

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C. 20551**

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **n/a**

**MAINSTREET BANK**

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation or organization)

47-0914596

(I.R.S. Employer Identification No.)

727 Elden Street, Herndon, VA 20170

(Address of principal executive offices) (Zip Code)

(703) 481-4567

(Registrant's telephone number, including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 7, 2008, there were issued and outstanding 2,442,967 shares of the issuer's common stock.

**MAINSTREET BANK**  
**Quarterly Report on Form 10-Q**  
**March 31, 2008**

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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements.

#### MainStreet Bank Statements of Financial Condition

	March 31, 2008 <i>(Unaudited)</i>	December 31, 2007
<b>ASSETS</b>		
<b>Assets:</b>		
Cash and due from banks	\$ 2,631,014	\$ 2,075,295
Federal funds sold	383,127	2,509,413
Investment securities available for sale, at fair value	32,769,762	26,515,630
Loans, net of allowance for loan losses of \$1,359,337 and \$1,285,337 at March 31, 2008 and December 31, 2007, respectively	120,469,429	111,604,851
Premises and equipment, net	1,101,655	1,148,045
Accrued interest and other receivables	772,908	785,447
Restricted stock	1,862,500	1,119,900
Other assets	269,011	305,878
<b>Total Assets</b>	<b>\$ 160,259,406</b>	<b>\$ 146,064,459</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Non-interest bearing deposits	\$ 17,216,015	\$ 16,150,504
Savings and NOW deposits	13,368,632	11,889,984
Money market deposits	17,385,023	13,394,062
Other time deposits	66,876,331	74,031,879
Total deposits	114,846,001	115,466,429
Federal funds purchased	728,000	—
Securities sold under agreements to repurchase	2,261,888	2,997,190
Federal Home Loan Bank advances	20,629,167	5,641,667
Other liabilities	557,668	693,533
<b>Total Liabilities</b>	<b>139,022,724</b>	<b>124,798,819</b>
<b>Stockholders' Equity:</b>		
Common stock, \$4 par value. (Authorized 5,000,000 shares; issued and outstanding 2,442,967 shares at March 31, 2008 and 2,434,673 shares at December 31, 2007)	9,771,868	9,738,692
Capital surplus	14,833,769	14,802,075
Accumulated deficit	(3,269,025)	(3,180,601)
Accumulated other comprehensive loss	(99,930)	(94,526)
<b>Total Stockholders' Equity</b>	<b>21,236,682</b>	<b>21,265,640</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 160,259,406</b>	<b>\$ 146,064,459</b>

*The accompanying notes are an integral part of these financial statements.*

**MainStreet Bank**  
**Statements of Operations**  
*(Unaudited)*

**For the three months ended**  
**March 31,**

	<b>2008</b>	<b>2007</b>
<b>INTEREST INCOME:</b>		
Interest and fees on loans	\$ 2,139,201	\$ 1,786,240
Interest on investment securities	235,246	171,879
Interest on federal funds sold	117,981	88,066
Total interest income	2,492,428	2,046,185
<b>INTEREST EXPENSE:</b>		
Interest on savings and NOW deposits	73,986	98,153
Interest on money market deposits	114,807	102,168
Interest on other time deposits	918,812	591,682
Interest on federal funds purchased	50	1,204
Interest on securities sold under agreements to repurchase	9,977	4,832
Interest on Federal Home Loan Bank advances	91,793	66,818
Total interest expense	1,209,425	864,857
Net interest income	1,283,003	1,181,328
Provision for loan losses	74,000	90,000
Net interest income after provision for loan losses	1,209,003	1,091,328
<b>OTHER INCOME:</b>		
Deposit account service charges	47,316	20,802
Other operating income	23,011	12,771
Total other income	70,327	33,573
<b>OTHER EXPENSES:</b>		
Salaries and employee benefits	795,644	730,312
Occupancy expenses	110,744	81,476
Equipment expenses	102,141	84,239
Advertising and marketing	16,986	36,192
Outside services	68,281	76,874
Franchise tax	52,222	55,113
Data processing	100,246	87,852
Other operating expenses	121,490	106,082
Total other expenses	1,367,754	1,258,140
LOSS BEFORE INCOME TAXES	(88,424)	(133,239)
Benefit from income taxes	—	—
NET LOSS	\$ (88,424)	\$ (133,239)
Net loss per common share – basic and diluted	\$ (0.04)	\$ (0.05)
Weighted average number of shares – basic and diluted	2,442,012	2,424,377

*The accompanying notes are an integral part of these financial statements.*

**MainStreet Bank**  
**Statements of Changes in Stockholders' Equity**  
*(Unaudited)*

**For the three months ended March 31, 2008**

	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at December 31, 2007</b>	2,434,673	\$ 9,738,692	\$ 14,802,075	\$ (3,180,601)	\$ (94,526)	\$21,265,640
<b>Issuance of restricted stock grants</b>	9,175	\$ 36,700	\$ (36,700)	—	—	—
<b>Forfeiture of restricted stock grants</b>	(881)	(3,524)	3,524	—	—	—
<b>Vesting of restricted stock grants</b>	—	—	59,687	—	—	\$ 59,687
<b>Stock based compensation expense related to employee stock options</b>	—	—	5,183	—	—	5,183
<b>Comprehensive loss:</b>						
<b>Net loss</b>	—	—	—	\$ (88,424)	—	(88,424)
<b>Other comprehensive loss, net of deferred tax benefit of \$2,784</b>	—	—	—	—	\$ (5,404)	(5,404)
<b>Balance at March 31, 2008</b>	2,442,967	\$ 9,771,868	\$ 14,833,769	\$ (3,269,025)	\$ (99,930)	\$21,236,682

**For the three months ended March 31, 2007**

	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at December 31, 2006</b>	2,422,365	\$ 9,689,460	\$ 14,687,148	\$ (2,684,312)	\$ (200,436)	\$21,491,860
<b>Issuance of restricted stock grants</b>	2,850	\$ 11,400	\$ (11,400)	—	—	—
<b>Forfeiture of restricted stock grants</b>	(400)	(1,600)	1,600	—	—	—
<b>Vesting of restricted stock grants</b>	—	—	54,262	—	—	\$ 54,262
<b>Stock based compensation expense related to employee stock options</b>	—	—	8,295	—	—	8,295
<b>Comprehensive income (loss):</b>						
<b>Net loss</b>	—	—	—	\$ (133,239)	—	(133,239)
<b>Other comprehensive gain, net of deferred tax expense of \$20,439</b>	—	—	—	—	\$ 39,676	39,676
<b>Balance at March 31, 2007</b>	2,424,815	\$ 9,699,260	\$ 14,739,905	\$ (2,817,551)	\$ (160,760)	\$21,460,854

*The accompanying notes are an integral part of these financial statements.*

**MainStreet Bank**  
**Statements of Cash Flows**  
*(Unaudited)*

**For the three months ended**  
**March 31,**

**2008**                      **2007**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss	\$ (88,424)	\$ (133,239)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization, and accretion	86,238	80,035
Provision for loan losses	74,000	90,000
Stock based compensation expense	5,183	8,295
Changes in assets and liabilities:		
Decrease in accrued interest receivable	12,539	16,993
Decrease in other assets	39,651	60,638
(Decrease) increase in other liabilities	(135,865)	22,166
<b>Net cash (used in) provided by operating activities</b>	<b>(6,678)</b>	<b>144,888</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Maturity of investment securities available for sale	16,000,000	4,000,000
Purchase of investment securities available for sale	(22,899,465)	(8,495,231)
Payments on investment securities available for sale	632,132	765,337
Net increase in loan portfolio	(8,938,578)	(8,541,544)
Purchase of restricted stock	(742,600)	(24,300)
Purchase of premises and equipment	(34,835)	(235,875)
<b>Net cash used in investing activities</b>	<b>(15,983,346)</b>	<b>(12,531,613)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Net change in cash realized from:		
Net increase in non-interest bearing deposits	1,065,511	1,305,551
Net (decrease) increase in interest bearing savings and time deposits	(1,685,939)	9,193,369
Net increase in federal funds purchased	728,000	1,105,000
Net (decrease) increase in securities sold under agreements to repurchase	(735,302)	1,668,719
Net increase (decrease) in Federal Home Loan Bank advances	14,987,500	(12,500)
Vesting of restricted stock grants	59,687	54,262
<b>Net cash provided by financing activities</b>	<b>14,419,457</b>	<b>13,314,401</b>

**NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS**

(1,570,567)                      927,676

**CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD**

4,584,708                      4,104,416

**CASH AND CASH EQUIVALENTS, END OF PERIOD**

\$ 3,014,141                      \$ 5,032,092

**Supplemental Disclosure of Cash Flow Information**

Income taxes paid	—	—
Interest paid	\$ 1,274,490	\$ 830,602

*The accompanying notes are an integral part of these financial statements.*

**Notes to Financial Statements**  
**March 31, 2008 (Unaudited)**

**(1) General**

The accompanying unaudited financial statements of MainStreet Bank (the “Bank”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission (as adopted by the Board of Governors of the Federal Reserve System (the “Federal Reserve”)) and general banking industry practices. They do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto for the period ended December 31, 2007 which were included in the Bank’s annual report on Form 10-KSB filed with the Federal Reserve on March 31, 2008.

In the opinion of the Bank’s management, the accompanying unaudited financial statements contain all adjustments of a normal recurring nature, necessary to present fairly the Bank’s financial position as of March 31, 2008 and the results of its operations for the three-month periods and cash flows for the three-month periods ended March 31, 2008 and 2007.

The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

**(2) Earnings Per Share**

Earnings per share have been determined under the provisions of the Statement of Financial Accounting Standards (“SFAS”) No. 128, *Earnings Per Share*. For the three months ended March 31, 2008 and 2007, basic earnings per share have been computed on the weighted average common shares outstanding of 2,442,012 and 2,424,377, respectively.

The only potential dilutive stock of the Bank as defined in the SFAS No. 128 is stock options granted to various directors, officers, and employees of the Bank. The stock options and restricted shares granted during 2008 and 2007 were not considered in the calculation of loss per share in that their effect was anti-dilutive.

**(3) Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

**(4) Investment Securities**

The amortized cost, unrealized holding gains and losses, and the fair value of investment securities at March 31, 2008 and December 31, 2007 are summarized as follows:

<u>Classified as Available for Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
<i>March 31, 2008</i>				
Collateralized Mortgage Obligations	\$ 25,177,293	\$ 24,446	\$ (191,158)	\$ 25,010,581
U.S. Government Agencies	7,743,879	15,302	—	7,759,181
Total	<u>\$ 32,921,172</u>	<u>\$ 39,748</u>	<u>\$ (191,158)</u>	<u>\$ 32,769,762</u>
<i>December 31, 2007</i>				
Collateralized Mortgage Obligations	\$ 10,662,039	\$ 1,133	\$ (138,372)	\$ 10,524,800
U.S. Government Agencies	15,996,812	—	(5,982)	15,990,830
Total	<u>\$ 26,658,851</u>	<u>\$ 1,133</u>	<u>\$ (144,354)</u>	<u>\$ 26,515,630</u>

## (5) Loans

Loans are summarized as follows:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Real Estate:		
Residential real estate	\$ 23,181,129	\$ 21,682,993
Commercial real estate	66,238,051	58,785,452
Construction	18,268,569	18,220,743
Total real estate	<u>107,687,749</u>	<u>98,689,188</u>
Commercial	13,069,216	12,431,364
Consumer	<u>1,109,366</u>	<u>1,901,068</u>
Gross Loans	121,866,331	113,021,620
Less: unearned discounts and fees	(37,565)	(131,432)
Less: allowance for loan losses	<u>(1,359,337)</u>	<u>(1,285,337)</u>
Net Loans	<u>\$ 120,469,429</u>	<u>\$ 111,604,851</u>

## (6) Allowance for Loan Losses

Changes in the allowance for loan losses for the three months ended March 31, 2008 are summarized as follows:

	<u>2008</u>
Balance, as of January 1, 2008	\$ 1,285,337
Provision for loan losses	74,000
Charge-offs	—
Recoveries of loans charged off	—
Net charge-offs	<u>—</u>
Balance, as of March 31, 2008	<u>\$ 1,359,337</u>

## (7) Stock-based Compensation

Effective January 1, 2006, the Bank adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, which requires the Bank to recognize expense related to the fair value of share-based compensation awards in net income. Compensation expense of \$5,183 was recorded for the quarter ended March 31, 2008.

On May 17, 2006, the Bank's shareholders approved the MainStreet Bank 2006 Incentive Stock Plan (the "2006 Plan"), which authorizes the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, and stock awards to employees and non-employee directors. Under the 2006 Plan, subject to capital adjustments, the maximum number of shares of the Bank's common stock that may be issued is 186,638 plus the number of shares of common stock represented by awards previously made under the MainStreet Bank 2004 Stock Option and Incentive Plan (the "2004 Plan") that were outstanding on, and that expire or are otherwise terminated or forfeited after, May 17, 2006. As a result of the shareholders' approval of the new 2006 Plan, no additional awards have been or will be made under the Bank's 2004 Plan on or after May 17, 2006, although all awards that were outstanding under the 2004 Plan as of May 17, 2006 remained outstanding in accordance with their terms.

There have been 19,459 restricted shares awarded under the 2004 Plan.

There have been 26,199 restricted shares awarded under the 2006 Plan. No stock options were awarded during the quarter ended March 31, 2008.

Restricted shares have been issued under the 2004 Plan and 2006 Plan and vest as shown in the table below:

<b>Issue Date</b>	<b>Number of Restricted Shares Issued</b>	<b>Vest Date (except as noted, shares vest in three or five equal installments)</b>
<b><u>2004 Plan:</u></b>		
March 16, 2005	11,300	March 16, 2006, 2007, and 2008
May 4, 2005	1,500	May 4, 2006, 2007, and 2008
September 21, 2005	200	June 29, 2006
September 21, 2005	1,500	July 18, 2006, 2007, and 2008
October 18, 2005	1,500	October 18, 2006, 2007, and 2008
November 14, 2005	300	November 14, 2006, 2007, and 2008
January 12, 2006	2,659	January 12, 2007, 2008, and 2009
March 14, 2006	500	March 14, 2007, 2008, and 2009

**2006 Plan:**

May 22, 2006	150	May 22, 2007, 2008, and 2009
June 5, 2006	834	June 5, 2007, 2008, and 2009
August 28, 2006	150	August 28, 2007, 2008, and 2009
November 6, 2006	300	November 6, 2007, 2008, and 2009
December 11, 2006	300	December 11, 2007, 2008, and 2009
January 24, 2007	2,400	January 24, 2008, 2009, and 2010
February 7, 2007	450	February 7, 2008, 2009, and 2010
August 6, 2007	300	August 6, 2008, 2009, and 2010
September 10, 2007	5,000	September 10, 2008, 2009, 2010, 2011, and 2012
September 17, 2007	1,250	September 17, 2008, 2009, 2010, 2011, and 2012
October 9, 2007	1,500	October 9, 2008, 2009, 2010, 2011, and 2012
November 21, 2007	4,790	November 21, 2007 (75%), December 31, 2007 (25%)
January 16, 2008	8,775	January 16, 2009, 2010, and 2011

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\*1,800 restricted shares granted on January 3, 2006 were forfeited during the quarter ended September 30, 2006.

\*400 restricted shares granted on September 21, 2005 were forfeited during the quarter ended March 31, 2007.

\*816 restricted shares granted on January 12, 2006 were forfeited during the quarter ended September 30, 2007.

\*1,666 restricted shares granted on June 5, 2006 were forfeited during the quarter ended September 30, 2007.

\*450 restricted shares granted on October 23, 2006 were forfeited during the quarter ended September 30, 2007.

\*50 restricted shares granted on March 16, 2005 were forfeited during the quarter ended December 31, 2007.

\*50 restricted shares granted on March 16, 2005 were forfeited during the quarter ended March 31, 2008.

\*100 restricted shares granted on March 16, 2005 were forfeited during the quarter ended March 31, 2008.

\*81 restricted shares granted on January 12, 2006 were forfeited during the quarter ended March 31, 2008.

\*400 restricted shares granted on January 16, 2008 were forfeited during the quarter ended March 31, 2008.

\*250 restricted shares granted on March 14, 2006 were forfeited during the quarter ended March 31, 2008.

During the three months ended March 31, 2008, 5,610 of the restricted shares vested. During the years ended December 31, 2007 and 2006, 12,794 and 5,634 of the restricted shares vested, respectively.

On November 20, 2007 the Bank granted 62,500 shares of restricted stock to President and Chief Executive Officer, Jeff W. Dick, and 50,000 shares of restricted stock to Chief Financial Officer, Thomas J. Chmelik in connection with employment agreements entered into with these executives

during December 2008. The restricted stock awards were made outside of the Bank's 2006 Incentive Stock Plan and is governed by restricted stock agreements entered into by the Bank and each of Mr. Dick and Mr. Chmelik, dated November 20, 2007. The restricted stock vests in 5%, 10% or 15% increments over a period of 10 years if certain annual budget or earnings per share performance criteria are satisfied, subject to earlier vesting in the event of certain termination events or a change of control of the Bank. The first tranche of 3,500 and 2,500 for Mr. Dick and Mr. Chmelik vested during the first quarter of 2008.

## **(8) Borrowed Funds**

On April 7, 2005, the Bank entered into a five-year fixed rate credit agreement with the Federal Home Loan Bank of Atlanta ("FHLB") in the amount of \$5.0 million. Interest accrues at the rate of 4.70% and the principal is due April 7, 2010.

On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit agreement ("PRC") with the FHLB in the amount of \$750,000. Interest accrues at the rate of 5.24% and the principal is due October 26, 2020. Principal reductions in the amount of \$4,167 occur monthly and commenced on November 25, 2005. The balance on the PRC as of March 31, 2008 was \$629,167.

On March 12, 2008, the Bank entered into a 2-year adjustable rate credit ("ARC") agreement in the amount of \$5.0 million. Interest accrues at the rate of 2.70% and is paid quarterly, with the principal due March 12, 2010.

On March 12, 2008, the Bank entered into a 3-year adjustable rate credit agreement in the amount of \$5.0 million. Interest accrues at the rate of 3.01% and is paid quarterly, with the principal due March 14, 2011.

On March 12, 2008, the Bank entered into a 4-year adjustable rate credit agreement in the amount of \$5.0 million. Interest accrues at the rate of 3.31% and is paid quarterly, with the principal due March 12, 2012.

## **(9) Fair Value Measurements**

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

#### Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

#### Loans held for sale

The value of loans held for sale is required to be measured in a lower of cost or fair value. Under SFAS No. 157, market value is to represent fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value. At March 31, 2008, the Bank did not have any loans held for sale.

#### Impaired loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

#### Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157.

### **(10) New Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141(R), *Business Combinations*. The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS No. 141(R) establishes the criteria for how an acquiring entity in a business combination recognizes the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to

investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. The Bank does not expect the implementation to have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No.160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 requires the Bank to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Bank does not expect the implementation of SFAS 160 to have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Bank does not expect the implementation of SFAS No. 161 to have a material impact on its financial statements.

## **Item 2. Management's Discussion and Analysis or Plan of Operation.**

The following discussion is intended to assist readers in understanding and evaluating the Bank's financial condition and results of operations. This review should be read in conjunction with the Bank's unaudited financial statements and accompanying notes included in "Part I, Item 1. Financial Statements" of this report.

### **Caution Regarding Forward-Looking Statements**

Some of the matters discussed below include forward-looking statements. Forward-looking statements include statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk and financial and other goals. Forward-looking statements often contain words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends," or other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. The forward-looking statements used in this report are subject to significant risks, assumptions and uncertainties, including among other things, the following important factors that could affect the actual outcome of future events:

- fluctuation in market rates of interest and loan and deposit pricing, which could negatively affect our net interest margin, asset valuation and income and expense projections;
- adverse changes in the overall national economy as well as adverse economic conditions in our specific market areas within Northern Virginia and the greater Washington, D.C. metropolitan region;

- maintenance and development of well-established and valued client relationships and referral source relationships;
- acquisition or loss of key production personnel;
- competitive factors within the financial services industry;
- changes in regulatory requirements and restrictive banking legislation; and
- material changes in the real estate market in the greater Washington, D.C. metropolitan region or the Northern Virginia submarket, which could have an adverse impact on the Bank.

Because of these and other uncertainties, our actual results and performance may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations are not necessarily indicative of future performance.

We caution readers that the list of factors above is not exclusive. These forward-looking statements are made as of the date of this report, and we may not undertake steps to update these forward-looking statements to reflect the impact of any circumstances or events that arise after the date the forward-looking statements are made.

## Overview

MainStreet Bank (the “Bank”) is a state chartered commercial bank headquartered in Herndon, Virginia. The Bank was incorporated in the Commonwealth of Virginia on March 28, 2003, and opened for business on May 26, 2004. The Bank’s main office is located at 727 Elden Street in Herndon, and our newest banking office is located at 4029 Chain Bridge Road in Fairfax, Virginia. The Fairfax banking office opened on April 2, 2007.

We offer a full range of commercial and consumer banking services from our banking offices and from our comprehensive online banking, ACH, and remote deposit solutions. We target individuals, professionals and small businesses in the Washington, D.C. metropolitan area. The retail and commercial nature of the Bank’s operations allows for diversification of depositors and borrowers, and we believe that the Bank is not dependent upon a single or a few customers. A significant portion of the Bank’s commercial loan portfolio is concentrated in commercial real estate loans to services-oriented businesses. The predominance of government contracting within the metropolitan area has a stabilizing effect on the local economy, especially with regard to the services industry. Growth of the services industry has remained strong during recent years and we anticipate that this trend will continue.

In addition to our existing two banking offices, we have technology which enables us to *Put our Bank in Your Office*<sup>®</sup>. This technology includes the ability for our business customers to transact all business banking activity from their offices, including the ability to manage funds, pay bills, initiate wire transfers, administer ACH automatic payment and debit plans, and deposit cash and checks. This complete banking solution allows us to compete well beyond the confines of a typical branch footprint.

The Bank’s primary source of revenue is interest income and fees generated by lending and investing. The Bank has typically balanced the loan and investment portfolio towards loans. The Bank’s results indicate consistent balance sheet growth since inception. The Bank’s focus has been to develop banking relationships with customers in the community that can create business opportunities for the Bank.

For the three months ended March 31, 2008, the Bank had a net loss of \$88 thousand, or (\$0.04) per common share (basic and diluted), compared to a net loss of \$133 thousand, or (\$0.05) per common share (basic and diluted) for the three months ended March 31, 2007. The Board's objective in 2007 focused on growth, which impacted profitability in the short-term. The Board's objective in 2008 is to achieve

sustainable profitability. The economy is providing challenges, but barring any unknown obstacles, we expect to achieve our 2008 objective.

Return on average equity during the three months ended March 31, 2008 was (0.42%) compared to (0.62%) during the three months ended March 31, 2007. Return on average assets for the three months ended March 31, 2008 was (0.06%) compared to (0.12%) during the three months ended March 31, 2007. The increase in return on average equity and return on average assets is primarily attributed to a net loss of \$88 thousand for the three months ended March 31, 2008 compared to a net loss of \$133 thousand for the three months ended March 31, 2007. The increase in return on average assets is also attributed to the increase in average assets of \$44.9 million from March 31, 2007 to March 31, 2008.

As of March 31, 2008, the Bank had total assets of \$160.3 million, an increase of \$14.2 million, or 9.7%, from \$146.1 million at December 31, 2007. The growth in assets from December 31, 2007 was primarily due to an increase in investment securities available for sale of \$6.3 million or 23.6% and an increase in net loans of \$8.9 million or 7.9%. As of March 31, 2008, gross loans were \$121.9 million, an increase of 7.9% over \$113.0 million as of December 31, 2007. The increase was primarily due to an increase in commercial real estate loans of approximately \$7.5 million.

The allowance for loan losses was \$1.4 million as of March 31, 2008, or 1.12% of outstanding loans, compared to \$1.3 million as of December 31, 2007, or 1.14% of outstanding loans. As noted under "Critical Accounting Estimates" below, we use peer analysis and industry trends as additional tools to evaluate the adequacy of the allowance for loan losses given the lack of historical loss experience.

Total deposits were \$114.8 million as of March 31, 2008, which represents a 0.5% decrease from \$115.5 million in total deposits as of December 31, 2007. At March 31, 2008, non-interest bearing deposits totaled \$17.2 million or 15.0% of total deposits.

Total stockholders' equity was \$21.2 million and \$21.3 million as of March 31, 2008 and December 31, 2007, respectively. The accumulated other comprehensive loss was \$100 thousand, net of tax, as of March 31, 2008, and \$95 thousand, net of tax, as of December 31, 2007. Securities available for sale are reported at market value or fair value. Any unrealized gain or loss, net of applicable income taxes, is reported as a separate addition to or reduction from stockholders' equity. Gains and losses arising from the sale of securities available for sale are recognized based on the specific identification method and included in results of operations. As of March 31, 2008, there were no gains or losses recorded.

Net interest margin was 3.44% and 4.52% for the three months ended March 31, 2008 and March 31, 2007, respectively. Net interest margin for the year ended December 31, 2007 was 4.17%. The decrease in the net interest margin is primarily attributable to rate cuts implemented by the Federal Reserve during the first quarter 2008. In addition, average earning assets at March 31, 2008 increased \$44.1 million from March 31, 2007.

## **Results of Operations**

*Net Interest Income.* Net interest income represents the principal source of revenue for the Bank. Net interest income was \$1.3 million and \$1.2 million for the three months ended March 31, 2008 and 2007, respectively. Net interest income increased approximately \$102 thousand due primarily to an increase in interest income and fees on loans in the amount of approximately \$353 thousand and an increase in interest income on investment securities of \$63 thousand, partially offset by an increase in total interest expense on deposit accounts of approximately \$316 thousand. The Bank's continued growth in net interest income is directly attributable to significant asset growth, especially loan growth. Net interest margin for the three months ended March 31, 2008 was 3.44%.

The average balance of the gross loan portfolio was \$116.5 million and \$84.7 million for the three months ended March 31, 2008 and March 31, 2007, respectively. The related interest income from loans was \$2.1 million and \$1.8 million for the three months ended March 31, 2008 and March 31, 2007, respectively. The average yield on loans was 7.39% and 8.56% for the three months ended March 31, 2008 and March 31, 2007, respectively. The related decrease in the yield is primarily attributable to the decrease in the prime rate during the first quarter 2008.

Investment securities income was \$235 thousand and \$172 thousand for the three months ended March 31, 2008 and March 31, 2007, respectively, and the yield on investment securities was 5.13% and 4.82% for the same periods.

Excess liquidity results in federal funds sold for the Bank. The short term investments in federal funds sold contributed \$118 thousand and \$88 thousand to interest income during the three months ended March 31, 2008 and March 31, 2007, respectively.

Consistent with the Bank's asset growth, average interest bearing funding sources (deposits and purchased funds) were \$114.9 million and \$75.5 million for the three months ended March 31, 2008 and March 31, 2007, respectively. Interest expense for all interest bearing liabilities was \$1.2 million and \$865 thousand for the first quarter of 2008 and 2007, respectively. The average cost of interest bearing liabilities for the three months ended March 31, 2008 and March 31, 2007 was 4.23% and 4.65%, respectively.

*Provision for Loan Losses.* The provision for loan losses was \$74 thousand during the three months ended March 31, 2008, compared to a provision for loan losses of \$90 thousand for the three months ended March 31, 2007. The ratio of the allowance for loan losses to total gross loans was 1.12% at March 31, 2008 and 1.14% at December 31, 2007. Management considers the current allowance for loan losses appropriate based upon its analysis of the potential risk in the portfolio; however, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional provisions will not be required.

*Non-interest Income.* The Bank's primary source of non-interest income is from service charges on deposit accounts and loan processing fees. Non-interest income was \$70 thousand for the three months ended March 31, 2008, compared to \$34 thousand during the three months ended March 31, 2007. The increase in non-interest income from March 31, 2007 to March 31, 2008 is due in large part to an increase in deposit service charges of \$27 thousand.

*Non-interest Expense.* Non-interest expense for the three months ended March 31, 2008 was \$1.4 million compared to \$1.3 million during the same period in 2007. Non-interest expense for the three months ended March 31, 2008 consisted primarily of salary and benefits expenses of \$796 thousand; occupancy and furniture and equipment costs of \$213 thousand; outside services expenses, which consist primarily of legal and accounting fees and human resources payroll, of \$68 thousand; data processing expenses of \$100 thousand; franchise tax of \$52 thousand; and advertising and marketing expenses of \$17 thousand.

Non-interest expense increased approximately \$110 thousand from the three months ended March 31, 2007 to the three months ended March 31, 2008, due primarily to an increase in salary and benefits expenses of \$65 thousand and an increase in occupancy and furniture and equipment costs of \$47 thousand.

*Income Taxes.* The Bank did not record any income tax expense or benefit for the three months ended March 31, 2008 and 2007.

## Analysis of Financial Condition

*Investment Securities.* Investment securities available for sale were \$32.8 million as of March 31, 2008 compared to \$26.5 million at December 31, 2007. No securities were sold during the quarter. There were no investments classified as held to maturity for any periods reported.

The Bank generally classifies investment securities as available for sale under the classifications required under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The investment portfolio is used to manage excess liquidity and general liquidity needs as well as other rebalancing needs as required by the overall asset/liability position.

The effects of accumulated other comprehensive losses were \$100 thousand as of March 31, 2008 and \$95 thousand as of December 31, 2007. Consistent with our investment and asset/liability strategies, we believe the investment portfolio is properly positioned for the current and projected near-term interest rate environment.

The investment portfolio as of March 31, 2008 contained U.S. government agency securities, collateralized mortgage obligations (“CMOs”), and U.S. government agency mortgage backed securities (“MBSs”). The Bank’s current investment strategy includes investments that provide stable cash flows. As part of the overall asset/liability strategy, the Bank tries to maintain a portfolio duration in the 3 to 5 year range. Contractual maturities of CMOs and MBSs are not reliable indicators of their expected lives because mortgage borrowers have the right to prepay mortgages at any time. The Bank actively manages its portfolio duration and composition with the changing market conditions and changes in balance sheet and risk management needs. In addition, the securities are used to pledge for certain borrowing transactions.

The investment portfolio did not contain any corporate debt securities for any periods presented.

*Loan Portfolio.* Gross loans were \$121.9 million as of March 31, 2008, compared to \$113.0 million as of December 31, 2007. As of March 31, 2008, the loan portfolio consists of commercial loans of \$13.1 million or 10.8%; commercial real estate loans (generally owner-occupied) of \$66.2 million or 54.3%; residential real estate loans (home equity and fixed rate trusts) of \$23.2 million or 19.0%; real estate construction loans of \$18.3 million or 15.0%; and consumer loans which make up the remaining \$1.1 million or 0.9% balance of the loan portfolio.

*Asset Quality.* As of March 31, 2008 and December 31, 2007, the Bank had one non-accrual loan in the amount of \$230,011 and \$243,648, respectively. There were no loans past due in excess of 90 days. The allowance for loan losses was \$1.4 million as of March 31, 2008, or 1.12% of loans outstanding compared to \$1.3 million as of December 31, 2007, or 1.14% of loans outstanding. The Bank did not have any loans held for sale. The Bank is not exposed to the subprime mortgage market.

*Non-performing Assets.* A loan is placed on non-accrual status when it is specifically determined to be impaired or when principal or interest is delinquent by 90 days or more. The Bank had one non-performing asset as of March 31, 2008 and December 31, 2007, which is also classified as non-accrual.

As part of our routine credit administration process, we have engaged an outside consultant to review our loan portfolio at least annually. We use the information from these reviews to monitor individual loans as well as to evaluate the overall adequacy of the allowance for loan losses.

The Bank closely monitors individual loans, and the loan officers are responsible for working with customers to resolve potential credit issues in a timely manner to minimize the loss exposure. The Bank maintains a policy of adding an appropriate amount to the allowance for loan losses to ensure an adequate

reserve based on the portfolio composition, specific credit extended by the Bank and general economic conditions.

*Deposits.* The Bank seeks deposits within its market area by paying competitive interest rates, offering high quality customer service and using technology to deliver deposit services effectively. As of March 31, 2008, the deposit portfolio decreased to \$114.8 million, a \$620 thousand decrease from the December 31, 2007 level of \$115.5 million. The decrease in deposits is primarily a result of a decrease in wholesale certificates of deposit of \$5.7 million, coupled with an increase in money market accounts of approximately \$4.0 million, an increase in interest bearing demand deposits of \$1.4 million, and an increase in non-interest bearing deposits of approximately \$1.1 million.

The Bank may gather time deposits from the wholesale marketplace. Wholesale certificates of deposit allow the Bank to fund loan and investment growth with a minimal impact on overall sales efforts. As of March 31, 2008 and December 31, 2007, we had \$16.9 million and \$22.6 million, respectively, in such deposits. The certificates issued as part of the wholesale deposit program have maturities ranging from four weeks to three years from issuance. As market conditions warrant and balance sheet needs dictate, we may continue to participate in the wholesale certificates of deposit market. As with any deposit product, we have potential risk for non-renewal by the customer and/or broker.

*Purchased Funds.* The Bank offers repurchase agreements (“repos”) to commercial customers and affluent individuals. The repos are offered for convenience and security to these larger clients. As of March 31, 2008 and December 31, 2007, customer repo accounts totaled \$2.3 million and \$3.0 million, respectively. The Bank does not have any open repos with broker dealers.

As of March 31, 2008 and December 31, 2007 we had five advances outstanding with the FHLB that totaled \$20.6 million. On April 7, 2005, the Bank entered into a five-year fixed rate credit agreement with the FHLB in the amount of \$5.0 million. Interest accrues at the rate of 4.70% and is paid monthly, with the principal due April 7, 2010. On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit (“PRC”) agreement with the FHLB in the amount of \$750,000. Interest accrues at the rate of 5.24% and the principal is due October 26, 2020. Monthly principal reductions of \$4,167 commenced in November 2005. The balance on the PRC as of March 31, 2008 is \$629,167. On March 12, 2008, the Bank entered into a 2-year adjustable rate credit (“ARC”) agreement in the amount of \$5.0 million. Interest accrues at the rate of 2.70% and is paid quarterly, with the principal due March 12, 2010. On March 12, 2008, the Bank entered into a 3-year ARC agreement in the amount of \$5.0 million. Interest accrues at the rate of 3.01% and is paid quarterly, with the principal due March 14, 2011. On March 12, 2008, the Bank entered into a 4-year ARC agreement in the amount of \$5.0 million. Interest accrues at the rate of 3.31% and is paid quarterly, with the principal due March 12, 2012.

*Liquidity.* Liquidity represents an institution’s ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds from alternative funding sources. The Bank’s liquidity is provided by cash and due from banks, federal funds sold, investments available for sale, managing investment maturities, interest-earning deposits in other financial institutions and loan repayments. The overall asset/liability strategy of the Bank takes into account the need to maintain adequate liquidity to fund asset growth and deposit runoff. The Bank’s management monitors the liquidity position daily in conjunction with the Federal Reserve position monitoring. We have unsecured and secured credit lines available from our correspondent bank. Additionally, the Bank may borrow funds from the FHLB. The credit facilities are used in conjunction with the normal deposit strategies, which include pricing changes to increase deposits as necessary. The Bank can sell or pledge investment securities to create additional liquidity. From time to time, the Bank may sell or participate out loans to create additional liquidity as required. We are not aware of any current legislative recommendations, which, if implemented, would have a material effect on the Bank’s liquidity, capital resources or results of operations.

*Interest Sensitivity.* The cumulative positive gap position within one year was \$20.2 million or 12.89% of assets as of March 31, 2008 compared to a positive gap of \$23.7 million, or 16.55% of total assets, at December 31, 2007. The positive gap suggests that the net interest margin will increase in a market of rising interest rates as assets will reprice faster than liabilities. This measurement technique is common in the financial services industry; however, it has limitations and is not our sole tool for measuring interest rate sensitivity. A significant limitation is the use of contractual maturities for investment securities. Many investment securities in our portfolio are expected to prepay or be called prior to contractual maturity.

The interest sensitivity position does not measure the impact of interest rate changes on the market value of our investment securities portfolio. Rising interest rates will cause a decline in the market value of our investment securities. A decline in the market value of the investment portfolio could make managing the net interest income exposure more difficult.

As part of our interest rate risk management, we typically use the investment portfolio to balance our interest rate exposure. We purchase or sell fixed or floating rate investment products with longer or shorter durations, as necessary. Additionally, the pricing of deposits is adjusted within the market area to favor money market or certificates of deposit depending on the need for floating or fixed rate liabilities. The pricing of loan products is a function of interest rate risk management strategies and the market conditions in the area. In many cases, interest rate risk pricing desires are not consistent with the general market, which requires us to balance our interest rate risk through other products. An example of this is that in a declining rate environment, the loan customer typically prefers floating rate loans and banks typically desire fixed rate loans. In this situation, we would add fixed rate securities or price money market deposits aggressively to balance the interest rate risk.

There is no guarantee that the risk management and balance sheet management strategies we employ will be effective in periods of rapid rate movements. We believe our strategies are reasonable in the base case of our modeling efforts.

*Capital.* The Bank is considered "well capitalized" under the risk-based capital guidelines adopted by the various regulatory agencies. Stockholders' equity was \$21.2 million and \$21.3 million at March 31, 2008 and December 31, 2007, respectively. Book value per common share was \$8.69 as of March 31, 2008, compared to \$8.73 as of December 31, 2007.

The Bank's ability to pay cash dividends is restricted by state law and banking regulations. The Bank has not declared or paid cash dividends since inception. It is our general policy to retain earnings to support future organizational growth.

*Concentrations.* The Bank operates in the greater Washington, D.C. metropolitan region, primarily in the Northern Virginia submarket. The Bank's overall business includes a significant focus on real estate activities. At March 31, 2008 and December 31, 2007, residential real estate, commercial real estate and construction loans accounted for 88.4% and 87.3%, respectively, of the Bank's gross loans, with approximately 60% of these loans in commercial real estate. Given the concentration of the Bank's loan portfolio in real estate related loans, an adverse change in the economy affecting values of real estate in the greater Washington, D.C. metropolitan region or Northern Virginia submarket could impair the value of the Bank's collateral and its ability to sell the collateral upon foreclosure, which could have an adverse impact on the Bank. During 2007 and the first quarter of 2008, there has been a significant increase in mortgage loan foreclosures throughout the United States, due primarily to increasing market rates of interest and declining property values. The vast majority of these foreclosures appear to involve "exotic" or adjustable rate mortgage products associated with subprime borrowers. The Bank currently has no exposure to subprime of loans. However, there is no assurance that these market conditions will not have a broader impact on prevailing

market rates of interest or economic conditions that could adversely affect the Bank's operating results in the future.

### **Off-Balance Sheet Activities**

As of March 31, 2008, there have been no material changes to the off-balance sheet arrangements disclosed in "Management's Discussion and Analysis or Plan of Operation" for the period ended December 31, 2007 in the Bank's annual report on Form 10-KSB filed with the Federal Reserve on March 31, 2008.

### **Critical Accounting Estimates**

The Bank's accounting and reporting policies are in accordance with U.S. generally accepted accounting principles ("GAAP") and conform to general practices within the banking industry. The Bank's financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Bank's financial position and/or results of operations. The accounting policy that requires management's most difficult, subjective or complex judgments is the Bank's allowance for loan losses, which is described below.

*Allowance for Loan Losses.* The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (1) SFAS No. 5, *Accounting for Contingencies*, which requires that losses be accrued when occurrence is probable and estimable, and (2) SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Bank's allowance for loan losses is the accumulation of various components that are calculated based on independent methodologies. All components of the allowance represent an estimation performed pursuant to either SFAS No. 5 or SFAS No. 114. Management's estimate of each SFAS No. 5 component is based on certain observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends; collateral values; loan volumes; borrower and industry concentrations; seasoning of the loan portfolio; the findings of internal credit quality assessments and results from external bank regulatory examinations. These factors, as well as historical losses and current economic and business conditions, are used in developing estimated loss factors used in the calculations.

The Bank has adopted SFAS No. 114, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures*. SFAS No. 114, as amended, requires that the impairment of loans that have been separately identified for evaluation be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral-dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment is to be based on the net realizable value of the collateral. SFAS No. 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on loans.

The allowance for loan losses is composed of specific reserves and general reserves. Specific reserves are determined monthly for each loan based upon the loan risk rating, average advance rate, collateral type, and in the case of installment loans, past due and other performance measures.

Reserves for commercial loans are determined by applying estimated loss factors to the portfolio based on management's evaluation and "risk grading" of the commercial loan portfolio. Reserves are provided for noncommercial loan categories using estimated loss factors applied to the total outstanding loan balance of each loan category. Specific reserves are determined on a loan-by-loan basis based on management's evaluation of the Bank's exposure for each credit, given the current payment status of the loan and the net market value of any underlying collateral.

There are two primary components considered in determining an appropriate level for the general reserve. A portion of the general reserve is established to cover the elements of imprecision and estimation risk inherent in the calculations of the specific reserves described above. The remaining portion of the general reserve (inherent risk) is determined based upon management's evaluation of various conditions that are not directly measured by any other component of the allowance for loan losses, including current general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, and results from credit reviews or external bank regulatory reviews.

While management uses the best information available to establish the allowance for loan losses, future adjustment to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the valuations or if required by regulators, based upon information available to them at the time of their examinations. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

### **Internet Access to Corporate Documents**

Information about the Bank can be found on the Bank's website at [www.mstreetbank.com](http://www.mstreetbank.com). Under "Documents/Fed Filings" in the Investor Relations section of the website, the Bank posts its annual reports on Form 10-KSB or 10-K, quarterly reports on Form 10-QSB or 10-Q, current reports on Form 8-K, definitive proxy materials and any amendments to those documents as soon as reasonably practicable after they are filed with or furnished to the Federal Reserve. All such filings are available free of charge. The information available on the Bank's website is not part of this Form 10-Q or any other report filed by the Bank with the Federal Reserve.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

### **Item 4T. Controls and Procedures.**

The Bank maintains a system of disclosure controls and procedures that is designed to ensure that material information is accumulated and communicated to management, including the Bank's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As required, management, with the participation of the Bank's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Bank's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures were operating effectively to ensure that information required to be disclosed by the Bank in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and the Federal Reserve.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Bank's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Bank to disclose material information otherwise required to be set forth in the Bank's periodic reports.

The Bank's management is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. There were no changes in the Bank's internal control over financial reporting during the quarter ended March 31, 2008 that materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

There are no material pending legal proceedings to which the Bank is a party or to which the Bank's property is subject.

### **Item 1A. Risk Factors.**

Not applicable.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders.**

None.

### **Item 5. Other Information.**

None.

### **Item 6. Exhibits.**

- 3.1 Amended and Restated Articles of Incorporation of MainStreet Bank (effective September 17, 2004) (incorporated by reference to Exhibit 2.1 to Form 10-SB filed with the Board of Governors of the Federal Reserve System on May 2, 2005)
- 3.2 Bylaws of MainStreet Bank (as amended and restated December 14, 2005) (incorporated by reference to Exhibit 2.2 to Form 8-K filed with the Board of Governors of the Federal Reserve System on December 15, 2005)
- 31.1 Certification by principal executive officer pursuant to Rule 13a-14(a)

- 31.2 Certification by principal financial officer pursuant to Rule 13a-14(a)
- 32 Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. § 1350

**SIGNATURES**

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

**MAINSTREET BANK**  
(Registrant)

Date: May 14, 2008

/S/ \_\_\_\_\_  
Jeff W. Dick  
Chief Executive Officer and President  
(Principal executive officer)

Date: May 14, 2008

/S/ \_\_\_\_\_  
Thomas J. Chmelik  
Chief Financial Officer  
(Principal financial and accounting officer)

**CERTIFICATIONS**

I, Jeff W. Dick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MainStreet Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2008

/s/ \_\_\_\_\_  
Jeff W. Dick  
Chief Executive Officer and President

**CERTIFICATIONS**

I, Thomas J. Chmelik, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MainStreet Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2008

/s/ \_\_\_\_\_  
Thomas J. Chmelik  
Chief Financial Officer

CERTIFICATION OF  
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER

Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)

The undersigned, as the Chief Executive Officer and Chief Financial Officer of MainStreet Bank, respectively, certify that, to the best of their knowledge and belief, the Quarterly Report on Form 10-Q for the period ended March 31, 2008, which accompanies this certification, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of MainStreet Bank at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaim any obligation to update the foregoing certification except as required by law.

Date: May 14, 2008

/S/ \_\_\_\_\_  
Jeff W. Dick  
Chief Executive Officer and President

Date: May 14, 2008

/S/ \_\_\_\_\_  
Thomas J. Chmelik  
Chief Financial Officer