SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
SEC Accession No. 0000950132-02-000130

FILER

MIDDLEFIELD BANC CORP

CIK:**836147**| IRS No.: **341585111** | State of Incorp.:**OH**
Type: **10-Q** | Act: **34** | File No.: **000-32561** | Film No.: **02646301**
SIC: **6022** State commercial banks

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20552

FORM 10 - Q

[X] QUARTERLY REPORT UNDER SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from to

Commission File Number 33-23094

Middlefield Banc Corp.
(Exact name of registrant as specified in its charter)

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

15985 East High Street, Middlefield, Ohio 44062-0035
(Address of principal executive offices)

(440) 632-1666
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

Class: Common Stock, without par value
Outstanding at May 8, 2002: 1,103,744

MIDDLEFIELD BANC CORP.

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MIDDLEFIELD BANC CORP.
CONSOLIDATED BALANCE SHEET
(Unaudited)

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	March 31, 2002	December 31, 2001
<S>	<C>	<C>
ASSETS		
Cash and due from banks	$ 3,722,638	$ 3,443,435
Federal funds sold	1,480,000	2,450,000
Cash and cash equivalents	5,202,638	5,893,435
Interest-bearing deposits in other institutions	1,243,055	1,240,207
Investment securities available for sale	22,667,551	21,179,786
Investment securities held to maturity (estimated market value of $8,917,481 and $10,471,978)	8,712,359	10,229,068
Loans	159,307,880	152,828,355
Less allowance for loan losses	2,095,246	2,062,252
Net loans	157,212,634	150,766,103
Premises and equipment	6,375,160	6,244,797
Accrued interest and other assets	2,706,127	2,304,568
TOTAL ASSETS	$ 204,119,524	$ 197,857,964
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 23,169,308	$ 24,952,407
Interest-bearing demand	7,776,166	6,523,152
Money market	8,306,196	7,940,807
Savings	45,242,152	41,518,906
Time	86,522,045	86,447,456
Total deposits	171,015,867	167,382,728
Short-term borrowings	665,261	660,678
Other borrowings	11,238,983	9,301,334
Accrued interest and other liabilities	1,107,152	726,417
TOTAL LIABILITIES	184,027,263	178,071,157
STOCKHOLDERS' EQUITY		
Common stock, no par value; 5,000,000 shares authorized, 1,149,266 and 1,148,676 shares issued	6,301,171	6,287,011
Retained earnings	15,192,791	14,842,519
Accumulated other comprehensive income	74,739	133,717
Treasury stock, at cost (45,722 shares)	(1,476,440)	(1,476,440)
TOTAL STOCKHOLDERS' EQUITY	20,092,261	19,786,807
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 204,119,524	$ 197,857,964

</TABLE>

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

<TABLE>

<CAPTION>

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
<S>	<C>	<C>
INTEREST INCOME		
Interest and fees on loans	$ 2,999,617	$ 2,821,950
Interest-bearing deposits in other institutions	16,436	15,104
Federal funds sold	15,653	42,667
Investment securities:		
Taxable interest	285,086	299,881
Tax-exempt interest	109,531	119,824
Total interest income	3,426,323	3,299,426
INTEREST EXPENSE		
Deposits	1,388,572	1,514,724
Short-term borrowings	1,272	4,894
Other borrowings	146,224	136,008
Total interest expense	1,536,068	1,655,626
NET INTEREST INCOME	1,890,255	1,643,800
Provision for loan losses	75,000	39,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,815,255	1,604,800
NONINTEREST INCOME		
Service charges on deposit accounts	222,910	222,041
Other income	38,167	36,624
Total noninterest income	261,077	258,665
NONINTEREST EXPENSE		
Salaries and employee benefits	578,865	545,367
Occupancy expense	87,242	80,161
Equipment expense	83,208	60,836
Data processing costs	84,968	64,914
Ohio state franchise tax	67,550	60,050
Other expense	357,589	278,980
Total noninterest expense	1,259,422	1,090,308
Income before income taxes	816,910	773,157
Income taxes	268,000	235,900
NET INCOME	$ 548,910	$ 537,257
EARNINGS PER SHARE		
Basic	$ 0.50	$ 0.49
Diluted	0.50	0.49

</TABLE>

See accompanying notes to unaudited consolidated financial statements.

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

<TABLE>
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	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity	Comprehensive Income
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 2001	$ 6,287,011	$ 14,842,519	$ 133,717	$ (1,476,440)	$ 19,786,807	
Net income		548,910			548,910	$ 548,910
Other comprehensive income:						

Unrealized loss on available for sale securities net of tax benefit of $30,383			(58,978)		(58,978)	(58,978)
Comprehensive income						$ 489,932
Stock options exercised	14,160				14,160	
Cash dividends ($.18 per share)		(198,638)			(198,638)	
Balance, March 31, 2002	$ 6,301,171	$ 15,192,791	$ 74,739	$ (1,476,440)	$ 20,092,261	

</TABLE>

See accompanying notes to unaudited consolidated financial statements.

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

<TABLE>
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	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	$ 548,910	$ 537,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	75,000	39,000
Depreciation	81,777	71,796
Amortization of premium and discount on investment securities	24,356	12,116
Amortization of net deferred loan costs (fees)	(58,051)	9,204
Increase in accrued interest receivable	(99,375)	(61,772)
Increase (decrease) in accrued interest payable	(91,871)	90,151
Other, net	227,275	(32,363)
Net cash provided by operating activities	708,021	665,389
INVESTING ACTIVITIES		
Increase in interest-bearing deposits in other institutions, net	(2,848)	-
Investment securities available for sale:		
Proceeds from repayments and maturities	960,525	1,368,956
Purchases	(2,553,750)	(3,610,741)
Investment securities held to maturity:		
Proceeds from repayments and maturities	1,508,452	2,314,300
Increase in loans, net	(6,463,480)	(1,577,529)
Purchase of Federal Home Loan Bank stock	(26,470)	-
Purchase of premises and equipment	(212,140)	(124,219)
Net cash used for investing activities	(6,789,711)	(1,629,233)
FINANCING ACTIVITIES		
Net increase in deposits	3,633,139	4,605,286
Increase (decrease) in short-term borrowings, net	4,583	(129,479)
Repayment of other borrowings	(62,351)	(57,335)
Proceeds from other borrowings	2,000,000	-
Proceeeds from stock options exercised	14,160	-
Cash dividends	(198,638)	(154,414)
Net cash provided by financing activities	5,390,893	4,264,060
Increase (decrease) in cash and cash equivalents	(690,797)	3,300,216
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,893,435	4,839,875
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,202,638	$ 8,140,091
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 1,627,939	$ 1,565,475
Income taxes	-	-

</TABLE>

See accompanying notes to unaudited consolidated financial statements.

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of Middlefield Banc Corp. ("Middlefield") includes its wholly owned subsidiary, The Middlefield Banking Company (the "Bank"). All significant intercompany items have been eliminated.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. In Management's opinion, the financial statements include all adjustments, consisting of normal recurring adjustments, that Middlefield considers necessary to fairly state Middlefield's financial position and the results of operations and cash flows. The balance sheet at December 31, 2001, 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 accounting principles generally accepted in the United States of America. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included with Middlefield's Form 10-K (File No. 33-23094). The results of Middlefield's operations for any interim period are not necessarily indicative of the results of Middlefield's operations for any other interim period or for a full fiscal year.

NOTE 2 - EARNINGS PER SHARE

Middlefield provides dual presentation of Basic and Diluted earnings per share. Basic earnings per share utilizes net income as reported as the numerator and the actual average shares outstanding as the denominator. Diluted earnings per share includes any dilutive effects of options, warrants, and convertible securities.

NOTE 2 - EARNINGS PER SHARE (Continued)

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

Weighted-average common shares outstanding	1,148,938	1,148,676
Average treasury stock shares	(45,722)	(45,722)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	1,103,216	1,102,954
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	1,061	1,350
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	1,104,277	1,104,304

Options to purchase 9,500 shares of common stock at prices from $31.00 to $31.75 per share were outstanding during 2002 and 2001 but were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

NOTE 3 - COMPREHENSIVE INCOME

The components of comprehensive income consist exclusively of unrealized gains and losses on available for sale securities. For the three months ended March 31, 2002, this activity is shown under the heading Comprehensive Income as presented in the Consolidated Statement of Changes in Stockholders' Equity (Unaudited). For the three months ended March 31, 2001, comprehensive income totaled $639,185.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Private Securities Litigation Act of 1995 contains safe harbor provisions regarding forward-looking statements. Forward-looking statements can be identified by terminology such as "believes," "expects," "anticipates," "estimates," "intends," "should," "will," "plans," "potential" and similar words. Forward-looking statements are also statements that are not statements of historical fact. Forward-looking statements necessarily involve risks and uncertainties. They are merely predictive or statements of probabilities, involving known and unknown risks, uncertainties and other factors.

If one or more of these risks of uncertainties occurs or if the underlying assumptions prove incorrect, actual results in 2002 and beyond could differ materially from those expressed in or implied by the forward-looking statements.

Forward-looking statements are based upon a variety of estimates and assumptions. The estimates and assumptions involve judgments about a number of things, including future economic, competitive, and financial market conditions and future business decisions. These matters are inherently subject to significant business, economic and competitive uncertainties, all of which are difficult to predict and many of which are beyond Middlefield's control. Although Middlefield believes its estimates and assumptions are reasonable, actual results could vary materially from those shown. Inclusion of forward-looking information in this Form 10-Q does not constitute a representation by Middlefield or any other person that the indicated results will be achieved. Investors are cautioned not to place undue reliance on forward-looking information.

Comparison of Financial Condition at March 31, 2002 and December 31, 2001.

Total assets increased $6.3 million to $204.1 million at March 31, 2002 from $197.9 million at December 31, 2001. This increase primarily resulted from an increase in net loans receivable of $6.4 million that was funded by net increases in deposits and borrowings of $3.6 million and $1.9 million, respectively.

Total loans increased to $159.3 million at March 31, 2002 from $152.8 million at December 31, 2001. The increase in net loans receivable resulted from the economic health of Middlefield's market area and the strategic, service-oriented marketing approach taken by management to meet the lending needs of the area. The majority of the increased lending activity is predominately residential mortgage loans and commercial and commercial real estate. Such loans grew $3.4 million and $3.3 million, respectively, at March 31, 2002. The increased lending is attributed to continued customer referrals and Middlefield's overall relationship with its customers.

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in the loan portfolio, as of the balance sheet date. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. At March 31, 2002, Middlefield's allowance for loan losses remained relatively unchanged at $2.1 million. The allowance for loan losses is established through a provision for loan losses, which is charged to operations. The provision is based on management's periodic evaluation of the adequacy of the allowance for loan losses, taking into account the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors. The estimates used to determine the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant change in the near term. The total allowance for loan losses is a combination of a specific allowance for identified problem loans, a formula allowance, and an unallocated allowance.

Total deposits increased to $171.0 million at March 31, 2002 from $167.4 million at December 31, 2001. Growth was primarily concentrated in savings deposits and resulted from continual marketing efforts by management, as well as customer preferences to readily accessible deposit products.

Other borrowings increased to $11.2 million at March 31, 2002 from $9.3 million at December 31, 2001. This increase was the result of an additional $2.0 million in Federal Home Loan Bank borrowings to be repaid over a ten-year period. As noted previously, the proceeds from this borrowing was used to fund loan demand.

Total stockholders' equity increased to $20.1 million at March 31, 2002 due to net income of $549,000 that was offset partially by dividend payments of $199,000 and a reduction in accumulated other comprehensive income of $59,000. Accumulated other comprehensive income decreased as a result of changes in the net unrealized gain on investment securities available for sale due to fluctuations in interest rates. Because of interest rate volatility, accumulated other comprehensive income could materially fluctuate for each interim period and year-end period depending on economic and interest rate conditions. In addition, future dividend policies will be determined by the Board of Directors in light of the earnings and financial condition of Middlefield, including applicable governmental regulations and policies.

Comparison of Results of Operations for the Three Months Ended March 31, 2002 and 2001.

Middlefield recorded net income of $549,000 for the three month period ended March 31, 2002 as compared to net income of $537,000 for the same period ended March 31, 2001. This increase in net income was due to the significant growth in net interest income of $246,000 while offset by increases in noninterest expense and the provision for loan losses of $169,000 and $36,000 respectively. Basic and diluted earnings per share increased to $.50 per share for the three months ended March 31, 2002 from $.49 per share for the same period ended 2001.

Net interest income for the three months ended March 31, 2002 increased to $1,890,000, compared to $1,644,000 for the same period ended 2001. Interest income for the first three months of 2002 was $3,426,000 as compared to $3,299,000 for the same period ended 2001. This increase of $127,000 was influenced primarily by an increase in interest earned on loans receivable of $178,000, while offset by decreases in interest earned on federal funds sold and investment securities of $27,000 and $25,000, respectively. Although Middlefield intentionally caused a decrease to its interest rate yields, interest income was driven by increases in average balances of interest-earning assets. The average balance of loans receivable increased $19,302,000 to $154.9 million during 2002, as compared to $135.6 million for the 2001 period. The tax-equivalent yield on interest earning assets decreased to 7.25% for the three months ended 2002 from 7.90% for same period ended 2001, and primarily resulted from a 58 basis point and 67 basis point decrease in loans receivable and investment securities, respectively. During 2001, the Federal Reserve Board adopted a policy of aggressive interest rate reduction that resulted in this adverse impact on the yield on earning assets.

Interest expense decreased $120,000 for the three months ended March 31, 2002 to $1,536,000 from $1,656,000 for the same period ended 2001. Interest expense incurred on deposits decreased $126,000 for the three months ended March 31, 2002 as compared to the same period ended 2001. This was primarily attributable to a declining interest rate environment which resulted in the cost of funds decreasing to 4.34% for the three months ended March 31, 2002 from 4.85% for the same period 2001. The yield on certificates of deposit, money market, and interest-bearing checking accounts declined 73 basis points, 100 basis points, and 68 basis points, respectively, and reflect the overall trend in the interest rate environment during this period. Slightly offsetting the declining rates was an increase in the average balance of interest-bearing liabilities of $4.9 million to $141.5 million for the three months ended March 31, 2002.

Total non-interest income for the three months ended March 31, 2002 remained relatively unchanged from 2001. Noninterest income items are primarily comprised of service charges and fees on deposit account activity, along with fee income derived from other financial related services.

Total non-interest expenses increased $169,000 for the three months ended March 31, 2002, as compared to the same period ended 2001. Compensation and employee benefits increased $33,000 primarily as a result of normal merit raises. Occupancy and equipment expenses increased $29,000 as a result of added capital expenditures in prior years. As a result of increased transaction activity from operating a larger organization, data processing expenses increased $20,000 during 2002 as compared to 2001. In addition, other expenses increased $79,000 for the three month period ended March 31, 2002 as compared to the prior year period, as a result of costs incurred for professional fees associated with outside assistance in complying with the increased levels of regulatory compliance of a publicly reported company. Middlefield has also purchased land for expansion of a new branch network in early 2003, and anticipates incurring additional capital and operational expenditures in the next twelve months.

LIQUIDITY

Liquidity management for Middlefield is measured and monitored on both a short and long-term basis, thereby allowing management to better understand and react to emerging balance sheet trends. After assessing actual and projected cash flow needs, management seeks to obtain funding at the most economical cost to Middlefield. Both short and long-term liquidity needs are addressed by maturities and sales of investment securities, loan payments and maturities, and liquidating money market investments such as federal funds sold. The use of these resources, in conjunction with access to credit, provide the core ingredients to meet depositor, borrower, and creditor needs.

Middlefield's liquid assets consist of cash and cash equivalents, which include investments in very short-term investments (i.e., federal funds sold), and investment securities classified as available for sale. The level of these assets is dependent on Middlefield's operating, investing, and financing activities during any given period. At March 31, 2002, cash and cash equivalents totaled $5.2 million or 2.6% of total assets while investment securities classified as available for sale totaled $22.7 million or 11.1% of total assets. Management believes that the liquidity needs of Middlefield are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources, FHLB advances, and the portion of the investment and loan portfolios that mature within one year. These sources of funds will enable Middlefield to meet cash obligations and off-balance sheet commitments as they come due.

Operating activities provided net cash of $708,000 and $665,000 for the three month periods ended March 31, 2002 and 2001, respectively, and were generated principally from net income of approximately $550,000 for both periods.

Investing activities used $6.8 million and $1.6 million in funds during the first three months of 2002 and 2001, respectively. These cash usages primarily consisted of loan originations and repayments of $6.5 million and $1.6 million, respectively.

Financing activities consist of the solicitation and repayment of customer deposits, and borrowings and repayment. During the three months ended March 31, 2002, net cash provided by financing activities totaled $5.4 million, principally derived from an increase in deposit accounts in general, and savings deposits specifically. Also contributing to this influx of cash was proceeds from borrowings of $2.0 million. During the same period ended 2001, net cash provided by financing activities was $4.3 million, and consisted almost entirely of an increase in deposit accounts.

Liquidity may be adversely affected by unexpected deposit outflows, excessive interest rates paid by competitors, and similar matters. Management monitors projected liquidity needs and determines the level desirable, based in part on the bank's commitment to make loans, as well as management's assessment of Middlefield's ability to generate funds. Middlefield anticipates it will have sufficient liquidity available to meet estimated short-term and long-term funding needs.

CAPITAL RESOURCES

Middlefield is subject to federal regulations that impose certain minimum capital requirements. Management monitors both Middlefield's and the Bank's Total risk-based, Tier I risk-based and Tier I leverage capital ratios in order to assess compliance with regulatory guidelines. At March 31, 2002, both Middlefield and the Bank exceeded the minimum risk-based and leverage capital ratio requirements. Middlefield's Total risk-based, Tier I risk-based and Tier I leverage ratios were 16.87%, 15.61%, 9.97%, and the bank's were 16.47%, 15.21%, 9.72%, respectively, at March 31, 2002.

RISK ELEMENT

The table below presents information concerning nonperforming assets including nonaccrual loans, renegotiated loans, loans 90 days or more past due, other real estate loans, and repossessed assets. A loan is classified as nonaccrual when, in the opinion of management, there are serious doubts about collectibility of interest and principal. At the time the accrual of interest is discontinued, future income is recognized only when cash is received. Renegotiated loans are those loans which terms have been renegotiated to provide a reduction or deferral of principal or interest as a result of the deterioration of the borrower.

	March 31, 2002	December 31, 2001
	(Dollars in thousands)	
Loans on nonaccrual basis	$ 274	$ -
Loans past due 90 days or more and still accruing	96	254
Total nonperforming loans	$ 370	$ 254
Nonperforming loans as a percent of total loans	0.23%	0.17%
Nonperforming assets as a percent of total assets	0.18%	0.13%

At March 31, 2002 and December 31, 2001, no real estate or other assets were held as foreclosed or repossessed property.

Management monitors impaired loans on a continual basis. As of March 31, 2002, impaired loans had no material effect on the Company's financial position or results of operations.

During the three month period ended March 31, 2002, loans increased $6.5 million while nonperforming loans increased to a total of $116,000. The allowance for loan losses

increased $33,000 during this same period and the resulting percentage of allowance for loan losses to loans outstanding declined to 1.32% as compared to 1.35% at December 31, 2001. Nonperforming loans are primarily made up of residential and commercial mortgages. The collateral requirements on such loans reduce the risk of potential losses to an acceptable level in management's opinion.

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in the loan portfolio, as of the balance sheet date. The relationship between the allowance for loan losses and outstanding loans is a function of the credit quality and known risk attributed to the loan portfolio. The on-going loan review program and credit approval process is used to determine the adequacy of the allowance for loan losses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Like other financial institutions, the bank is subject to interest rate risk. The bank's interest-earning assets could mature or reprice more rapidly than or on a different basis from its interest-bearing liabilities (primarily borrowings and deposits with short- and medium-term maturities) in a period of declining interest rates. Although having assets that mature or reprice more frequently on average than liabilities will be beneficial in times of rising interest rates, that asset/liability structure will result in lower net interest income in periods of declining interest rates.

Interest rate sensitivity, or interest rate risk, relates to the effect of changing interest rates on net interest income. Interest-earning assets with interest rates tied to the prime rate for example, or that mature in relatively short periods of time, are considered interest-rate sensitive. Interest-bearing liabilities with interest rates that can be repriced in a discretionary manner, or that mature in relatively short periods of time, are also considered interest-rate sensitive. The differences between interest-sensitive assets and interest-sensitive liabilities over various time horizons are commonly referred to as sensitivity gaps. As interest rates change, a sensitivity gap will have either a favorable effect or an adverse effect on net interest income. A negative gap -- with liabilities repricing more rapidly than assets -- generally should have a favorable effect when interest rates are falling, and an adverse effect when rates are rising. A positive gap -- with assets repricing more rapidly than liabilities -- generally should have the opposite effect: an adverse effect when rates are falling and a favorable effect when rates are rising.

Middlefield and the bank have no financial instruments entered into for trading purposes. Interest rates change daily on federal funds purchased and sold. Federal funds are therefore the most sensitive to the market and have the most stable fair values. Loans and deposits tied to indices such as the prime rate or federal discount rate are also market sensitive, with stable fair values. The least sensitive instruments include long-term, fixed-rate loans and securities and fixed-rate savings deposits, which have the least stable fair value. Management of maturity distributions of assets and liabilities between these extremes is as important as the balances maintained. Management of maturity

distributions involves matching interest rate maturities as well as principal maturities, and it influences net interest income significantly. In periods of rapidly changing interest rates, a negative or positive gap can cause major fluctuations in net interest income and earnings. Managing asset and liability sensitivities to enhance growth regardless of changes in market conditions is one of the objectives of the bank's asset/liability management strategy.

Evaluating the bank's exposure to changes in interest rates is the responsibility of the Asset/Liability Committee, a committee of bank directors and officers. The Asset/Liability Committee assesses both the adequacy of the management process used to control interest rate risk and the quantitative level of exposure, ensuring that appropriate policies, procedures, management information systems and internal controls are in place to maintain interest rate risk at appropriate levels. Evaluating the quantitative level of interest rate risk exposure requires assessment of existing and potential effects of changes in interest rates on the bank's financial condition, including capital adequacy, earnings, liquidity and asset quality.

The bank uses an asset/liability model to support its balance sheet strategies. Gap analysis, one of the methods used by management to analyze interest rate risk, does not necessarily show the precise impact of specific interest rate movements on Middlefield's net interest income because the re-pricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures. In addition, assets and liabilities within the same period may, in fact, be repaid at different times and at different rate levels. Middlefield has not experienced the kind of earnings volatility that might be indicated from gap analysis.

Middlefield's use of a simulation model to better measure the impact of interest rate changes on net interest income is incorporated into the risk management process to effectively identify, measure, and monitor Middlefield's risk exposure. Interest rate simulations using a variety of assumptions are employed by Middlefield to evaluate its interest rate risk exposure. A shock analysis at March 31, 2002 indicated that a 200 basis point movement in interest rates in either direction would have had a minor impact on Middlefield's anticipated net interest income and the market value of assets and liabilities over the next 12 months, well within Middlefield's ability to manage effectively.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in rights of the Company's security holders

None

Item 3. Defaults by the Company on its senior securities

None

Item 4. Submission of matters to a vote of security holders

None

Item 5. Other information

None

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included in this Report or incorporated herein by reference:

- 3.1 Second Amended and Restated Articles of Incorporation of Middlefield Banc Corp. *
- 3.2 Regulations of Middlefield Banc Corp. *
- 4 Specimen Stock Certificate *
- 10.1 1999 Stock Option Plan of Middlefield Banc Corp. *
- 10.2 Severance Agreement of President and Chief Executive Officer *
- 10.3 Severance Agreement of Executive Vice President *
- 10.4 Federal Home Loan Bank of Cincinnati Agreement for Advances and Security Agreement dated September 14, 2000 *
- 10.5 Collateral Assignment Split Dollar Agreement between the President and Chief Executive Officer and The Middlefield Banking Company *
- 21 Subsidiaries of Middlefield Banc Corp. *
- 99.1 Form of Indemnification Agreement with directors of Middlefield Banc Corp. and executive officers of Middlefield Banc Corp. and The Middlefield Banking Company *
- 99.2 Independent Accountants Report

* Incorporated by reference to the identically numbered exhibit to the December 31, 2001 Form 10-K (File No. 033-23094) filed with the SEC on March 28, 2002.

(b) No reports on Form 8-K were filed by Middlefield Banc Corp. during the quarter ended March 31, 2002.

SIGNATURES

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

MIDDLEFIELD BANC CORP.

Date: May 10, 2002

By: /s/ Thomas G. Caldwell

Thomas G. Caldwell
President and Chief Executive Officer

Date: May 10, 2002

By: /s/ Donald L. Stacy

Donald L. Stacy
Principal Financial and Accounting Officer

Exhibit 99.2

INDEPENDENT ACCOUNTANT'S REPORT

Board of Directors
Middlefield Banc Corp.

We have reviewed the accompanying consolidated balance sheet of Middlefield Banc Corp. and subsidiary as of March 31, 2002, and the related consolidated statements of income and cash flows for the three month periods ended March 31, 2001 and 2000, and the consolidated statement of changes in stockholders' equity for the three month period ended March 31, 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2002 we expressed an unqualified opinion on those consolidated financial statements

/s/ S.R. Snodgrass, A.C.

Wexford, PA
May 8, 2002