investment securities, net	182	183
Accretion of deferred loan fees, net	(76)	(33)
Earnings on bank-owned life insurance	(67)	(68)
Deferred income taxes	(156)	58
(Gain) loss on sale of other real estate owned	(5)	8
Increase in accrued interest receivable	(391)	(529)
Decrease in accrued interest payable	(19)	(24)
Other, net	(481)	(128)
Net cash provided by operating activities	1,138	1,474
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	3,306	6,773
Proceeds from sale of securities	514	7,438
Purchases	-	(12,500)
(Increase) decrease in loans, net	(8,139)	598
Proceeds from the sale of other real estate owned	47	137
Purchases of premises and equipment	(156)	(191)
Net cash (used for) provided by investing activities	(4,428)	2,255
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	25,930	(1,838)
Decrease in short-term borrowings, net	(5,489)	(1,298)
Repayment of other borrowings	(141)	(191)
Common stock issuance	-	213
Stock options exercised	-	(111)
Proceeds from dividend reinvestment and purchase plan	136	300

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Cash dividends paid	(529)	(520)
Net cash provided by (used for) financing activities	19,907	(3,445)
Increase in cash and cash equivalents	16,617	284
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	26,193	45,346
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$42,810	\$45,630
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	\$1,052	\$1,453
Income taxes	610	555
Noncash investing transactions:		
Transfers from loans to other real estate owned	\$-	\$454

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

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

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the instructions for Form 10-Q and Article 10 of Regulation S-X. In management's opinion, the financial statements include all adjustments, consisting of normal recurring adjustments, that the Company considers necessary to fairly state the Company's financial position and the results of operations and cash flows. The consolidated balance sheet at December 31, 2013, has been derived from the audited financial statements at that date but does not include all of the necessary informational disclosures and footnotes as required by U. S. generally accepted accounting principles. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included with the Company's Form 10-K for the year ended December 31, 2013 (File No. 000-32561). The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, *Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*. The amendments in this Update affect the scope, measurement, and disclosure requirements for investment companies under U.S. GAAP. The amendments do all of the following: 1. Change the approach to the investment company assessment in Topic 946, clarify the characteristics of an investment company, and provide comprehensive guidance for assessing whether an entity is an investment Company. 2. Require an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. 3. Require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The amendments in this Update are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. This ASU became effective for the Company on January 1, 2014 and did not have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU became effective for the Company on January 1, 2014 and did not have a significant impact on the Company's financial statements.

In January 2014, FASB issued ASU 2014-01, *Investments – Equity Method and Join Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial.

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This ASU is not expected to have a significant impact on the Company's financial statements.

NOTE 2 - STOCK-BASED COMPENSATION

The Company had no unvested stock options outstanding or unrecognized stock-based compensation costs outstanding as of March 31, 2014 and 2013.

Stock option activity during the three months ended March 31 is as follows:

	2014	Weighted- average Exercise Price	2013	Weighted- average Exercise Price
Outstanding, January 1	58,581	\$ 28.38	79,693	\$ 27.25
Exercised	-	-	18,561	24.08
Outstanding, March 31	58,581	\$ 28.38	61,132	\$ 28.21
Exercisable, March 31	58,581	\$ 28.38	61,132	\$ 28.21

NOTE 3 - EARNINGS PER SHARE

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the average shares outstanding. Diluted earnings per share adds the dilutive effects of options, warrants, and convertible securities to average shares outstanding.

The following table sets 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