MIDDLEFIELD BANC CORP
Form 10-Q
August 11, 2010

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

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

For the quarterly period ended June 30, 2010

Commission File Number 000-32561

Middlefield Banc Corp.

(Exact name of registrant as specified in its charter)

Ohio	**34 - 1585111**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

15985 East High Street, Middlefield, Ohio 44062-9263
(Address of principal executive offices)
(440) 632-1666
(Registrant s telephone number, including area code)

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

YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

YES o **NO** þ

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

Class: Common Stock, without par value
Outstanding at August 12, 2010: 1,577,771

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

	(Unaudited) June 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 15,065	$ 12,909
Federal funds sold	22,152	28,123
Interest-bearing deposits in other institutions	124	121
Cash and cash equivalents	37,341	41,153
Investment securities available for sale	178,963	136,711
Loans	364,762	353,597
Less allowance for loan losses	5,834	4,937
Net loans	358,928	348,660
Premises and equipment	8,360	8,394
Goodwill	4,559	4,559
Bank-owned life insurance	7,839	7,706
Accrued interest and other assets	10,949	11,475
TOTAL ASSETS	$ 606,939	$ 558,658
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 51,118	$ 44,387
Interest-bearing demand	40,055	38,111
Money market	65,275	56,451
Savings	131,818	107,358
Time	244,829	240,799
Total deposits	533,095	487,106
Short-term borrowings	7,201	6,800
Other borrowings	25,040	25,865
Accrued interest and other liabilities	1,995	2,180
TOTAL LIABILITIES	567,331	521,951
STOCKHOLDERS EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 1,767,301 and 1,754,112 shares issued	28,201	27,919
Retained earnings	15,504	14,960
Accumulated other comprehensive income	2,637	562
Treasury stock, at cost; 189,530 shares in 2010 and 2009	(6,734)	(6,734)

TOTAL STOCKHOLDERS EQUITY		39,608		36,707
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	606,939	$	558,658

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF INCOME
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Interest and fees on loans	$ 5,299	$ 4,906	$ 10,396	$ 9,904
Interest-bearing deposits in other institutions	3	3	7	10
Federal funds sold	12	3	23	7
Investment securities:				
Taxable interest	1,339	924	2,542	1,777
Tax-exempt interest	647	454	1,239	900
Dividends on FHLB stock	32	15	49	31
Total interest income	7,332	6,305	14,256	12,629
INTEREST EXPENSE				
Deposits	2,373	2,559	4,858	5,275
Short-term borrowings	62	4	120	10
Other borrowings	183	238	373	495
Trust preferred securities	128	133	264	265
Total interest expense	2,746	2,934	5,615	6,045
NET INTEREST INCOME	4,586	3,371	8,641	6,584
Provision for loan losses	690	260	1,129	414
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,896	3,111	7,512	6,170
NONINTEREST INCOME				
Service charges on deposit accounts	433	467	848	906
Investment securities gains, net	18		27	
Earnings on bank-owned life insurance	65	60	132	129
Other income	169	109	287	225
Total noninterest income	685	636	1,294	1,260
NONINTEREST EXPENSE				
Salaries and employee benefits	1,713	1,537	3,224	2,908
Occupancy expense	217	221	493	476

Equipment expense		204		150		402		273
Data processing costs		172		219		415		468
Ohio state franchise tax		134		124		270		247
Federal deposit insurance expense		190		271		392		443
Professional fees		188		132		380		285
Loss on sale of other real estate owned		175		55		214		55
Other expense		835		594		1,596		1,144
Total noninterest expense		3,828		3,303		7,386		6,299
Income before income taxes		753		444		1,420		1,131
Income taxes		38		(17)		60		67
NET INCOME	$	715	$	461	$	1,360	$	1,064
EARNINGS PER SHARE								
Basic	$	0.46	$	0.30	$	0.87	$	0.69
Diluted		0.45		0.30		0.87		0.69
DIVIDENDS DECLARED PER SHARE	$	0.26	$	0.26	$	0.52	$	0.52

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Dollar amounts in thousands, except dividend per share amount)
(Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity	Comprehensive Income
Balance, December 31, 2009	$ 27,919	$ 14,960	$ 562	$ (6,734)	$ 36,707	
Net income		1,360			1,360	$ 1,360
Other comprehensive income:						
Unrealized gains on available for sale securities net of taxes of $1,069			2,075		2,075	2,075
Comprehensive income						$ 3,435
Dividend reinvestment and purchase plan	282				282	
Cash dividends ($0.52 per share)		(816)			(816)	
Balance, June 30, 2010	$ 28,201	$ 15,504	$ 2,637	$ (6,734)	$ 39,608	

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MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
OPERATING ACTIVITIES		
Net income	$ 1,360	$ 1,064
Adjustments to reconcile net income to net cash used for operating activities:		
Provision for loan losses	1,129	414
Depreciation and amortization	381	294
Amortization of premium and discount on investment securities	(104)	(191)
Amortization of deferred loan fees, net	(18)	(35)
Investment securities gains, net	(26)	
Earnings on bank-owned life insurance	(132)	(129)
Deferred income taxes	(403)	207
Expense related to stock options		30
Loss on sale of other real estate owned	214	55
Decrease (increase) in accrued interest receivable	(27)	105
Increase (decrease) in accrued interest payable	27	(223)
Decrease (increase) in prepaid federal deposit insurance	363	(75)
Other, net	(1,046)	(531)
Net cash provided by operating activities	1,718	985
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	15,067	10,571
Purchases	(59,185)	(7,686)
Proceeds from sale of securities	5,140	
Increase in loans, net	(11,855)	(15,066)
Purchase of Federal Home Loan Bank stock		(14)
Purchase of premises and equipment	(269)	(145)
Proceeds from the sale of other real estate owned	540	
Net cash used for investing activities	(50,562)	(12,340)
FINANCING ACTIVITIES		
Net increase in deposits	45,990	15,680
Increase (decrease) in short-term borrowings, net	401	(648)
Repayment of other borrowings	(825)	(3,798)
Proceeds from dividend reinvestment & purchase plan	282	286
Cash dividends	(816)	(800)
Net cash provided by financing activities	45,032	10,720

Decrease in cash and cash equivalents		(3,812)		(635)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		41,153		17,455
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	37,341	$	16,820
SUPPLEMENTAL INFORMATION				
Cash paid during the year for:				
Interest on deposits and borrowings	$	5,588	$	6,268
Income taxes		750		275
Non-cash investing transactions:				
Transfers from loans to other real estate owned	$	476	$	721

See accompanying notes to the unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The consolidated financial statements of Middlefield Banc Corp. (Company) include its two bank subsidiaries The Middlefield Banking Company (MB) and Emerald Bank (EB) and a non-bank asset resolution subsidiary EMORECO. All significant inter-company items have been eliminated in consolidation.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the instructions for Form 10-Q and Article 10 of Regulation S-X. In management s opinion, the financial statements include all adjustments, consisting of normal recurring adjustments, that the Company considers necessary to fairly state the Company s financial position and the results of operations and cash flows. The balance sheet at December 31, 2009, 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 (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 December 2009, the FASB issued ASU 2009-16, *Accounting for Transfer of Financial Assets*. ASU 2009-16 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. ASU 2009-16 is effective for annual periods beginning after November 15, 2009 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company s financial statements.

In January 2010, the FASB issued ASU 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash a consensus of the FASB Emerging Issues Task Force*. ASU 2010-01 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend. ASU 2010-01 is effective for interim and annual periods ending on or after December 15, 2009 and should be applied on a retrospective basis. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

In January 2010, the FASB issued ASU 2010-02, *Consolidation (Topic 810): Accounting and reporting for Decreases in Ownership of a Subsidiary a Scope Clarification*. ASU 2010-02 amends Subtopic 810-10 to address implementation issues related to changes in ownership provisions including clarifying the scope of the decrease in ownership and additional disclosures. ASU 2010-02 is effective beginning in the period that an entity adopts Statement 160. If an entity has previously adopted Statement 160, ASU 2010-02 is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009 and should be applied retrospectively to the first period Statement 160 was adopted. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

In January 2010, the FASB issued ASU 2010-04, *Accounting for Various Topics Technical Corrections to SEC Paragraphs*. ASU 2010-04 makes technical corrections to existing SEC guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements subsequent events, use of residential method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. ASU 2010-04 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

In January 2010, the FASB issued ASU 2010-05, *Compensation Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*. ASU 2010-05 updates existing guidance to address the SEC staff s views on overcoming the presumption that for certain shareholders escrowed share arrangements represent

compensation. ASU 2010-05 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

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In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company s financial statements.

In February 2010, the FASB issued ASU 2010-08, *Technical Corrections to Various Topics*. ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

In March 2010, the FASB issued ASU 2010-11, *Derivatives and Hedging*. ASU 2010-11 provides clarification and related additional examples to improve financial reporting by resolving potential ambiguity about the breadth of the embedded credit derivative scope exception in ASC 815-15-15-8. ASU 2010-11 is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. The adoption of this guidance is not expected to have a significant impact on the Company s financial statements.

In April 2010, the FASB issued ASU 2010-13, *Compensation Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*. ASU 2010-13 provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010 and is not expected to have a significant impact on the Company s financial statements.

In April 2010, the FASB issued ASU 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan is a Part of a Pool That is Accounted for as a Single Asset a consensus of the FASB Emerging Issues Task Force*. ASU 2010-18 clarifies the treatment for a modified loan that was acquired as part of a pool of assets. Refinancing or restructuring the loan does not make it eligible for removal from the pool, the FASB said. The amendment will be effective for loans that are part of an asset pool and are modified during financial reporting periods that end July 15, 2010 or later and is not expected to have a significant impact on the Company s financial statements.

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company is currently evaluating the impact the adoption of this guidance will have on the Company s financial position or results of operations.

NOTE 2 STOCK-BASED COMPENSATION

The Company has no unrecognized stock-based compensation costs or unvested stock options outstanding as of June 30, 2010.

Stock option activity during the six months ended June 30, 2010 and 2009 is as follows:

	2010	Weighted-average Exercise Price	2009	Weighted-average Exercise Price

Outstanding, January 1	99,219	$	26.85	110,465	$	27.21
Granted						
Exercised						
Forfeited				(7,575)		33.60
Outstanding, June 30	99,219	$	26.85	102,890	$	26.74

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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.

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income (Unaudited) will be used as the numerator. The following tables set forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average common shares outstanding	1,760,382	1,731,490	1,757,698	1,729,344
Average treasury stock shares	(189,530)	(189,530)	(189,530)	(189,530)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	1,570,852	1,541,960	1,568,168	1,539,814
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	1,232	1,578	1,574	1,591
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	1,572,084	1,543,538	1,569,742	1,541,405

Options to purchase 89,077 shares of common stock at prices ranging from $22.33 to $40.24 were outstanding during the six months ended June 30, 2010 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 June 30, 2010. Options to purchase 92,616 shares of common stock at prices ranging from $22.33 to $40.24 were outstanding during six months ended June 30, 2009 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 six months ended June 30, 2010, this activity is shown under the heading Comprehensive Income as presented in the Consolidated Statement of Changes in Stockholders Equity (Unaudited).

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The following shows the components and activity of comprehensive income during the periods ended June 30, 2010 and 2009 (net of the income tax effect):

(Dollar amounts in thousands)	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Unrealized holding gains (losses) arising during the period on securities held	$ 1,401	$ 570	$ 2,093	$ 39
Reclassification adjustment for gains included in net income	(12)		(18)	
Net change in unrealized gains during the period	1,389	570	2,075	39
Unrealized holding gains (losses), beginning of period	1,248	(826)	562	(295)
Unrealized holding gains (losses), end of period	2,637	(256)	2,637	(256)
Net income	715	461	1,360	1,064
Other comprehensive income, net of tax:				
Unrealized holding gains arising during the period	1,389	570	2,075	39
Comprehensive income	$ 2,104	$ 1,031	$ 3,435	$ 1,103

NOTE 5 FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP established a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

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 balance sheet at their fair value as of June 30, 2010 and December 31, 2009 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2010			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$	$ 22,342	$	$ 22,342
Obligations of states and political subdivisions		77,148		77,148
Mortgage-backed securities		78,550		78,550
Total debt securities		178,040		178,040
Equity securities	923			923
Total	$ 923	$ 178,040	$	$ 178,963

	December 31, 2009			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$	$ 18,330	$	$ 18,330
Obligations of states and political subdivisions		56,720		56,720
Mortgage-backed securities		60,742		60,742
Total debt securities		135,792		135,792
Equity securities	919			919
Total	$ 919	$ 135,792	$	$ 136,711

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 Company has no securities considered to be Level III as of June 30, 2010.

The Company uses prices compiled by third party vendors due to the recent stabilization in the markets along with improvements in third party pricing methodology that have narrowed the variances between third party vendor prices and actual market prices.

The following tables present the assets measured on a nonrecurring basis on the consolidated balance sheet at their fair value as of June 30, 2010 and December 31, 2009, 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.

	June 30, 2010			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans		4,960	2,360	7,320
Other real estate owned		1,886		1,886

	December 31, 2009			
	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$	$ 5,644	$ 149	$ 5,793
Other real estate owned		2,164		2,164

The estimated fair value of the Company s financial instruments are as follows:

	June 30, 2010		December 31, 2009	
(Dollar amounts in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 37,341	$ 37,341	$ 41,153	$ 41,153
Investment securities Available for sale	178,963	178,963	136,711	136,711
Net loans	358,928	340,520	348,660	332,401
Bank-owned life insurance	7,839	7,839	7,706	7,706
Federal Home Loan Bank stock	1,887	1,887	1,887	1,887
Accrued interest receivable	1,439	1,439	1,411	1,411
Financial liabilities:				
Deposits	$ 533,095	$ 538,810	$ 487,106	$ 491,436
Short-term borrowings	7,201	7,201	6,800	68,003
Other borrowings	25,040	27,802	25,865	27,356
Accrued interest payable	920	920	905	905

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management s judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. Since many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Federal Home Loan Bank Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings

The fair value is equal to the current carrying value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Investment Securities Available for Sale

The fair value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Fair value for certain private-label collateralized mortgage obligations were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

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Loans

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Deposits and Other Borrowed Funds

The fair values of certificates of deposit and other borrowed funds are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposits are valued at the amount payable on demand as of year-end.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure.

NOTE 6 INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and fair values of securities available for sale are as follows:

	June 30, 2010			
(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 22,074	$ 268	$	$ 22,342
Obligations of states and political subdivisions:				
Taxable	7,874	220	(9)	8,085
Tax-exempt	68,102	1,230	(269)	69,063
Mortgage-backed securities	75,973	3,170	(593)	78,550
Total debt securities	174,023	4,888	(871)	178,040
Equity securities	944	80	(101)	923
Total	$ 174,967	$ 4,968	$ (972)	$ 178,963

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 18,657	$ 38	$ (365)	$ 18,330
Obligations of states and political subdivisions:				
Taxable	3,451	10	(86)	3,375
Tax-exempt	52,752	943	(349)	53,345
Mortgage-backed securities	60,055	1,817	(1,130)	60,742
Total debt securities	134,915	2,807	(1,930)	135,792
Equity securities	944	80	(105)	919
Total	$ 135,859	$ 2,887	$ (2,035)	$ 136,711

The amortized cost and fair value of debt securities at June 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 1,608	$ 1,632
Due after one year through five years	6,484	6,849
Due after five years through ten years	22,850	23,432
Due after ten years	143,081	146,127
Total	$ 174,023	$ 178,040

Proceeds from sales of investment securities available for sale were $5.1 million and $0 during the six-months ended June 30, 2010 and June 30, 2009, respectively. Gross gains realized were $27,000 and $0 during the six-months ended June 30, 2010 and June 30, 2009, respectively.

Proceeds from sales of investment securities available for sale were $1.2 million and $0 during the three-months ended June 30, 2010 and June 30, 2009, respectively. Gross gains realized were $18,000 and $0 during the three-months ended June 30, 2010 and June 30, 2009, respectively.

The following table shows the Company s gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	June 30, 2010					
	Less than Twelve Months		Twelve Months or Greater		Total	
(Dollar amounts in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of states and political subdivisions	$ 17,126	$ 176	$ 1,433	$ 103	$ 18,559	$ 279
Mortgage-backed securities	5,036	35	2,656	557	7,692	592
Equity securities	580	68	13	33	593	101
Total	$ 22,742	$ 279	$ 4,102	$ 693	$ 26,844	$ 972

	December 31, 2009					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 17,134	$ (365)	$	$	$ 17,134	$ (365)
	21,594	(314)	1,417	(121)	23,011	(435)

Obligations of states and political subdivisions						
Mortgage-backed securities	18,509	(334)	4,064	(796)	22,573	(1,130)
Equity securities	580	(68)	8	(37)	588	(105)
Total	$ 57,817	$ (1,082)	$ 5,489	$ (953)	$ 63,306	$ (2,035)

There were 26 and 103 securities that were considered temporarily impaired at June 30, 2010 and December 31, 2009.

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On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment (OTTI) pursuant to FASB ASC Topic 320 Investments Debt and Equity Securities. A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The accounting literature requires the Company to assess whether the unrealized loss is other-than-temporary. Prior to the adoption of FSP FAS 115-2 which was subsequently incorporated into FASB ASC Topic 320 Investments Debt and Equity Securities, unrealized losses that were determined to be temporary were recorded, net of tax, in other comprehensive income for available for sale securities, whereas unrealized losses related to held-to-maturity securities determined to be temporary were not recognized. Regardless of whether the security was classified as available for sale or held to maturity, unrealized losses that were determined to be other-than-temporary were recorded to earnings. An unrealized loss was considered other-than-temporary if (i) it was probable that the holder would not collect all amounts due according to the contractual terms of the debt security, or (ii) the fair value was below the amortized cost of the debt security for a prolonged period of time and the Company did not have the positive intent and ability to hold the security until recovery or maturity.

The Company adopted this ASC during the second quarter of 2009 which amended the OTTI model for debt securities. Under the new guidance, OTTI losses must be recognized in earnings if an investor has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if a Company does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred.

Under this ASC, an unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. As a result the credit loss component of an OTTI is recorded as a component of investment securities gains (losses) in the accompanying consolidated statement of income, while the remaining portion of the impairment loss is recognized in other comprehensive income, provided the Company does not intend to sell the underlying debt security and it is more likely than not that the company will not have to sell the debt security prior to recovery.

Debt securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and state and political subdivisions accounted for more than 87% of the total available-for-sale portfolio as of June 30, 2010 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government and the lack of significant unrealized loss positions within the obligations of state and political subdivisions security portfolio. The Company s assessment was concentrated mainly on private-label collateralized mortgage obligations of approximately $19.7 million for which the Company evaluates credit losses on a quarterly basis. Gross unrealized gain and loss positions related to these private-label collateralized mortgage obligations amounted to $1.3 million and $588,000, respectively. The Company considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis.

- Changes in the near term prospects of the underlying collateral of a security such as changes in default rates, loss severity given default and significant changes in prepayment assumptions;

- The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer s industry and actions taken by the issuer to deal with the present economic climate.

For the six months ended June 30, 2010, there were no available-for-sale debt securities with an unrealized loss that has suffered OTTI.

NOTE 7 SUBSEQUENT EVENTS

None

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 increased by $48.3 million or 8.6% from December 31, 2009 to June 30, 2010 to a balance of $606.9 million. Investment securities and net loans increased $42.3 million and $10.3 million, respectively. This increase was partially offset by a decrease in cash and cash equivalents of $3.8 million at June 30, 2010. The increase in total assets reflects a corresponding increase in total liabilities of $45.4 million or 8.7% and an increase in stockholders equity of $2.9 million or 7.9%. The increase in total liabilities was the result of deposit growth of $46.0 million. The increase in stockholders equity was the result of increases in common stock, retained earnings and accumulated other comprehensive income of $282,000, $544,000 and $2.1 million respectively.

Cash on hand and due from banks. Cash and due from banks, Federal funds sold and interest-bearing deposits in other institutions represent cash and cash equivalents. Cash and cash equivalents declined $3.8 million or 9.3% to $37.3 million at June 30, 2010 from $41.1 million at December 31, 2009. 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.

Investment securities. Investment securities available for sale ended the June 30, 2010 quarter at $179.0 million an increase of $42.3 million or 30.9% from $136.7 million at December 31, 2009. During this period the Company recorded purchases of available for sale securities of $59.2 million, consisting of purchases of mortgage-backed securities, municipal and U.S. government agency bonds. Offsetting the purchases of securities were repayments and maturities of securities of $15.1 million and sales of mortgage backed securities totaling $5.1 million during the six months ended June 30, 2010. In addition, the securities portfolio increased approximately $3.1 million due to an increase in the fair 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 will be 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, real estate construction and consumer loans. Net loans receivable increased $10.3 million or 2.9% to $358.9 million as of June 30, 2010 from $348.7 million at December 31, 2009. Included in this amount was an increase in the commercial real estate loan and real estate construction portfolios of $4.3 million or 5.5% and $3.7 million or 47.3%, respectively, during the six months ended June 30, 2010. The Company s lending philosophy is to focus on commercial loans and to attempt to grow that segment of the portfolio. To attract and build the commercial loan portfolio, the Company has taken a proactive approach in contacting new and current clients to ensure that the Company 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.

Allowance for Loan Losses and Asset Quality. For the first half of 2010, because of continued high unemployment, depressed real estate values for both residential and commercial properties and sustained economic weakness in the Company s market area, management believes that non-performing assets may increase further and feel it is prudent to continue funding the allowance for loan losses at higher than historical levels.

The Company increased the allowance for loan losses to $5.8 million, or 1.60% of total loans, at June 30, 2010, compared to $4.9 million, or 1.40%, at December 31, 2009. The increase in the allowance for loan losses was necessitated by loan downgrades and an increase to specific reserves for impaired commercial real estate loans, coupled with the impact of charge-offs remaining at historically elevated levels. For the quarter ended June 30, 2010 net loan charge-offs totaled $135,000, or 0.04% of average loans, and year-to-date net loan charge-offs totaled $232,000, or 0.06% of average loans. To maintain the adequacy of the allowance for loan losses, the Company recorded a second quarter provision for loan losses of $690,000, versus $260,000 for the second quarter of 2009. 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 collectability 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 June 30, 2010. 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 includes non-accrual loans, troubled debt restructurings (TDR), loans 90 days or more past due, assets purchased by EMORECO from EB in November 2009, other real estate, and repossessed assets. A loan is classified as non-accrual when, a loan becomes 90 days past due in principal and interest or in the opinion of management, there are serious doubts about the collectability of interest and principal. At that time the accrual of interest is discontinued, future income is recognized only when cash is received and is not applied to the principal. TDRs are those loans which the Company, for economic or legal reasons related to a borrower s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The Company had two TDR s with a combined principal balance of $524,000 as of June 30, 2010. Non-performing loans amounted to $20.1 million or 5.5% and $16.3 million or 4.6% of total loans at June 30, 2010 and December 31, 2009, respectively. The increase in nonperforming loans has occurred primarily in the commercial loan portfolio and in one-to-four family real estate loans. Non-performing loans secured by real estate totaled $15.9 million as of June 30, 2010, up $3.0 million from $12.9 million at December 31, 2009. The depressed state of the economy and continued levels of high 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.

(Dollar amounts in thousands)	6/30/10	3/31/10	12/31/09	9/30/09	6/30/09
Nonperforming loans	$ 20,053	$ 18,143	$ 16,285	$ 14,368	$ 14,023
Real estate owned	$ 1,886	$ 2,175	$ 2,164	$ 1,775	$ 1,967
Nonperforming assets	$ 21,939	$ 20,318	$ 18,449	$ 16,143	$ 15,990
Allowance for loan losses	$ 5,834	$ 5,279	$ 4,937	$ 4,422	$ 3,668
Ratios					
Nonperforming loans to total loans	5.50%	5.04%	4.61%	4.15%	4.18%
Nonperforming assets to total assets	3.61%	3.42%	3.30%	3.12%	3.33%
Allowance for loan losses to total loans	1.60%	1.47%	1.40%	1.28%	1.09%
Allowance for loan losses to nonperforming loans	29.09%	29.10%	30.32%	30.78%	26.16%

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 June 30, 2010, 79.5% 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 $533.1 million or 94.3% of the Company s total funding sources at June 30, 2010. Total deposits increased $46.0 million or 9.4% to $533.1 million at June 30, 2010 from $487.1 million at December 31, 2009. The increase in deposits is primarily related to the growth of savings deposits, money market and noninterest-bearing accounts of $24.5 million or 22.8%, $8.8 million or 15.6% and $6.7 million or 15.2%, respectively.

Borrowed funds. The Company utilizes short and long-term borrowings as another source of funding for asset growth and liquidity needs. These borrowings primarily include FHLB advances, junior subordinated debt, short-term borrowings from other banks and repurchase agreements. Short-term borrowings increased $401,000 or 5.9% to $7.2 million as of June 30, 2010 from $6.8 at December 31, 2009. For the six months ended June 30, 2010 other borrowings declined $825,000 which represents advances from the Federal Home Loan Bank of Cincinnati. The decline in FHLB advances was the result of scheduled principal payments.

Stockholders equity. Stockholders equity increased $2.9 million or 7.9% to $39.6 million at June 30, 2010 from $36.7 million at December 31, 2009. This increase was the result of increases in common stock, retained earnings and accumulated other comprehensive income of $282,000, $544,000 and $2.1 million, respectively. The increase of accumulated other comprehensive income was the result of an increase in the fair value of the Company s securities available for sale portfolio. The increase in common stock was the result of issuing 13,189 shares through the Company s dividend reinvestment and purchase plan at an average price of $21.30 since December 31, 2009.

RESULTS OF OPERATIONS

General. Net income for the second quarter of 2010 totaled $715,000, a $254,000, or 55.1% increase from the $461,000 earned during the second quarter of 2009. Net income for the six months ended June 30, 2010, was

$1.4 million, a $296,000, or 27.8% increase from the $1.1 million earned during the same period in 2009. Diluted earnings per share for the second quarter of 2010 were $0.45 compared to $0.30 for the same period in 2009. Year-to-date diluted earnings per share were $0.87 in 2010 compared to $0.69 in 2009.

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The Company s annualized return on average assets (ROA) and return on average equity (ROE) for the second quarter of 2010 were 0.47% and 7.48%, respectively, compared with 0.39% and 5.22% for the second quarter of 2009. For the first six months of 2010, the Company s annualized ROA was 0.46% compared to 0.45% in 2009, while the ROE was 7.27% compared to 6.04% for the same period of 2009.

The Company s earnings for the quarter and the year were positively impacted by an increase in loan and investment interest income combined with a decrease in interest expense. This was partially offset by increases in the provision for loan losses and non-interest expense.

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 goal to maintain steady net interest income growth while managing the risks associated with interest rate fluctuations by pricing and growth strategies.

Net interest income totaled $4.6 million for the second quarter of 2010, an increase of 36.0% from the $3.4 million reported for the comparable period of 2009. The net interest margin of 3.49% for the second quarter of 2010 showed improvement over the 3.28% reported for the same quarter of 2009. The increase in the net interest margin is primarily attributable to the increases in investment securities and loan interest of $608,000 and $393,000, respectively, and reduced cost of interest-bearing liabilities by $189,000 compared to the same period in 2009.

Net interest income increased $2.1 million, or 31.2% to $8.6 million, for the six months ended June 30, 2010 compared to the same period in the prior year. For the same reason as the second quarter the net interest margin was positively impacted by increases in investment securities interest of $1.1 million and loan interest of $492,000 coupled with the reduced cost of interest-bearing liabilities by $430,000 when compared to the same period in 2009. The net interest margin of 3.39% for the first two quarters of 2010 was up from the 3.22% reported for the same period of 2009. The increasing margin for the first six months of the year is primarily attributable to deposit growth in products which generally carry lower interest costs than other deposit alternatives allowing for increased loan underwriting and the purchase of investment securities that maximize the Company s interest income.

Interest income. Interest income increased $1.0 million, or 16.3%, for the three months ended June 30, 2010, compared to the same period in the prior year. This can be attributed to a $124.8 million increase in average interest earning assets when compared to the same period in the prior year. This increase was partially offset by a 52 basis point decline on the yield of average interest-earning assets. Interest income increased $1.6 million, or 12.9%, for the six months ended June 30, 2009, compared to the same period in the prior year. This increase can be attributed to the growth of average interest-earning assets by $112.7 million. A decrease of 56 basis points offset some of the gains from the increased levels of interest-earning assets.

Interest earned on loans receivable increased $393,000, or 8.0%, for the three months ended June 30, 2010, compared to the same period in the prior year. This increase was attributable to a $32.6 million or a 9.9% increase in the average balance of loans receivable from June 30, 2009. This increase was partially offset by a decline in the yield on the total loan portfolio of 10 basis points to 5.88% for the three months ended June 30, 2010 from 5.98% for the same period in the prior year.

For the six months ended June 30, 2010, interest earned on loans receivable increased $492,000, or 5.0%, compared to the same period in the prior year. This increase was attributable to an increase in the average balance of loans outstanding of $32.8 million, or 10.0%, to $359.0 million for the six months ended June 30, 2010 compared to $326.2 million for the same period in the prior year. This increase was partially offset by a decline in the yield on the total loan portfolio of 28 basis points to 5.84% for the six months ended June 30, 2010 from 6.12% for the same period in the prior year.

Interest earned on securities increased $608,000, or 44.1%, for the three months ended June 30, 2010, 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 $69.5 million, or 67.0%, to $173.3 million at June 30, 2010 from $103.8 million for the same

period in the prior year. The increase of interest earned on investment securities was partially offset by a decrease in the yield on the average investments to 5.37% for the three months ended June 30, 2010 from 6.23% for the same period in the prior year.

Interest earned on securities increased $1.1 million, or 61.8%, for the six months ended June 30, 2010, 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 $58.2 million, or 55.8%, to $162.6 million at June 30, 2010 from $104.4 million for the same period in the prior year. The increase of interest earned on investment securities was partially offset by a decrease of 59 basis points to 5.48% for the six months ended June 30, 2010 from 6.07% for the same period in the prior year.

Interest expense. Interest expense decreased $188,000, or 6.4%, for the three months ended June 30, 2010, compared to the same period in the prior year. The decline in interest expense can be attributed to decreases in interest incurred on deposits and borrowings of $186,000 and $3,000, respectively. This reduction in interest cost was mainly due to the rate paid on interest-bearing liabilities which declined by 83 basis points when comparing the two quarters. Interest expense decreased $430,000, or 7.1%, for the six months ended June 30, 2010, compared to the same period in the prior year. The year-to-date decline is the result of the same factors listed above. Interest incurred on deposit decreased $417,000 and borrowings declined $12,000 when compared to the first half of 2009. These decreases were partially offset by increased deposits.

Interest incurred on deposits, the largest component of the Company s interest-bearing liabilities, decreased $186,000, or 7.3%, for the three months ended June 30, 2010, compared to the same period in the prior year. Interest expense was positively affected by a reduction in the cost of interest-bearing deposits to 2.08% from 2.82% for the quarters ended June 30, 2010 and 2009, respectively. The reduced cost was partially offset by the average balance of interest-bearing deposits which increased by $116.7 million, or 32.0%, to $481.0 million for the three months ended June 30, 2010, compared to $364.4 million for the same period in the prior year. 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.

For the six months ended June 30, 2010 interest incurred on deposits declined $417,000, or 7.9%, compared to the same period in the prior year. This was primarily attributable to a decrease in interest expense which was positively affected by a reduction in the cost of interest-bearing deposits to 2.08% from 2.96% for the six months June 30, 2010 and 2009, respectively. The reduction in interest costs was partially offset by an increase in the average balance of interest-bearing deposits of $111.6 million, or 31.1%, to $470.8 million for the six months ended June 30, 2010, compared to $359.2 million for the same period in the prior year.

Interest incurred on borrowed funds, declined by $3,000 or 0.1%, for the three months ended June 30, 2010, compared to the same period in the prior year. The rate of the borrowings declined to 4.65% from 4.77% for the quarters ended June 30, 2010 and 2009, respectively. Offsetting the reduction in the cost of these funds was an increase in the average balance of borrowed funds of $558,000, or 1.8%, to $32.2 million for the three months ended June 30, 2010, compared to $31.6 million for the same period in the prior year.

For the six months ended June 30, 2010, interest incurred on borrowed funds decreased by $13,000, or 1.7%, compared to the same period in the prior year. This decline was due to a decrease in the average balance of borrowing. The average balance of borrowed funds declined by $818,000, or 2.5%, to $32.2 million for the six months ended June 30, 2010, compared to $33.1 million for the six months ended June 30, 2009.

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 credit losses in the loan portfolio. Based on this review, a provision for loan losses of $690,000 was recorded for the quarter ended June 30, 2010 compared to $260,000 for the quarter ended June 30, 2009. The year-to-date provision for loan losses increased $715,000 or 172.7% compared to the first half of 2009. The provision for loan losses was higher for the current quarter and year-to-date due to increases in net charge-offs, increases in nonperforming and delinquent loans and the continued distressed state of the economy. Nonperforming loans were $20.1 million, or 5.5% of total loans at June 30, 2010 compared with $14.0 million, or 4.2% at June 30, 2009. Net charge-offs were $135,000 for the quarter ended June 30, 2010 and $232,000 year-to-date compared with $212,000 and $303,000 for the same periods ended June 30, 2009. Total loans were $364.8 million at June 30, 2010 compared with $321.6 million at June 30, 2009.

Non-interest income. Non-interest income increased $49,000, or 7.7%, and $34,000, or 2.7%, for the three and six months ended June 30, 2010, respectively, compared to the same periods of 2009. This increase is primarily a result of rental income on other real estate owned of $16,000 and $27,000 for the three and six month periods ended June 30, 2010, respectively. Additionally the Company recognized a net gain on the sale of investment securities of $18,000 for the quarter and $27,000 year-to-date.

Non-interest expense. Non-interest expense of $3.8 million for the second quarter of 2010 was 15.9%, or $525,000, higher than the second quarter of 2009. The increase in salaries and employee benefits of $176,000 is primarily attributable to the growth of the Company and a 10% increase in employee health insurance premiums. The Company changed data processors in April 2010 and upgraded its computer network. These improvements have resulted in an increase of $54,000 in equipment expense when compared to the quarter ended June 30, 2009. Professional fees increased $56,000 for the quarter ended June 30, 2010 when compared to the same period in the prior year. Other expenses grew $377,000 over the 2009 quarter. Expenses related to delinquent loans, foreclosures and other real estate owned totaled $305,000 or 80.1% of the increase. Included in this total is the Company s non-bank asset resolution subsidiary EMORECO which had $158,000 in loan and other real estate owned expenses as of the quarter ended June 30, 2010.

The year-to-date non-interest expense total of $7.4 million was 17.3%, or $1.1 million, higher than the same period of 2009. The increase in salaries and employee benefits of $316,000 is attributable to the growth of the Company and a 10% increase in employee health insurance premiums. The Company changed data processors in April 2010 and upgraded its computer network. These improvements have resulted in an increase of $129,000 in equipment expense when compared to June 30, 2009. Professional fees increased $95,000 for the six months ended June 30, 2010 when compared to the same period in the prior year. Losses on the sale of other real estate owned totaled $214,000, an increase of $159,000 or 289.1% over the comparable period in 2009. Other expenses grew $452,000 or 39.5%, over the first half of 2009. Expenses related to delinquent loans, foreclosures and other real estate owned totaled $372,000 or 82.3% of the increase. Included in this total is the Company s non-bank asset resolution subsidiary EMORECO which had $288,000 in loan and other real estate owned expenses for the six months ended June 30, 2010.

Provision for income taxes. The Company recognized $60,000 in income tax expense, which reflected an effective tax rate of 4.2% for the six months, ended June 30, 2010, as compared to $67,000 with an effective tax rate of 6.0% for the respective 2009 period. The decline in the tax provision for the six months ended June 30, 2010 can be associated with an increase in non-taxable income from obligations of states and political subdivisions of $339,000 or 37.7% for the six months ended when compared to the same period in the prior year.

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 June 30, 2010, have remained unchanged from December 31, 2009.

Average Balance Sheet and Yield/Rate Analysis. The following tables 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.

Analysis of Changes in Net Interest Income. The following tables analyze the changes in interest income and interest expense, between the three and six month periods ended June 30, 2010 and 2009, 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.

	For the Three Months Ended June 30,					
	2010			2009		
(Dollars in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:						
Loans receivable	$ 361,708	$ 5,299	5.88%	$ 329,124	$ 4,906	5.98%
Investments securities (3)	173,264	1,986	5.37%	103,752	1,378	6.23%
Interest-bearing deposits with other banks	30,178	47	0.62%	7,493	21	1.12%
Total interest-earning assets	565,150	7,332	5.44%	440,369	6,305	5.96%
Noninterest-earning assets	38,750			36,177		
Total assets	$ 603,900			$ 476,547		
Interest-bearing liabilities:						
Interest-bearing demand deposits	41,067	100	0.98%	31,315	76	0.97%
Money market deposits	65,017	229	1.41%	33,097	170	2.06%
Savings deposits	126,228	395	1.25%	83,310	336	1.62%
Certificates of deposit	248,704	1,649	2.66%	216,641	1,977	3.66%
Borrowings	32,163	373	4.65%	31,606	376	4.77%
Total interest-bearing liabilities	513,179	2,746	2.15%	395,968	2,935	2.97%
Noninterest-bearing liabilities						
Other liabilities	52,389			45,359		
Stockholders equity	38,332			35,220		
Total liabilities and stockholders equity	$ 603,900			$ 476,547		
Net interest income		$ 4,586			$ 3,370	
Interest rate spread (1)			3.29%			2.98%
Net interest margin (2)			3.49%			3.28%
Ratio of average interest-earning assets to average interest-bearing liabilities			110.13%			111.21%

(1) Interest rate spread represents the difference between the average yield on

interest-earning assets and the average cost of interest-bearing liabilities

(2) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(3) Tax equivalent adjustments to interest incomefor tax-exempt securities was $333 and $234 for 2010 and 2009 respectively.

(Dollars in thousands)	2010 versus 2009 Increase (decrease) due to Volume	Rate	Total
Interest-earning assets:			
Loans receivable	$ 486	$ (93)	$ 393
Investments securities	1,080	(472)	608
Interest-bearing deposits with other banks	64	(38)	26
Total interest-earning assets	1,630	(603)	1,027
Interest-bearing liabilities:			
Interest-bearing demand deposits	24	0	24
Money market deposits	164	(105)	59
Savings deposits	173	(114)	59
Certificates of deposit	293	(621)	(328)
Borrowings	7	(9)	(2)
Total interest-bearing liabilities	661	(849)	(188)
Net interest income	$ 969	$ 246	$ 1,215

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	For the Six Months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(Dollars in thousands)			(Dollars in thousands)		
Interest-earning assets:						
Loans receivable	$ 358,989	$ 10,396	5.84%	$ 326,223	$ 9,904	6.12%
Investments securities (3)	162,595	3,781	5.48%	104,362	2,677	6.07%
Interest-bearing deposits with other banks	30,100	79	0.53%	9,030	47	1.05%
Total interest-earning assets	551,683	14,256	5.44%	439,616	12,629	6.01%
Noninterest-earning assets	38,448			34,167		
Total assets	$ 590,132			$ 473,783		
Interest-bearing liabilities:						
Interest-bearing demand deposits	39,977	195	0.98%	29,519	137	0.94%
Money market deposits	62,767	508	1.63%	30,947	321	2.09%
Savings deposits	119,946	822	1.38%	77,358	582	1.52%
Certificates of deposit	248,134	3,333	2.71%	221,374	4,235	3.86%
Borrowings	32,245	757	4.73%	33,063	770	4.70%
Total interest-bearing liabilities	503,068	5,615	2.25%	392,260	6,045	3.11%
Noninterest-bearing liabilities						
Other liabilities	49,364			46,303		
Stockholders equity	37,699			35,220		
Total liabilities and stockholders equity	$ 590,132			$ 473,783		
Net interest income		$ 8,641			$ 6,584	
Interest rate spread (1)			3.19%			2.90%
Net interest margin (2)			3.39%			3.22%
Ratio of average interest-earning assets to average interest-bearing liabilities			109.66%			112.07%

(1) Interest rate spread represents the difference between the

average yield on interest-earning assets and the average cost of interest-bearing liabilities

(2) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(3) Tax equivalent adjustments to interest income for tax-exempt securities was $638 and $464 for 2010 and 2009 respectively.

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(Dollars in thousands)	2010 versus 2009 Increase (decrease) due to Volume	Rate	Total
Interest-earning assets:			
Loans receivable	$ 1,000	$ (508)	$ 492
Investments securities	1,762	(658)	1,104
Interest-bearing deposits with other banks	110	(78)	32
Total interest-earning assets	2,872	(1,244)	1,628
Interest-bearing liabilities:			
Interest-bearing demand deposits	49	9	58
Money market deposits	332	(145)	187
Savings deposits	322	(82)	240
Certificates of deposit	515	(1,417)	(902)
Borrowings	(19)	7	(12)
Total interest-bearing liabilities	1,199	(1,628)	(429)
Net interest income	$ 1,673	$ 384	$ 2,057

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, the ability to borrow funds under line of credit agreements with correspondent banks, 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 six months ended June 30, 2010, 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 decreased primarily as a result of the purchasing of investment securities and funding new loans. This decrease was largely offset by an increase in deposits. 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.

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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.

Effective February 11, 2010, the Board of Directors of the Company s subsidiary, EB, entered into a Memorandum of Understanding (MOU) with the FDIC and the Ohio Division of Financial Institutions as a result of the joint examination by the FDIC and the Ohio Division of Financial Institutions completed in the fourth quarter of 2009. The MOU sets forth certain actions required to be taken by management of EB to rectify unsatisfactory conditions identified by the federal and state banking regulators that relate to EB s concentration of credit for non-owner occupied 1-4 family residential mortgage loans. The MOU requires EB to reduce delinquent and classified loans and enhance credit administration for non-owner occupied residential real estate; to develop specific plans for the reduction of borrower indebtedness on classified and delinquent credits; to correct violations of laws and regulations listed in the joint examination report; to implement an earnings improvement plan; to maintain specified capital discussed below; to submit to the FDIC and the Ohio Division of Financial Institutions for review and comment a revised methodology for calculating and determining the adequacy of the allowance for loan losses; and to provide 30 days advance notification of proposed dividend payments.

Compliance with the terms of the MOU is a high priority for the Company. In anticipation of the requirements that would be imposed by the MOU executed February 11, 2010, management devoted significant resources to the preceding matters during the fiscal year ended December 31, 2009, and intends to continue to do so during 2010. Specific actions taken included the evaluation and reorganization of lending and credit administration personnel, retention of collection and workout personnel, and the sale of $4.6 million of nonperforming assets to a sister, nonbank-asset resolution subsidiary established late in the fourth quarter of 2009. In 2009, the Company invested $1.25 million in EB in the form of capital infusions to maintain Tier I capital at the level expected by the FDIC and the Ohio Division of Financial Institutions.

The MOU requires that EB submit plans and report to the Ohio Division of Financial Institutions and the FDIC regarding EB s loan portfolio and profit plan, among other matters. The MOU also requires that the Bank maintain its Tier I Leverage Capital ratio at not less than 9 percent.

The following table sets forth the capital requirements for EB under the FDIC regulations and EB s capital ratios at June 30, 2010 and December 31, 2009:

	FDIC Regulations			
Capital Ratio	Adequately Capitalized	Well Capitalized	June 30, 2010	December 31, 2009
Tier I Leverage Capital	4.00%	5.00%(1)	9.27%	10.29%
Risk-Based Capital:				
Tier I	4.00	6.00	13.16	13.63
Total	8.00	10.00	14.45	14.91

(1) 9 percent required by the MOU.

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 trigger 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.

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The following table illustrates the Company s risk-weighted capital ratios at June 30, 2010:

	Middlefield Banc Corp. June 30, 2010		The Middlefield Banking Co. June 30, 2010		Emerald Bank June 30, 2010	
(Dollar amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)						
Actual	$ 44,685	11.87%	$ 36,462	11.30%	$ 7,039	14.45%
For Capital Adequacy Purposes	30,109	8.00	25,825	8.00	3,898	8.00
To Be Well Capitalized	37,636	10.00	32,281	10.00	4,872	10.00
Tier I Capital (to Risk-weighted Assets)						
Actual	$ 39,967	10.62%	$ 32,606	10.10%	$ 6,413	13.16%
For Capital Adequacy Purposes	15,054	4.00	12,912	4.00	1,949	4.00
To Be Well Capitalized	22,582	6.00	19,368	6.00	2,923	6.00
Tier I Capital (to Average Assets)						
Actual	$ 39,967	6.88%	$ 32,606	6.46%	$ 6,413	9.27%
For Capital Adequacy Purposes	23,235	4.00	20,200	4.00	2,768	4.00
To Be Well Capitalized	29,044	5.00	25,251	5.00	3,460	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 losses as a result of 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 in 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.

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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 June 30, 2010 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 June 30, 2010 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 June 30, 2010 for portfolio equity:

	Increase 200 Basis Points	Decrease 200 Basis Points
Net interest income increase (decrease)	(2.15)%	4.21%
Portfolio equity increase (decrease)	(12.30)%	(10.19)%

Item 4. Controls and Procedures

Controls and Procedures Disclosure

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company 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.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Changes in Internal Control over Financial Reporting

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

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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, 2009. Please refer to that section for disclosures regarding the risks and uncertainties related to the Company s business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults by the Company on its senior securities

None

Item 4. Reserved

Item 5. Other information

None

Item 6. Exhibits

Exhibit list for Middlefield Banc Corp. s Form 10-Q Quarterly Report for the Period Ended June 30, 2010

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

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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
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

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exhibit number	description	location
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*	Reserved	
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
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

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exhibit number	description	location
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

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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: August 12, 2010

By: /s/ Thomas G. Caldwell
Thomas G. Caldwell
President and Chief Executive Officer

Date: August 12, 2010

By: /s/ Donald L. Stacy
Donald L. Stacy
Principal Financial and Accounting Officer

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