

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: **n/a**

MAINSTREET BANK

(Exact name of small business issuer 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

(Address of principal executive offices)

20170

(Zip Code)

(703) 481-4567

(Issuer's telephone number)

n/a

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

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 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 17, 2006, there were issued and outstanding 2,419,565 shares of the issuer's common stock.

Transitional Small Business Disclosure Format: Yes No

MAINSTREET BANK
Quarterly Report on Form 10-QSB
March 31, 2006

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

MainStreet Bank Statements of Financial Condition

	March 31, 2006 <i>(Unaudited)</i>	December 31, 2005
ASSETS		
Assets:		
Cash and due from banks	\$ 873,616	\$ 427,635
Federal funds sold	5,217,339	4,101,059
Investment securities available for sale, at fair value	21,936,910	21,938,004
Loans, net	63,745,221	53,841,337
Premises and equipment, net	788,544	802,820
Accrued interest	445,823	392,983
Restricted stock	1,097,000	1,023,100
Other assets	322,999	377,094
Total Assets	\$ 94,427,452	\$ 82,904,032
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-interest bearing deposits	\$ 13,464,729	\$ 8,964,571
Savings and NOW deposits	9,527,192	6,849,161
Money market deposits	7,209,662	9,443,655
Other time deposits	36,888,200	30,301,031
Total Deposits	67,089,783	55,558,418
Federal home loan bank advances	5,729,167	5,741,667
Other liabilities	353,443	317,523
Total Liabilities	73,172,393	61,617,608
Stockholders' Equity:		
Common stock, \$4 par value. (Authorized 5,000,000 shares; issued and outstanding 2,419,565 shares for March 31, 2006 and 2,414,209 shares for December 31, 2005)	9,678,260	9,656,836
Capital surplus	14,815,740	14,778,248
Accumulated deficit	(2,793,788)	(2,731,162)
Unearned restricted stock grants	(189,576)	(169,000)
Accumulated other comprehensive income: Net unrealized loss on available for sale securities	(255,577)	(248,498)
Total Stockholders' Equity	21,255,059	21,286,424
Total Liabilities and Stockholders' Equity	\$ 94,427,452	\$ 82,904,032

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

MainStreet Bank

Statements of Operations
(Unaudited)

For the three months ended
March 31,

	2006	2005
INTEREST INCOME:		
Interest and fees on loans	\$ 1,200,460	\$ 369,388
Interest on investment securities	206,316	199,389
Interest on federal funds sold	85,388	30,744
Total Interest Income	1,492,164	599,521
INTEREST EXPENSE:		
Interest on savings and NOW deposits	71,705	27,834
Interest on money market deposits	69,126	82,478
Interest on other time deposits	375,920	99,272
Interest on federal funds purchased and other borrowings	67,466	21,571
Total Interest Expense	584,217	231,155
Net interest income	907,947	368,366
Provision for loan losses	80,000	45,000
Net interest income after provision for loan losses	827,947	323,366
OTHER INCOME:		
Gain on sale of securities	—	190
Deposit account service charges	7,615	4,093
Other operating income	14,017	2,724
Total other income	21,632	7,007
OTHER EXPENSES:		
Salaries and employee benefits	513,610	357,553
Occupancy expenses	68,647	58,753
Equipment expenses	70,993	50,431
Advertising and marketing	51,974	9,518
Outside services	63,759	23,515
Insurance expenses	8,499	10,004
Stationery, printing and supplies	10,426	12,413
Data processing	51,943	38,944
Other operating expenses	72,354	43,765
Total other expenses	912,205	604,896
INCOME (LOSS) BEFORE INCOME TAXES	(62,626)	(274,523)
Benefit from income taxes	—	—
NET INCOME (LOSS)	\$ (62,626)	\$ (274,523)
Net Income (loss) per common share	\$ (0.03)	\$ (0.22)
Weighted average number of shares	2,397,991	1,247,309

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

MainStreet Bank
Statements of Changes in Stockholders' Equity

Three Months Ended March 31, 2006

	Common Stock			Unearned Restricted Stock Grants	Accumulated Deficit	Unrealized Holding Loss on Securities Available for Sale	Total Stockholders' Equity
	Shares	Amount	Capital Surplus				
Balance at December 31, 2005	2,414,209	\$ 9,656,836	\$ 14,778,248	\$ (169,000)	\$ (2,731,162)	\$ (248,498)	\$21,286,424
Issuance of restricted stock grants	5,356	21,424	37,492	(58,916)	—	—	—
Vesting of restricted stock grants	—	—	—	38,340	—	—	38,340
Comprehensive results:							
Net loss	—	—	—	—	(62,626)	—	(62,626)
Other comprehensive loss, net of deferred tax benefit of \$3,646	—	—	—	—	—	(7,079)	(7,079)
Balance at March 31, 2006	2,419,565	\$ 9,678,260	\$ 14,815,740	\$ (189,576)	\$ (2,793,788)	\$ (255,577)	\$21,255,059

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

MainStreet Bank
Statements of Cash Flows
(Unaudited)

Three Months Ended March 31,	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (62,626)	\$ (274,523)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization, and accretion	75,079	91,638
Gain on sale of investment securities available for sale	—	190
Provision for loan losses	80,000	45,000
Vesting of restricted stock grants	38,340	—
Changes in assets and liabilities:		
Increase in accrued interest receivable	(52,840)	(69,757)
Decrease (increase) in other assets	57,741	(3,216)
Increase in other liabilities	35,920	130,652
Net cash provided by (used in) operating activities	<u>171,614</u>	<u>(80,016)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of investment securities available for sale	5,000,000	7,500,000
Purchase of investment securities available for sale	(5,995,500)	(11,892,910)
Payments on investment securities available for sale	967,782	1,743,718
Sale of investment securities available for sale	—	729,145
Net increase in loan portfolio	(9,983,883)	(5,525,969)
Purchase of Federal Home Loan Bank/Federal Reserve stock	(73,900)	(271,100)
Purchase of premises and equipment	(42,717)	(113,092)
Net cash used in investing activities	<u>(10,128,218)</u>	<u>(7,830,208)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in cash realized from:		
Net increase in non-interest bearing deposits	4,500,157	238,832
Net increase in interest bearing savings and time deposits	7,031,208	3,242,592
Federal funds purchased and other borrowings	(12,500)	4,964,000
Net cash provided by financing activities	<u>11,518,865</u>	<u>8,445,424</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,562,261	535,200
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,528,694	974,075
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 6,090,955</u>	<u>\$ 1,509,275</u>
Supplemental Disclosure of Cash Flow Information		
Income taxes paid	—	—
Interest paid	<u>\$ 548,558</u>	<u>\$ 202,625</u>

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

Notes to Financial Statements
March 31, 2006 (Unaudited)

(1) General

The accompanying unaudited financial statements 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) 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, 2005 which were included in the Bank's annual report on Form 10-KSB filed with the Board of Governors of the Federal Reserve System on March 15, 2006.

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, 2006 and the results of operations and cash flows for the three-month periods ended March 31, 2006 and 2005.

The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

(2) Net Income (Loss) Per Share

Net income (loss) per common share is computed based on the weighted average number of shares of common stock outstanding during the year. The stock options and restricted shares granted during 2005 and 2006 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, 2006 and December 31, 2005 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, 2006</i>				
Collateralized Mortgage Backed	\$ 16,327,148	\$ —	\$ (385,738)	\$ 15,941,410
U.S. Government Agencies	5,996,999	—	(1,499)	5,995,500
Total	<u>\$ 22,324,147</u>	<u>\$ —</u>	<u>\$ (387,237)</u>	<u>\$ 21,936,910</u>
<i>December 31, 2005</i>				
Collateralized Mortgage Backed	\$ 17,315,516	\$ —	\$ (375,012)	\$ 16,940,504
U.S. Government Agencies	4,999,000	—	(1,500)	4,997,500
Total	<u>\$ 22,314,516</u>	<u>\$ —</u>	<u>\$ (376,512)</u>	<u>\$ 21,938,004</u>

(5) Loans

Loans are summarized as follows:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Real Estate:		
Residential real estate	\$ 10,234,229	\$ 9,177,516
Commercial real estate	38,673,834	29,640,693
Construction	7,768,920	6,995,883
Total real estate	<u>\$ 56,676,983</u>	<u>\$ 45,814,092</u>
Commercial	6,607,151	7,649,015
Consumer	<u>1,381,050</u>	<u>1,239,787</u>
Gross Loans	\$ 64,665,184	\$ 54,702,894
Less: unearned discounts and fees	(145,963)	(167,557)
Less: allowance for loan losses	<u>(774,000)</u>	<u>(694,000)</u>
Net Loans	<u>\$ 63,745,221</u>	<u>\$ 53,841,337</u>

(6) Allowance for Loan Losses

Changes in the allowance for loan losses for the three months ended March 31, 2006 are summarized as follows:

	<u>2006</u>
Balance, as of January 1, 2006	<u>\$64,000</u>
Provisions for loan losses	80,000
Charge-offs	—
Recoveries of loans charged off	—
Net charge-offs	<u>—</u>
Balance, as of March 31, 2006	<u>\$74,000</u>

(7) Stock-based Compensation

Effective January 1, 2006, the Bank adopted the provisions of Statement of Financial Accounting Standards (“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.

Prior to January 1, 2006, the Bank accounted for its share-based compensation plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Accordingly, stock compensation expense was not recognized in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. However, prior period financial statements included pro forma disclosures of the effect on net income and earnings per share if the Bank had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to share-based compensation.

The Bank has elected to follow the modified prospective transition method allowed by SFAS No. 123(R) and, therefore, will apply the provisions of SFAS No. 123(R) to awards modified or granted after January 1, 2006. Options that were issued prior to January 1, 2006 resulted in additional compensation expense of \$10,418 during the quarter ended March 31, 2006. Options granted and vested during the first quarter resulted in additional compensation expense of \$8,803. The Bank estimates that the adoption of SFAS 123R will result in an additional expense in 2006 of approximately \$42,000, net of tax, relating to the expensing of stock options. Future levels of compensation cost recognized related to share-based compensation awards may be impacted by new awards and/or modification, repurchases and cancellations of existing awards after the adoption of this standard.

Due to the limited history of the Bank's common stock as of March 31, 2005, management was unable to estimate the fair value of stock options awarded through that date; however, management believes such fair value was not significant as of that date.

The Compensation Committee of the Board of Directors approved and issued during the three months ended March 31, 2006, 7,720 non-qualified stock options (“NQSOs”) pursuant to the Bank’s 2004 Stock Option and Incentive Plan. Each option was granted with a 10-year term and an exercise price of \$11.00 per share. Of the options granted during the first quarter:

- 7,720 NQSOs vest in four equal installments on March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006;

During the quarter ended March 31, 2006, 1,930 NQSOs vested.

During the three months ended March 31, 2006, the Compensation Committee approved and issued 5,356 shares of restricted stock pursuant to the plan. During 2005 the Compensation Committee approved and issued 16,900 shares of restricted stock pursuant to the option and incentive plan. Restricted shares were issued and vest as shown in the table below:

Issue Date	Number of Restricted Shares Issued	Vest Date (shares vest in three equal installments)
March 16, 2005	11,500	March 16, 2006, 2007, and 2008
May 4, 2005	1,500	May 4, 2006, 2007, and 2008
September 21, 2005	600	June 29, 2006, 2007, and 2008
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 3, 2006	1,800	January 3, 2007, 2008, and 2009
January 12, 2006	3,556	January 12, 2007, 2008, and 2009

3,834 of the restricted shares vested during the three months ended March 31, 2006.

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; and
- changes in regulatory requirements and restrictive banking legislation.

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.

Our sophisticated operating systems and skilled staff have enabled us to compete effectively with other community and commercial banking operations in our market. We offer a broad range of banking services from our location at 727 Elden Street in Herndon and primarily target individuals, professionals and small businesses in Fairfax and Loudoun Counties as well as the surrounding Washington metropolitan area. The retail nature of the Bank’s commercial banking 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 location, we have implemented new technology which significantly enhances our business banking solution. This technology includes the ability for our business customers to scan and capture checks at their place of business so that those checks can be electronically deposited via the internet (Remote Image Capture). This Remote Image Capture technology provides our customers with faster access to funds along with full service business banking within the confines of their own office. The successful implementation of this strategy will eliminate the geographic restrictions of branch banking within our business banking network.

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 growth since inception, no credit losses to date and no non-performing assets as of the reporting periods indicated. The Bank’s focus has been to develop banking relationships with key customers in the community that can create business opportunities for the Bank. As of March 31, 2006, the Bank had total assets of \$94.4 million, gross loans of \$64.7 million, total deposits of \$67.1 million and total stockholders’ equity of \$21.3 million.

For the three months ended March 31, 2006, the Bank had a net loss of \$63 thousand, or \$0.03 per common share (basic and diluted), compared to a net loss of \$275 thousand, or \$0.22 per common share (basic and diluted) for the three months ended March 31, 2005. Return on average equity during the three months ended March 31, 2006 was (0.29%) compared to (2.68%) during the three months ended March 31, 2005. The increase in return on average equity is attributed to an increase in average equity of \$11.3 million

or 109.8% between the periods reported, coupled with a net loss of \$63,000 at March 31, 2006 compared to a net loss of \$275,000 at March 31, 2005. Average equity increased in large part to the stock offering in August 2005. Return on average assets for the three months ended March 31, 2006 was (0.07%) compared to (0.55%) during the three months ended March 31, 2005. The increase in return on average assets is attributed to an increase in average assets of \$36.5 million or 72.6% between the periods reported, coupled with a net loss of \$63,000 at March 31, 2006 compared to a net loss of \$275,000 at March 31, 2005. The increase in average assets is the result of the Bank's continued growth.

At March 31, 2006, the Bank had total assets of \$94.4 million, an increase of \$11.5 million, or 13.9%, from \$82.9 million at December 31, 2005. The growth in assets from December 31, 2005 was primarily due to an increase in net loans of \$9.9 million or 18.4%. As of March 31, 2006, gross loans were \$64.7 million, an increase of 18.3% over \$54.7 million as of December 31, 2005. The increase was primarily due to an increase in commercial real estate loans of \$9.0 million. This growth reflects our continued focus on loan growth.

The allowance for loan losses was \$774 thousand as of March 31, 2006, or 1.20% of outstanding loans, compared to \$694 thousand as of December 31, 2005, or 1.27% 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 charge-offs.

Total deposits were \$67.1 million as of March 31, 2006, which represents a 20.7% increase from \$55.6 million total deposits as of December 31, 2005. At March 31, 2006, non-interest bearing deposits totaled \$13.5 million or 20.1% of total deposits.

Total stockholders' equity was \$21.3 million as of March 31, 2006 and December 31, 2005. The unrealized loss on available for sale securities amounted to \$256 thousand, net of tax as of March 31, 2006, and \$248 thousand, as of December 31, 2005. 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 is recognized based on the specific identification method and included in results of operations.

Net interest margin was 4.31% for the three months ended March 31, 2006. Net interest margin was 3.07% for the three months ended March 31, 2005, and 3.68% for the year ended December 31, 2005. The increase in the net interest margin for the first quarter 2006 is directly attributable to the increase in loan balances and increased interest rates.

Results of Operations

Net Interest Income. Net interest income represents the principal source of revenue for the Bank. Net interest income was \$908 thousand and \$368 thousand for the three months ended March 31, 2006 and 2005, respectively. Net interest income increased approximately \$540 thousand due primarily to an increase in interest income and fees on loans in the amount of \$831 thousand, partially offset by an increase in total interest expense on deposit accounts of \$307 thousand. The Bank's continued growth in net interest income is directly attributable to the significant asset growth, especially loan growth. Net interest margin for the three months ended March 31, 2006 was 4.31%.

The average balance of the gross loan portfolio was \$59.2 million and \$22.8 million for the three months ended March 31, 2006 and March 31, 2005, respectively. The related interest income from loans was \$1.2 million and \$369 thousand for the periods ending March 31, 2006 and March 31, 2005, respectively. The average yield on loans was 8.23% and 6.60% for the periods ending March 31, 2006 and March 31, 2005, respectively. The related increase in the yield is attributable to the increase in the prime rate.

Investment securities income was \$206 thousand and \$199 thousand for the three months ended March 31, 2006 and March 31, 2005, respectively, and the yield on investment securities was 4.60% and 3.80% for the reported periods.

Excess liquidity results in federal funds sold for the Bank. The short term investments in federal funds sold contributed \$85 thousand and \$31 thousand to interest income in the three months ended March 31, 2006 and March 31, 2005, respectively.

Consistent with the Bank's asset growth, average interest-bearing funding sources (deposit and purchased funds) were \$56.5 million and \$34.3 million for the three months ended March 31, 2006 and March 31, 2005, respectively. Interest expense for all interest-bearing liabilities was \$584 thousand and \$231 thousand for the first quarter of 2006 and 2005, respectively. The average cost of interest-bearing liabilities for the three months ended March 31, 2006 and March 31, 2005 was 4.19% and 2.73%, respectively.

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 \$22 thousand for the three months ended March 31, 2006 compared to \$7 thousand during the three months ended March 31, 2005. The increase in non-interest income from March 31, 2005 to March 31, 2006 is due in large part to an increase in loan processing fees of approximately \$8 thousand.

Non-interest Expense. Non-interest expense for the three months ended March 31, 2006 was \$912 thousand compared to \$605 thousand during the same period in 2005. Non-interest expense for the three months ended March 31, 2006 consisted primarily of salary and benefits expense of \$514 thousand; occupancy and furniture and equipment costs of \$140 thousand; outside services expense, which consist primarily of legal, accounting, and human resources payroll, of \$64 thousand; advertising and marketing expenses of \$52 thousand; and data processing of \$52 thousand.

Non-interest expense increased \$307 thousand from the three months ended March 31, 2005 to the three months ended March 31, 2006, due primarily to an increase in salary and benefits of \$156 thousand, an increase in outside services of \$40 thousand, and an increase in advertising and marketing expenses of \$42 thousand.

Income Taxes. The Bank did not record any income tax expense or benefit for the three months ended March 31, 2006 and 2005.

Analysis of Financial Condition

Investment Securities. Investment securities available for sale were \$21.9 million as of March 31, 2006 and December 31, 2005. 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. 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 unrealized losses on the investment portfolio, net of tax, were \$256 thousand as of March 31, 2006 and \$248 thousand as of December 31, 2005. 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, 2006 contained a U.S. government agency security, collateralized mortgage obligations ("CMOs"), and U.S. government agency mortgage backed securities

("MBSs"). The Bank's current investment strategy includes investments that provide stable cashflows. As part of the overall asset/liability strategy, the Bank tries to maintain a base case portfolio duration in the 3 to 5 year range. Contractual maturities of CMOs and MBSs are not reliable indicators of their expected life 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 \$64.7 million as of March 31, 2006, compared to \$54.7 million as of December 31, 2005. As of March 31, 2006, the loan portfolio consists of commercial loans of \$6.6 million or 10.2%; commercial real estate loans (generally owner-occupied) of \$38.7 million or 59.8%; residential real estate loans (home equity and fixed rate trusts) of \$10.2 million or 15.8%; real estate construction loans of \$7.8 million or 12.1%; and consumer loans make up the remaining \$1.4 million balance of the loan portfolio.

Asset Quality. The loan portfolio has experienced no past due loans since inception. As of March 31, 2006 and December 31, 2005, the Bank had no non-accrual loans or loans past due in excess of 90 days. The allowance for loan losses was \$774 thousand as of March 31, 2006, or 1.20% of loans outstanding compared to \$694 thousand as of December 31, 2005, or 1.27% of outstanding loans. The Bank did not have any loans held for sale.

Nonperforming 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 no nonperforming assets as of March 31, 2006 or December 31, 2005.

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.

As of March 31, 2006 and December 31, 2005 there were no classified assets. In addition, as of March 31, 2006 and December 31, 2005, there were no loans on the watch list.

Deposits. The Bank seeks deposits within the market area by paying competitive interest rates, offering high quality customer service and using technology to deliver deposit services effectively. As of March 31, 2006, the deposit portfolio grew to \$67.1 million, an \$11.5 million increase over the December 31, 2005 level of \$55.6 million. The increase in deposits is primarily a result of an increase in demand deposits of \$4.5 million, an increase in certificates of deposit of approximately \$3.2 million, and an increase in brokered deposits of approximately \$3.4 million.

The Bank may gather time deposits from the wholesale marketplace. Brokered certificates of deposit allow the Bank to fund loan and investment growth with a minimal impact on overall sales efforts. As of March 31, 2006 and December 31, 2005, we had \$20.4 million and \$17.1 million, respectively, in such deposits. The certificates issued as part of the brokered 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. There were no customer repos as of March 31, 2006 or December 31, 2005. The Bank does not have any open repos with broker dealers.

As of March 31, 2006 and December 31, 2005 we had two advances outstanding with the Federal Home Loan Bank of Atlanta (“FHLB”) that totaled \$5.7 million. On April 7, 2005, the Bank entered into a five-year fixed rate credit (FRC) agreement with FHLB in the amount of \$5.0 million. Interest accrues at the rate of 4.70% and is due April 7, 2010. On October 25, 2005, the Bank entered into a fifteen-year principal reducing credit (PRC) agreement with FHLB in the amount of \$750,000. Interest accrues at the rate of 5.24% and is due October 26, 2020. Principal reductions occur monthly commencing on November 25, 2005, in the amount of \$4,167. The balance on the PRC as of March 31, 2006 is \$729,167.

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 Federal Home Loan Bank of Atlanta. 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 \$18.3 million or 19.72% of assets as of March 31, 2006 compared to a positive gap of \$26.5 million, or 32.32% of total assets, at December 31, 2005. 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 example, 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 \$21.3 million at March 31, 2006 and December 31, 2005. Book value per common share was \$8.78 as of March 31, 2006 compared to \$8.82 as of December 31, 2005.

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 focus on real estate activities, including title companies and real estate settlement businesses. Material changes in the economic situation of the region and/or the region’s real estate market could have an adverse impact on the Bank.

Off-Balance Sheet Activities

As of March 31, 2006, 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, 2005 in the Bank’s annual report on Form 10-KSB filed with the Board of Governors of the Federal Reserve System on March 15, 2006.

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, 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 is to 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. Under “Documents/Fed Filings” in the Investor Relations section of the website, the Bank posts its annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, 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 Board of Governors of the Federal Reserve System. All such filings are available free of charge.

Item 3. 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 Board of Governors of the Federal Reserve System.

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 generally accepted accounting principles. There were no changes in the Bank's internal control over financial reporting during the Bank's quarter ended March 31, 2006 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 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.

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

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAINSTREET BANK

Date: May 15, 2006

/s/ _____
Jeff W. Dick
Chief Executive Officer and President
(Principal executive officer)

Date: May 15, 2006

/s/ _____
Thomas J. Chmelik
Chief Financial Officer
(Principal financial and accounting officer)

CERTIFICATION

I, Jeff W. Dick, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer'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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer'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
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: May 15, 2006

/s/ _____
Jeff W. Dick

Chief Executive Officer and President

CERTIFICATION

I, Thomas J. Chmelik, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer'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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer'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
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: May 15, 2006

/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-QSB for the period ended March 31, 2006, 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 disclaims any obligation to update the foregoing certification except as required by law.

Date: May 15, 2006

/s/ _____
Jeff W. Dick
Chief Executive Officer and President

Date: May 15, 2006

/s/ _____
Thomas J. Chmelik
Chief Financial Officer