

MIDDLEFIELD BANC CORP  
Form S-4/A  
November 18, 2016  
Table of Contents

As filed with the Securities and Exchange Commission on November 18, 2016

Registration No. 333-213889

**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**Amendment No. 1 of**  
**FORM S-4**  
**REGISTRATION STATEMENT**  
***UNDER***  
***THE SECURITIES ACT OF 1933***

**MIDDLEFIELD BANC CORP.**

**(Exact name of Registrant as Specified in its Charter)**

**Ohio**  
**(State or other Jurisdiction of**  
**Incorporation or Organization)**

**6712**  
**(Primary Standard Industrial**  
**Classification Code Number)**

**34-1585111**  
**(IRS Employer**  
**Identification Number)**

**15985 East High Street**

**Middlefield, Ohio 44062-0035**

**(440) 632-1666**

**(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)**

**James R. Heslop, II**

**15985 East High Street**

**Middlefield, Ohio 44062-0035**

**(440) 632-1666**

**(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for service of process)**

*with copies to:*

**Francis X. Grady, Esq.**

**Grady & Associates**

**20220 Center Ridge Road, Suite 300**

**Rocky River, Ohio 44116-3501**

**(440) 356-7255**

**M. Patricia Oliver, Esq.**

**Tucker Ellis LLP**

**950 Main Avenue, Suite 1100**

**Cleveland, Ohio 44113**

**(216) 696-4149**

Approximate date of commencement of proposed sale of the securities to the public: as soon as practicable after this registration statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering.

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

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus and proxy statement shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.**

**PRELIMINARY SUBJECT TO COMPLETION DATED NOVEMBER 18, 2016**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

**Proxy Statement and Prospectus of**

**Middlefield Banc Corp.**

**MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT**

**Proxy Statement of**

**Liberty Bank, N.A.**

Middlefield Banc Corp. ( Middlefield ) and Liberty Bank, N.A. ( Liberty ) entered into an Agreement and Plan of Reorganization on July 28, 2016. We refer to the agreement as the Reorganization Agreement. A copy is attached to this joint proxy statement/prospectus as Annex A. The Reorganization Agreement provides that Liberty will merge into The Middlefield Banking Company, which is Middlefield's bank subsidiary. The merger is subject to a number of conditions, including but not limited to obtaining approval of Middlefield stockholders and approval of Liberty stockholders.

Approximately 45% of the Liberty shares of common stock exchanged in the merger will be exchanged for Middlefield common stock, and the remaining Liberty shares of common stock exchanged in the merger (approximately 55%) will be exchanged for cash. Each share of Liberty common stock not owned by Middlefield will be converted at the effective time of the merger into the right to receive either: (x) \$37.96 in cash or (y) 1.1934 shares of Middlefield common stock, subject to allocation procedures to ensure that approximately 45% of the outstanding shares of Liberty common stock are converted into Middlefield common stock and the remaining Liberty common stock is converted into cash. Excluding the 23,218 Liberty shares owned by Middlefield, which will be cancelled in the merger without consideration, the aggregate consideration payable to Liberty stockholders is approximately \$20.8 million in cash and approximately 557,079 shares of Middlefield common stock. On July 27, 2016, the day before execution of the Reorganization Agreement, the per share closing price of Middlefield common stock on the Nasdaq Capital Market was \$33.74. At that price the stock portion of the merger consideration would have a value of approximately \$18.8 million, and combined with the approximately \$20.8 million cash payable for 55% of Liberty common stock, the total merger consideration would be \$39.6 million, before the special dividend discussed below. Because the 1.1934 exchange ratio is fixed, the value of the stock portion of the total merger consideration will fluctuate with changes in the price of Middlefield stock. Holders of Liberty stock options and phantom shares also will receive cash for cancellation of those interests. Finally, in addition to the cash and stock merger consideration, Liberty

stockholders will receive a special dividend of approximately \$3.0 million in the aggregate, or \$3.13 per share, before merger closing. Middlefield will receive no merger consideration for its 23,218 Liberty shares but it will be entitled to a proportionate share of the special dividend payment. See *SUMMARY What Liberty stockholders will receive in the Merger*.

Middlefield will not issue fractional shares. A holder of Liberty common stock who would otherwise be entitled to a fractional share will instead receive cash, without interest, equal to the product of the fractional share to which the holder would otherwise be entitled multiplied by the volume-weighted average closing sale price of Middlefield common stock for the 30 trading days immediately before the effective time.

Middlefield and Liberty will each hold a meeting of stockholders to vote on adoption and approval of the Reorganization Agreement. The meeting of Middlefield's stockholders will be held at: 10:00 a.m. local time on January 10, 2017 at Middlefield, Ohio. The meeting of Liberty's stockholders will be held at: 9:00 a.m. local time on December 22, 2016 at Corporate College East, 4400 Richmond Road, Warrensville Heights, Ohio. At these meetings stockholders will be asked to approve and adopt the Reorganization Agreement and the merger transaction. Stockholders will also be asked to approve adjournment of the meeting, if adjournment is necessary to allow Middlefield or Liberty time to solicit additional proxies in favor of the Reorganization Agreement and the merger transaction. Liberty's stockholder meeting is an annual meeting, so Liberty stockholders will also be asked to act upon routine annual meeting proposals, including election of directors and ratification of the appointment of independent auditors.

This document is a proxy statement of both Middlefield and Liberty. It is also a prospectus for Middlefield's issuance of common stock in the merger. This joint proxy statement/prospectus describes Middlefield's special meeting, Liberty's annual meeting, and the merger proposal.

**The board of directors of Middlefield and the board of directors of Liberty approved the Reorganization Agreement and the merger transaction. They recommend that their stockholders vote FOR adoption and approval of the Reorganization Agreement and FOR adjournment of the meeting if adjournment is necessary.**

Middlefield's common stock trades on the Nasdaq Capital Market under the symbol MBCN. On July 27, 2016, the day before execution of the Reorganization Agreement, the closing price of Middlefield common stock was \$33.74 per share. On \_\_\_\_\_, 2016 the closing price of Middlefield common stock was \$ \_\_\_\_\_ per share. Liberty common stock is privately held, not listed on a stock exchange, and not traded in the over-the-counter market.

**You are encouraged to read this document carefully, including the materials incorporated by reference into this document. In particular, you should read the Risk Factors section beginning on page 28 for a discussion of the risks related to the merger and the risks of owning Middlefield common stock.**

Regardless of whether you plan to attend your company's stockholder meeting, you are urged to vote by completing, signing, and returning the enclosed proxy card in the enclosed postage-paid envelope.

If you are a Liberty stockholder as of the November 25, 2016 record date but your shares are not voted in favor of adoption and approval of the Reorganization Agreement, you have the right to demand the fair cash value for your Liberty common stock but to do so you must adhere to the specific requirements of the National Bank Act, 12 U.S.C. §215, paragraphs (b), (c), and (d). See *DISSENTERS RIGHTS* on page 48 of this joint proxy statement/prospectus and the complete text of the National Bank Act dissenters' rights provision attached to this joint proxy statement/prospectus as Annex B. Holders of Middlefield common stock do not have dissenters' rights.

Not voting in person or by proxy or at the stockholder meeting will have the same effect as voting against adoption and approval of the Reorganization Agreement. We urge you to read carefully this joint proxy statement/prospectus, which contains a detailed description of your company's stockholder meeting, the merger proposal, and Middlefield common stock to be issued in the merger.

Sincerely,

Thomas G. Caldwell

President and Chief Executive Officer

Middlefield Banc Corp.

Sincerely,

William A. Valerian

Chairman, President and Chief Executive Officer

Liberty Bank, N.A.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of Middlefield common stock to be issued in the merger. Neither the Securities and Exchange Commission nor any state securities commission has determined whether this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The securities to be issued in the merger described in this joint proxy statement/prospectus are not savings accounts, deposit accounts, or other obligations of a bank or savings association and are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other federal or state governmental agency.**

**This joint proxy statement/prospectus is dated \_\_\_\_\_, 2016 and it is first being mailed to Middlefield Banc Corp. stockholders and Liberty Bank, N.A. stockholders on or about \_\_\_\_\_, 2016.**

Table of Contents

**NOTICE OF ANNUAL MEETING**

To the Stockholders of Liberty Bank, N.A.:

Liberty Bank, N.A.'s Annual Meeting will be held on December 22, 2016 at 9:00 a.m. Eastern Time at Corporate College East, 4400 Richmond Road, Warrensville Heights, Ohio 44128. The meeting is for the purpose of considering and acting upon proposals to:

1. adopt and approve the July 28, 2016 Agreement and Plan of Reorganization entered into by Middlefield Banc Corp., The Middlefield Banking Company, and Liberty Bank, N.A. and approve the transactions contemplated thereby,
2. adjourn the annual meeting if adjournment is necessary to allow solicitation of additional proxies because of insufficient votes to adopt and approve the Agreement and Plan of Reorganization and approve the transactions contemplated thereby,
3. elect twelve directors to serve until the earlier of (i) completion of the Merger or (ii) Liberty Bank's 2017 Annual Meeting and until their successors are elected and qualified,
4. ratify the appointment of Maloney + Novotny LLC as independent public accountants for the fiscal year ending December 31, 2016, and
5. transact any other business properly presented at the Meeting or at any adjournment.

Record holders of Liberty's common stock at the close of business on November 25, 2016 are entitled to receive notice of and to vote at the meeting and any adjournment or postponement. The affirmative vote of the holders of at least two-thirds of Liberty's outstanding common stock is required for adoption and approval of the Agreement and Plan of Reorganization and approval of the transactions contemplated thereby.

A joint proxy statement/prospectus and proxy card for the meeting are enclosed. A copy of the Agreement and Plan of Reorganization is attached as Annex A to the joint proxy statement/prospectus.

**Your vote is very important regardless of the number of shares you own. Please vote as soon as possible to make sure that your shares are represented at the meeting. If you are a holder of record, you may cast your vote in person at the meeting or, to ensure that your shares are represented at the meeting, you may vote your shares by completing, signing, and returning the enclosed proxy card. If your shares are held in a stock brokerage account or by a bank or other nominee (in street name), please follow the voting instructions of your broker, bank, or nominee.**

**The Liberty board of directors recommends that you vote (1) FOR adoption and approval of the Agreement and Plan of Reorganization, (2) FOR adjournment of the meeting, (3) FOR election of the identified director nominees, and (4) FOR ratification of the selection of independent auditors.**

By order of the Board of Directors,

William A. Valerian

Chairman of the Board, President &

Chief Executive Officer

Beachwood, Ohio  
, 2016



Table of Contents

**NOTICE OF SPECIAL MEETING**

To the Stockholders of Middlefield Banc Corp.:

Middlefield Banc Corp.'s Special Meeting will be held on January 10, 2017 at 10:00 a.m. Eastern Time at The Middlefield Banking Company, 15985 East High Street, Middlefield, Ohio 44062. The meeting is for the purpose of considering and acting upon proposals to:

- 1) approve the transactions under the July 28, 2016 Agreement and Plan of Reorganization entered into by Middlefield Banc Corp., The Middlefield Banking Company, and Liberty Bank, N.A.,
- 2) approve issuance of up to 563,261 shares of Middlefield common stock in the merger,
- 3) adjourn the special meeting if adjournment is necessary to allow solicitation of additional proxies if there are insufficient votes to adopt and approve the Agreement and Plan of Reorganization, and
- 4) transact any other business properly presented at the Meeting or at any adjournment.

Record holders of Middlefield's common stock at the close of business on November 17, 2016 are entitled to vote at the meeting and any adjournment or postponement. The affirmative vote of the holders of at least two-thirds of Middlefield's outstanding common stock is required for adoption and approval of the Agreement and Plan of Reorganization.

A joint proxy statement/prospectus and proxy card for the meeting are enclosed. A copy of the Agreement and Plan of Reorganization is attached as Annex A to the joint proxy statement/prospectus.

**Your vote is very important regardless of the number of shares you own. Please vote as soon as possible to make sure that your shares are represented at the meeting. If you are a holder of record, you may cast your vote in person at the meeting or, to ensure that your shares are represented at the meeting, you may vote your shares by completing, signing, and returning the enclosed proxy card. If your shares are held in a stock brokerage account or by a bank or other nominee (in street name), please follow the voting instructions of your broker, bank, or nominee.**

**The Middlefield board of directors recommends that you vote (1) FOR the Agreement and Plan of Reorganization, (2) FOR issuance of Middlefield common stock in the merger, and (3) FOR adjournment of the meeting.**

By order of the Board of Directors,

Kathleen M. Johnson  
*Secretary*

Middlefield, Ohio  
, 2016

Table of Contents

**WHERE YOU CAN FIND MORE INFORMATION**

Middlefield is a publicly traded company filing annual, quarterly, and other reports, proxy statements, and other business and financial information with the Securities and Exchange Commission (SEC). You may read and obtain copies of these documents at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Please call the SEC at (800) SEC-0330 for additional information about the public reference room. Middlefield files its annual, quarterly, and other reports, proxy statements, and other business and financial information with the SEC electronically. The SEC maintains a web site located at [www.sec.gov](http://www.sec.gov) containing this information. Information filed by Middlefield with the SEC is also available without charge through Middlefield's website at [www.middlefieldbank.com](http://www.middlefieldbank.com) under the Investor Relations tab.

Middlefield filed with the SEC a registration statement on Form S-4 to register the issuance of common stock to Liberty stockholders in the merger. This joint proxy statement/prospectus is part of that Form S-4 registration statement. As permitted by SEC rules, this document does not contain all of the information included in the registration statement or in the exhibits or schedules to the registration statement. You may read and request a copy of the registration statement, including any amendments, schedules, and exhibits at the address given below. Statements contained in this document regarding the contents of any contract or other document filed as an exhibit to the registration statement are not necessarily complete. In each case you should refer to the contract or other document filed as an exhibit. These documents are available without charge to you upon written or oral request at the following address and telephone number:

Middlefield Banc Corp.

15985 East High Street

P.O. Box 35

Middlefield, Ohio 44062-0035

Attention: Investor Relations

(440) 632-1666

**To obtain timely delivery of these documents, you must request the information no later than January 3, 2017 to receive them before the Middlefield special meeting and no later than December 15, 2016 to receive them before the Liberty annual meeting.**

Liberty is privately-held and does not file reports with the SEC.

Neither Middlefield nor Liberty has authorized anyone to provide you with information other than the information included in this document and any documents incorporated by reference. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information in this document and any documents incorporated by reference are accurate only as of their respective dates. Each of Middlefield's and Liberty's business, financial condition, results of operations, and prospects could have changed since those dates.

Table of Contents

## TABLE OF CONTENTS

<u>QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE STOCKHOLDER MEETINGS</u>	1
<u>SUMMARY</u>	9
<u>SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL DATA</u>	18
<u>UNAUDITED COMPARATIVE PER SHARE DATA</u>	26
<u>MARKET PRICE AND DIVIDEND INFORMATION</u>	27
<u>RISK FACTORS</u>	28
<u>FORWARD-LOOKING STATEMENTS</u>	32
<u>THE ANNUAL MEETING OF LIBERTY STOCKHOLDERS</u>	34
<u>Time, Date and Place</u>	34
<u>Matters to be Considered</u>	34
<u>Record Date; Shares Outstanding and Entitled to Vote</u>	34
<u>Votes Required; Quorum</u>	34
<u>Solicitation and Revocation of Proxies</u>	36
<u>PROPOSALS SUBMITTED TO LIBERTY STOCKHOLDERS</u>	37
<u>Director Election Proposal</u>	37
<u>Term of Office</u>	37
<u>Nominations of Directors</u>	37
<u>Directors of Liberty</u>	38
<u>Information Concerning Nominees for Director</u>	38
<u>Independent Directors</u>	40
<u>Executive Session</u>	41
<u>Audit Committee</u>	41
<u>Compensation of Directors; Certain Transactions</u>	41
<u>Liberty Merger Proposal</u>	42
<u>Liberty Adjournment Proposal</u>	42
<u>Auditor Ratification Proposal</u>	43
<u>THE SPECIAL MEETING OF MIDDLEFIELD STOCKHOLDERS</u>	44
<u>Time, Date and Place</u>	44
<u>Matters to be Considered</u>	44
<u>Record Date; Shares Outstanding and Entitled to Vote</u>	44
<u>Votes Required; Quorum</u>	44
<u>Solicitation and Revocation of Proxies</u>	45
<u>PROPOSALS SUBMITTED TO MIDDLEFIELD STOCKHOLDERS</u>	47
<u>Middlefield Merger Proposal</u>	47
<u>Middlefield Proposal to Approve Issuance of Common Stock</u>	47
<u>Middlefield Adjournment Proposal</u>	47
<u>DISSENTERS' RIGHTS</u>	48
<u>THE MERGER</u>	49
<u>The Proposed Merger</u>	49
<u>Background of the Merger</u>	49
<u>Liberty's Reasons for the Merger</u>	53
<u>Recommendation of Liberty's Board of Directors</u>	55
<u>Opinion of Liberty's Financial Advisor</u>	55

<u>Nonpublic Financial Projections Provided to Financial Advisors</u>	61
<u>Middlefield's Reasons for the Merger</u>	62
<u>Recommendation of Middlefield's Board of Directors</u>	63
<u>Opinion of Middlefield's Financial Advisor</u>	63
<u>Nonpublic Financial Projections Provided to Middlefield's Financial Advisor</u>	70
<u>Regulatory Approvals Required</u>	71
<u>Interests of Liberty's Directors and Certain Executive Officers in the Merger</u>	72

**Table of Contents**

<u>Material U.S. Federal Income Tax Consequences</u>	73
<u>Accounting Treatment</u>	77
<u>Resale of Middlefield Common Stock</u>	77
<b><u>THE REORGANIZATION AGREEMENT</u></b>	78
<u>Effects of the Merger</u>	78
<u>Effective Time of the Merger</u>	78
<u>Merger Consideration</u>	79
<u>Treatment of Liberty Stock Options</u>	79
<u>Covenants and Agreements</u>	79
<u>Representations and Warranties</u>	85
<u>Conditions to the Merger</u>	88
<u>Termination; Termination Fee</u>	89
<u>Effect of Termination</u>	89
<u>Amendments, Extensions and Waivers</u>	90
<u>Stock Market Listing</u>	90
<u>Fees and Expenses</u>	90
<b><u>COMPARISON OF LIBERTY AND MIDDLEFIELD STOCKHOLDER RIGHTS</u></b>	91
<b><u>INFORMATION ABOUT MIDDLEFIELD</u></b>	95
<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF MIDDLEFIELD'S FINANCIAL CONDITION</u></b>	
<b><u>AND RESULTS OF OPERATIONS</u></b>	129
<u>Critical Accounting Policies</u>	130
<u>Changes in Financial Condition</u>	132
<u>Results of Operations</u>	145
<u>Asset and Liability Management</u>	150
<u>Liquidity and Capital Resources</u>	151
<u>Inflation</u>	152
<b><u>INFORMATION ABOUT LIBERTY</u></b>	153
<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF LIBERTY BANK, N.A.'S FINANCIAL</u></b>	
<b><u>CONDITION AND RESULTS OF OPERATIONS</u></b>	153
<u>Critical Accounting Policies</u>	153
<u>Results of Operations</u>	155
<u>Financial Condition</u>	160
<u>Impact of Inflation and Changing Price</u>	170
<b><u>EXPERTS</u></b>	170
<b><u>LEGAL MATTERS</u></b>	171
<b><u>CONSOLIDATED FINANCIAL STATEMENTS OF MIDDLEFIELD BANC CORP.</u></b>	F-1
<b><u>CONSOLIDATED FINANCIAL STATEMENTS OF LIBERTY BANK, N.A.</u></b>	F-74
<b><u>Annexes:</u></b>	
<u>ANNEX A Agreement and Plan of Reorganization</u>	A-1
<u>ANNEX B Dissenters' Rights under the National Bank Act, 12 U.S.C. 215(b) (d)</u>	B-1
<u>ANNEX C Opinion of Boenning &amp; Scattergood, Inc.</u>	C-1
<u>ANNEX D Opinion of Donnelly Penman &amp; Partners Inc.</u>	D-1

---

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE STOCKHOLDER MEETINGS**

*The following questions and answers cover some of the questions most likely to arise about the stockholder meetings. We urge you to read carefully the remainder of this joint proxy statement/prospectus, including the annexes, because this section does not necessarily contain all information that is important to you.*

**Q: Why am I receiving this joint proxy statement/prospectus?**

A: You are receiving this joint proxy statement/prospectus because Liberty Bank, N.A. ( Liberty ) agreed to merge into The Middlefield Banking Company by the terms of a July 28, 2016 Agreement and Plan of Reorganization (the Reorganization Agreement ) entered into by Liberty, Middlefield Banc Corp. ( Middlefield ), and The Middlefield Banking Company, and to be executed by MBC Interim Bank, an interim state-chartered commercial bank to be incorporated under the laws of the state of Ohio ( MBC Interim Bank ). The Middlefield Banking Company is and will remain a wholly owned subsidiary of Middlefield. Pursuant to the Reorganization Agreement, Liberty and MBC Interim Bank will merge with and into Liberty with Liberty surviving that merger (the Interim Merger ), and immediately thereafter Liberty will merge with and into The Middlefield Banking Company with The Middlefield Banking Company surviving that merger (the Bank Merger, and considered together with the Interim Merger, the Merger ). The Reorganization Agreement is attached to this joint proxy statement/prospectus as Annex A and is an integral part of this joint proxy statement/prospectus. The Merger cannot be completed unless Liberty stockholders and Middlefield Banc Corp. stockholders vote to approve and adopt the Reorganization Agreement and the transactions contemplated by the Reorganization Agreement. This joint proxy statement/prospectus contains important information about the Merger and the stockholder meetings of Middlefield and Liberty. You should read the joint proxy statement/prospectus, including its annexes, carefully. The enclosed proxy voting materials allow you to vote your company's common stock without attending the meeting.

**Q: What will Liberty stockholders receive in the Merger?**

A: Liberty stockholders will receive a combination of cash and Middlefield common stock, in addition to a special dividend of approximately \$3.13 per share in cash immediately prior to the completion of the Merger. Subject to Reorganization Agreement allocation procedures ensuring that approximately 45% of the outstanding Liberty common stock is converted into the right to receive Middlefield common stock and the remaining outstanding Liberty common stock is converted into the right to receive cash, at the effective time of the Merger Liberty common stock not owned by Middlefield will be converted into the right to receive either:

\$37.96 in cash, or

1.1934 shares of Middlefield common stock

On July 27, 2016, which was the day before public announcement of the proposed Merger, the closing price of Middlefield common stock on the Nasdaq Capital Market was \$33.74. Based on that price for the stock portion of the Merger consideration and \$37.96 per share for the cash portion, a Liberty stockholder who receives stock for 45% of

his or her common stock at the 1.1934 fixed exchange ratio and cash for 55% would receive total Merger consideration with an implied value of approximately \$39.00 per share, in addition to a special dividend of approximately \$3.13 per share in cash. As of the more recent [redacted], 2016 date, the closing price for Middlefield common stock was \$ [redacted]. At that price and giving effect to the 1.1934 fixed exchange ratio, the implied value of a share of Liberty common stock exchanged for Middlefield common stock is \$ [redacted]. At this more recent price for Middlefield common stock, a Liberty stockholder who receives stock for 45% of his or her shares and cash for 55% would receive total Merger consideration with an implied value of approximately \$ [redacted] per share.



## **Table of Contents**

Middlefield will not issue fractional shares. Instead, a holder of Liberty common stock who would otherwise be entitled to a fractional share (after taking into account all shares of Liberty common stock owned by the holder at the effective time of the Merger) will receive cash, without interest, in an amount equal to the product of the fractional share to which the holder would otherwise be entitled multiplied by the volume-weighted average closing sale price of Middlefield common stock for the 30 trading days immediately before the effective time.

It is not part of the Merger consideration, but the Reorganization Agreement also provides that Liberty will declare a special dividend to stockholders before the Merger closes (or becomes effective). The special dividend is currently estimated to be approximately \$3.0 million in the aggregate, or \$3.13 per share. Middlefield will receive no Merger consideration for its 23,218 Liberty shares but will be entitled to a proportionate share of the special dividend payment.

### **Q: Will Liberty stockholders be able to make an election for the form of merger consideration they desire to receive?**

A: Yes. If you are a Liberty stockholder you will have the opportunity to elect the form of consideration to be received for your shares, but your election will be subject to adjustment and allocation procedures set forth in the Reorganization Agreement ensuring that approximately 45% of the outstanding Liberty common stock is converted into the right to receive Middlefield common stock and the remaining outstanding Liberty shares are converted into the right to receive cash. Therefore, your ability to receive the cash or stock elections of your choice depends on the elections made by other Liberty stockholders. The allocation of the mix of consideration payable to Liberty stockholders in the Merger will not be known until Middlefield tallies the results of the cash and stock elections made by all Liberty stockholders, which will likely not occur until shortly after Merger closing.

It is unlikely that Liberty stockholders as a group will elect to receive precisely 55% of the Merger consideration in cash and the remainder in Middlefield common stock. For that reason the Reorganization Agreement contains procedures to be followed if Liberty stockholders in the aggregate elect to receive more or less of the Middlefield common stock than Middlefield has agreed to issue

***If Stock Is Oversubscribed:*** If Liberty stockholders elect to receive more shares of Middlefield common stock than Middlefield is issuing, all Liberty stockholders who elect to receive cash or who make no election will receive cash for their Liberty shares; stockholders who elect to receive Middlefield common stock will receive a *pro rata* portion of the available Middlefield shares, receiving cash for shares not converted into Middlefield common stock.

***If Stock Is Undersubscribed:*** If Liberty stockholders elect to receive fewer shares of Middlefield common stock than Middlefield is issuing, all Liberty stockholders who elect to receive Middlefield common stock will receive Middlefield common stock; stockholders who elect to receive cash or who make no election will be treated in the following manner:

if the number of shares held by Liberty stockholders who make no election is sufficient to make up the shortfall in the number of shares of Middlefield common stock that Middlefield is issuing, Liberty stockholders who elect cash will receive cash; stockholders who make no election will receive Middlefield common stock in such proportion as is necessary to make up the shortfall, receiving cash for the remainder, and

if the number of shares held by Liberty stockholders who make no election is not sufficient to make up the shortfall, Liberty stockholders who make no election will receive Middlefield common stock; Liberty stockholders who elect to receive cash will receive Middlefield common stock in such proportion as is necessary to make up the shortfall, receiving cash for the remainder.

**You might not receive the amount of cash or stock you elect. As a result of the allocation procedures and other limitations outlined in this document and in the Reorganization Agreement, you may receive Middlefield common stock or cash in amounts that vary from the amounts you elect to receive.**

**Table of Contents**

**Q: How do Liberty stockholders make their election to receive cash, Middlefield common stock, or a combination of both?**

A: Each Liberty stockholder of record will receive an election form to be completed and returned. The election deadline will be 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2016, which we refer to as the election deadline. A copy of the election form is being mailed separately to Liberty stockholders on or about the date of this joint proxy statement/prospectus.

If you own Liberty shares in street name through a bank, broker, or other nominee and you wish to make an election, you should seek instructions from the bank, broker, or other nominee holding your shares concerning how to make an election. If you do not send in the election form with your stock certificate(s) by the election deadline, you will be treated as though you made no election.

If a Liberty stockholder submits a valid election form and subsequently transfers any or all of the shares as to which an election has been made, that election will continue to apply to those shares in the hands of the transferee unless that election is changed or revoked in a timely fashion in the manner described below.

**Q: Will I be allowed to change my election?**

A: Yes. Until the election deadline you may change your election by submitting to American Stock Transfer & Trust Company, LLC written notice accompanied by a properly completed and signed, revised election form. After the election deadline you will not be allowed to change or revoke your election. If you instructed a bank, broker, or other financial institution to submit an election for your shares, you must follow their directions for changing those instructions.

**Q: What happens if I do not make a valid election to receive cash or Middlefield common stock?**

A: If you do not return a properly completed election form by the election deadline specified in the election form, your Liberty common stock will be considered non-election shares and will be converted into the right to receive the stock consideration or the cash consideration according to the allocation procedures specified in the Reorganization Agreement. Generally, if one form of consideration (cash or Middlefield common stock) is undersubscribed, Liberty common stock for which no election is validly made will be allocated to the undersubscribed form before shares electing the oversubscribed form are allocated to the undersubscribed form. If proration becomes necessary, shares for which a valid election is made will have priority over non-electing shares, although electing a particular form of consideration does not guarantee that your election will be honored in full.

**Q: What are the material U.S. federal income tax consequences of the Merger to Liberty stockholders?**

A: Tucker Ellis LLP has delivered its legal opinion, dated September 26, 2016, to the effect that the Merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended

(which we refer to as the Internal Revenue Code ). In addition, the completion of the Merger is conditioned on receipt of a tax opinion from Tucker Ellis LLP, dated as of the closing date, to the same effect. However, neither Liberty nor Middlefield has requested or received a ruling from the Internal Revenue Service that the Merger will qualify as a reorganization or as to any other aspect of the Reorganization Agreement or the transactions contemplated by it. The U.S. federal income tax consequences of the Merger to a Liberty stockholder will depend on the relative mix of cash and Middlefield common stock received by that Liberty stockholder. Liberty stockholders should not recognize any gain or loss for U.S. federal income tax purposes if they exchange their Liberty shares solely for shares of Middlefield common stock in the Merger, except with respect to cash received in lieu of fractional shares of Middlefield common stock. Liberty stockholders will recognize gain or loss if they exchange their Liberty shares solely for cash in the Merger. Liberty stockholders will recognize gain, but not loss, if they exchange their Liberty shares for a combination of Middlefield common stock and cash, but their taxable gain in that case will not exceed the cash they receive in the Merger. The special dividend is not part of the Merger consideration. It will be taxable to Liberty stockholders as ordinary income, taxable at preferential rates applicable to qualified dividends. Any gain recognized on the Merger consideration and any ordinary

---

**Table of Contents**

income from the special dividend could be subject to an additional tax on net investment income, depending on the individual's adjusted gross income, as described below under *THE MERGER Material U.S. Federal Income Tax Consequences Medicare Tax on Net Investment Income*. You should consult with your tax advisor for the specific tax consequences of the Merger and the special dividend to you. See *THE MERGER Material U.S. Federal Income Tax Consequences* on page 73.

**The consequences of the Merger to each Liberty stockholder depend on that stockholder's particular facts and circumstances. Accordingly, you are urged to consult your tax advisor to determine the tax consequences of the Merger to you.**

**Q: Is Liberty allowed to pay dividends before the effective date of the Merger?**

A: Yes. Under the terms of the Reorganization Agreement, Liberty is permitted to pay usual and customary cash dividends. The Reorganization Agreement also requires Liberty to declare a special dividend before closing. The amount of the special dividend may change, but it currently is estimated at approximately \$3.0 million in the aggregate, or \$3.13 per share.

**Q: When and where will the Middlefield and Liberty stockholder meetings be?**

A: Middlefield's special meeting of stockholders will be held at 10:00 a.m., local time, on January 10, 2017 at The Middlefield Banking Company, 15985 East High Street, Middlefield, Ohio 44062. The annual meeting of Liberty stockholders will be held at 9:00 a.m., local time, on December 22, 2016 at Corporate College East, 4400 Richmond Road, Warrensville Heights, Ohio 44128.

**Q: What proposals will be acted on at the Middlefield and Liberty stockholder meetings?**

A: Middlefield stockholders will be asked to (1) approve the transactions under the Reorganization Agreement, (2) approve issuance of up to 563,261 shares of Middlefield common stock in the Merger, (3) approve adjournment of the special meeting to allow additional time for proxy solicitation if there are not sufficient votes to approve the Reorganization Agreement transactions, and (4) vote on any other business properly presented.

Liberty stockholders will be asked to (1) adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement, (2) approve adjournment of the annual meeting to allow additional time for proxy solicitation if there are not sufficient votes to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement, (3) elect twelve directors for the term expiring at the earlier of (i) completion of the Merger or (ii) the 2017 annual meeting and until their successors are elected and qualified, (4) ratify the selection of independent auditors, and (5) vote on any other business properly presented.

**Q: What do the Board of Directors of Middlefield and the Board of Directors of Liberty recommend regarding the proposals to be acted on at the stockholder meetings?**

Middlefield's board of directors believes that the Merger and other transactions under the Reorganization Agreement are in the best interests of Middlefield and its stockholders and recommends that Middlefield stockholders vote FOR the proposal to approve the transactions under the Reorganization Agreement, FOR the proposal to issue Middlefield common stock in the Merger, and FOR the proposal to adjourn the special meeting to solicit additional proxies if there are insufficient votes to approve the Reorganization Agreement transactions.

Liberty's board of directors also determined that the Reorganization Agreement is in the best interests of Liberty and its stockholders and recommends that Liberty stockholders vote FOR the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement and FOR the proposal to adjourn the annual meeting to solicit additional proxies if there are insufficient votes to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement. Regarding the other proposals to be presented at the annual meeting, Liberty's board of directors recommends that stockholders vote FOR election of the identified director nominees and FOR ratification of the selection of the independent auditor.

**Table of Contents**

**Q: Is my vote needed to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement and to approve the other proposals?**

A: Adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement requires the affirmative vote of the holders of at least two-thirds of the shares of Liberty common stock outstanding. When Liberty's stockholder meeting is held, if there are insufficient votes to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement the meeting may be adjourned to allow solicitation of additional proxies. The affirmative vote of the holders of a majority of the shares represented at the meeting in person or by proxy and entitled to vote is necessary to approve adjournment. All of Liberty's directors entered into voting agreements with Middlefield as a condition to Middlefield's agreement to the Reorganization Agreement (the "Voting Agreements"), agreeing to vote their Liberty shares in favor of adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement and in favor of the adjournment proposal. Excluding Liberty shares held by their immediate family members, Liberty's directors collectively own 354,986 shares of Liberty common stock, or approximately 34.3% of the shares outstanding. The form of Voting Agreement is an exhibit to the Reorganization Agreement included as Annex A to this joint proxy statement/prospectus. As a holder of 23,218 shares of Liberty common stock, or 2.2%, Middlefield intends to vote in favor of adoption and approval of the Reorganization Agreement, in favor of the adjournment proposal, in favor of election of the identified director nominees, and in favor of ratifying the selection of independent accountants.

For the proposal to elect directors at Liberty's annual meeting, directors are elected by plurality vote, which means the directors receiving the greatest number of votes are elected. The affirmative vote of the holders of a majority of the shares represented at the meeting in person or by proxy and entitled to vote is necessary to ratify selection of Liberty's independent auditor.

Similar to the approval standard applicable to the Liberty stockholder meeting, approval of the transactions under the Reorganization Agreement by Middlefield stockholders requires the affirmative vote of the holders of at least two-thirds of the shares of Middlefield common stock outstanding. If there are insufficient votes to approve the Reorganization Agreement transactions when Middlefield's stockholder meeting is held, the meeting may be adjourned to allow solicitation of additional proxies. The affirmative vote of the holders of a majority of the votes cast is necessary to approve adjournment. To approve issuance of Middlefield common stock in the Merger, the affirmative vote of a majority of the votes cast is necessary. Middlefield directors did not enter into agreements regarding voting of their shares of Middlefield common stock. Collectively they own approximately 102,153 shares, or approximately 4.6% of Middlefield's outstanding common stock, with the right to acquire 20,674 additional shares.

**Q: How do I vote?**

A: If you were the record holder of Middlefield common stock on the November 17, 2016 record date for the Middlefield special meeting or Liberty common stock on the November 25, 2016 record date for the Liberty annual meeting, you may vote in person by attending your company's meeting, and to ensure that your shares are represented at the meeting you may vote by signing and returning your company's enclosed proxy card in the postage-paid envelope provided.

If you hold Middlefield or Liberty common stock beneficially through a broker, bank, or other nominee, please see the discussion below regarding shares held in street name.

**Q: What will happen if I fail to vote or if I abstain from voting?**

A: If you are a Liberty stockholder and you do not return a proxy card or vote in person at the Liberty annual meeting or if you mark the proxy card or ballot **ABSTAIN** for the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement, this will have the same effect as a vote **AGAINST** that proposal. Marking your proxy card or ballot **ABSTAIN** will have the same effect as a vote **AGAINST** the adjournment proposal and the auditor



**Table of Contents**

ratification proposal. Failure to return your proxy card or vote in person will have no effect on the adjournment proposal, the proposal to elect directors, or the proposal to ratify the auditor selection. If you are a Middlefield stockholder and you do not return a proxy card or vote in person at the Middlefield special meeting or if you mark the proxy card or ballot **ABSTAIN** for the proposal to approve the transactions under the Reorganization Agreement, this will have the same effect as a vote **AGAINST** that proposal, but failing to vote or abstaining will have no effect on the adjournment proposal or the proposal to approve issuance of shares.

**Q: How will my shares be voted if I return a signed proxy card without marking voting instructions?**

A: If you are a Liberty stockholder and you sign, date, and return a proxy card without stating how you want your shares to be voted, your shares will be voted **FOR** adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement, and if adjournment of the meeting is necessary to allow time for solicitation of additional proxies your shares will be voted **FOR** adjournment. Similarly, your shares will be voted **FOR** election of the identified director nominees and **FOR** ratification of the auditor selection if you return a valid proxy card without giving voting instructions.

If you are a Middlefield stockholder and you sign, date, and return a proxy card without giving voting instructions, your shares will be voted **FOR** approval of the transactions under the Reorganization Agreement and **FOR** approval of the share issuance, and if adjournment of the meeting is necessary to allow time for solicitation of additional proxies your shares will be voted **FOR** adjournment.

**Q: If my shares are held in a stock brokerage account or by a bank or other nominee in street name, will my broker, bank, or other nominee vote shares for me?**

A: No. If you do not provide the broker, bank, or nominee (the record holder of your shares) with instructions for voting your shares, the broker, bank, or other nominee will not be able to vote on any proposal other than ratification of independent auditors. Please follow the broker, bank, or other nominee's directions for giving voting instructions to the broker, bank, or nominee.

if you hold Liberty shares in street name through a broker, bank, or other nominee but do not give voting instructions to the broker, bank, or other nominee, the broker, bank, or other nominee may not vote your shares on the proposal to adopt and approve the Reorganization Agreement and the Merger or the proposal to adjourn the meeting, which broker non-votes will have the same effect as votes **AGAINST** those proposals. Failing to give voting instructions also will prevent the broker, bank, or other nominee from voting on the director election proposal, but directors nevertheless will be elected because directors are elected by a plurality; however, your broker, bank, or other nominee will be able to vote on the auditor ratification proposal without voting instructions,

if you are a Middlefield stockholder but do not give voting instructions to your broker, bank, or other nominee, the broker, bank, or other nominee may not vote your shares on the proposal to approve the transactions under the Reorganization Agreement, which broker non-vote will have the same effect as a vote

**AGAINST** that proposal. Although failing to give voting instructions also will prevent your broker, bank, or other nominee from voting on the proposal to issue common stock or the adjournment proposal, broker non-votes on those proposals have no effect because under Middlefield's regulations the proposals will be decided by a majority of votes actually cast.

Under applicable Financial Industry Regulatory Authority ( FINRA ) and stock exchange rules, brokers who hold shares in street name for a beneficial owner are allowed to vote in their discretion on routine proposals, even without voting instructions from beneficial owners. For proposals stock exchanges consider non-routine, however, brokers are not allowed to exercise voting discretion and cannot vote on those non-routine proposals unless the beneficial owner gives specific voting instructions. Except for the auditor ratification proposal to be acted on at the Liberty stockholder meeting, Middlefield and Liberty believe the

**Table of Contents**

proposals to be voted on at the stockholder meetings are non-routine and that brokers therefore will not be able to vote without specific voting instructions. Broker non-votes occur when a broker or nominee is not instructed by the beneficial owner of shares to vote on a particular proposal for which the broker does not have discretionary voting power.

**Q: May I change my vote after submitting a proxy?**

A: Yes, but only until a vote is taken. Middlefield stockholders who hold directly, not in street name, may revoke a proxy at any time before a vote is taken by (x) filing a written notice of revocation with Middlefield's Secretary, at 15985 East High Street, Middlefield, Ohio 44062-0035, (y) executing and returning another proxy card with a later date, or (z) attending the meeting and giving notice of revocation in person. Liberty stockholders may revoke a proxy at any time before a vote is taken by (x) filing a written notice of revocation with Liberty's Secretary, at 25201 Chagrin Boulevard, Suite 120, Beachwood, Ohio 44122, (y) executing and returning another proxy card with a later date, or (z) attending the meeting and giving notice of revocation in person. A revocation notice or a later dated proxy will not be effective unless actually received by Liberty prior to the vote.

***Your attendance at the meeting will not, by itself, revoke your proxy.***

If you hold shares in street name and gave voting instructions to the broker, bank, or nominee, you must follow the broker, bank or nominee's directions for changing your vote.

**Q: If I do not favor adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement, what are my dissenters' rights?**

A: Under federal banking law Liberty stockholders may dissent from the Merger and elect to have the fair market value of their shares appraised, receiving payment for their shares in cash. To assert dissenters' right of appraisal, a stockholder must comply with the provisions of federal law, which include voting against the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement or giving notice to the presiding officer in writing at or before Liberty's meeting that the stockholder dissents. For more information see *DISSENTERS' RIGHTS* and the copy of the applicable statutory provision included as Annex B to this joint proxy statement/prospectus.

**Q: When will the Merger be completed?**

A: Middlefield and Liberty desire to complete the Merger in the first quarter of 2017, but achieving that goal is contingent on obtaining stockholder approvals and applicable governmental approvals and on satisfying all other conditions precedent to the Merger.

**Q: Should Liberty stockholders send in their share certificates now?**

A: No. Within five business days after the Merger is completed, the Exchange Agent for the Merger will send Liberty stockholders a letter of transmittal with instructions for delivering share certificates to the Exchange Agent. American Stock Transfer & Trust Company, LLC will act as Exchange Agent. Liberty stockholders must use the letter of transmittal to exchange Liberty share certificates for Merger consideration. Do not send in share certificates with your proxy form.

**Q: What do I need to do now?**

A: After carefully reviewing this joint proxy statement/prospectus, including its Annexes, please complete, sign, and date the enclosed proxy card and return it in the enclosed postage-paid envelope as soon as possible. By submitting your proxy, you authorize the individuals named in your company's proxy to vote your shares at your company's meeting of stockholders in accordance with your instructions. ***Your vote is very important. Regardless of whether you plan to attend the meeting, please submit your proxy with voting instructions to ensure that your shares are voted.***

**Table of Contents**

**Q: Are there risks that I should consider in deciding whether to vote in favor of the Reorganization Agreement and the other proposals?**

A: Yes. You should read and carefully consider the section of this joint proxy statement/prospectus captioned *RISK FACTORS*, which begins on page 28.

**Q: Who can answer my questions?**

A: If you have questions about the Merger or desire additional copies of this joint proxy statement/prospectus or additional proxy cards, please contact your company or its proxy solicitor at the applicable address below:

**Middlefield stockholders:**

Middlefield Banc Corp.

Attention: Investor Relations

15985 East High Street

P.O. Box 35

Middlefield, Ohio 44062-0035

(440) 632-1666

D.F. King & Co. (Middlefield's Proxy Solicitor)

48 Wall Street

New York, New York 10005

Toll-Free: (800) 967-5084

**Liberty stockholders:**

Liberty Bank, N.A.

Attention: Stockholder Relations

25201 Chagrin Boulevard, Suite 120

Beachwood, Ohio 44122

(216) 359-5500

**Table of Contents**

**SUMMARY**

*This summary highlights selected information from this joint proxy statement/prospectus. It does not necessarily contain all of the information that is important to you. You should read carefully this entire document, including its Annexes, and all other documents to which this joint proxy statement/prospectus refers before you decide how to vote. This summary includes page references directing you to more detailed information.*

**The Companies**

**Middlefield Banc Corp.**

15985 East High Street

P.O. Box 35

Middlefield, Ohio 44062-0035

Phone: (440) 632-1666

Middlefield is a one-bank holding company. Middlefield's principal subsidiary is The Middlefield Banking Company, an Ohio-chartered, nonmember commercial bank. Middlefield's other subsidiary, EMORECO Inc., is an asset resolution corporation dedicated to the resolution and disposition of troubled assets of a central-Ohio bank that Middlefield acquired in 2007, specifically nonperforming loans and other real estate owned (OREO) held by the acquired bank as the result of borrower defaults on real estate-secured loans. That bank, Emerald Bank, operated as a separate subsidiary of Middlefield from 2007 through 2013, merging into The Middlefield Banking Company on January 20, 2014. At the end of September 2016 The Middlefield Banking Company had total assets of \$760.6 million and more than 140 employees.

The Middlefield Banking Company offers a broad range of banking services, including online banking and bill payment services for individuals and online cash management services for business customers at [www.middlefieldbank.com](http://www.middlefieldbank.com). The Middlefield Banking Company's customers are small and medium-sized businesses, professionals, small business owners, and retail customers. Loan products include operational and working capital loans, loans to finance capital purchases, term business loans, residential construction loans, selected guaranteed or subsidized loan programs for small businesses, professional loans, residential and mortgage loans, and consumer installment loans to purchase automobiles or boats, make home improvements, and for other personal expenditures. The bank makes available customary deposit-related products and services, such as checking, savings, negotiable order of withdrawal accounts, money market accounts, time certificates of deposit, safe deposit facilities, and travelers' checks.

The Middlefield Banking Company operates in two distinct and very competitive markets, one in the northeastern Ohio counties of Geauga, Portage, Trumbull, Ashtabula, and Lake. The other market is central Ohio, specifically the Columbus area and Franklin County, the result of the 2007 acquisition of Emerald Bank. Ohio has a high concentration of financial service firms, many of which are significantly larger institutions with greater financial resources. Savings banks, savings and loan associations, commercial banks, mortgage banking companies, credit unions, insurance companies and other financial service companies compete to make loans. Savings and loan associations, savings banks, commercial banks, and credit unions compete for deposits, but non-depository entities such as mutual funds, securities and brokerage firms, and insurance companies also compete for depositors' funds.

The Middlefield Banking Company's operations have historically been concentrated in the area east of Liberty's market, in largely rural areas with a large Amish population. The Middlefield Banking Company's business originated in this market and was not an outgrowth of the nearby Cleveland-area or Akron-area markets. This includes Geauga County, where The Middlefield Banking Company's business began in 1901 and where four of its ten offices are located, and northern Portage County, where two offices are located, with a

## **Table of Contents**

seventh office in Cortland in Trumbull County, an office in Orwell in southern Ashtabula County, and two offices in central Ohio, in Franklin County. The Middlefield Banking Company's eleventh banking office opened in October 2016 in Sunbury, also in central Ohio, in Delaware County. It also has a loan production office in Mentor, in Lake County. The Middlefield Banking Company's northeast Ohio market adjoins the market of Liberty, which is to the immediate west.

Middlefield common stock trades on the Nasdaq Capital Market under the symbol **MBCN**. Middlefield is subject to reporting requirements under the Securities Exchange Act of 1934, filing annual, quarterly, and current reports, proxy statements, and other information with the SEC.

### **Liberty Bank, N.A.**

25201 Chagrin Boulevard, Suite 120

Beachwood, Ohio 44122

Phone: (216) 359-5500

Liberty is a national bank established in October 1990. Liberty currently has approximately 40 employees. Liberty's three bank offices are in Twinsburg in northern Summit County and Beachwood and Solon in eastern Cuyahoga County, Ohio. Liberty common stock is not listed on an exchange or traded over the counter. From inception, Liberty has been associated with the Akron and Cleveland business community and has sought to be a community banking resource for individuals and small business customers seeking the personalized service and local decision-making that distinguish community banks from the much larger regional and national banking institutions dominating the banking markets in Akron and Cleveland.

After the Merger, The Middlefield Banking Company will conduct through Liberty's three bank offices the typical community banking business The Middlefield Banking Company has conducted through its offices since 1901. Both banks are community banks, and although Liberty serves the credit and deposit needs not only of local small businesses but also individuals, Liberty's identity, its physical branch presence, and its marketing focus are more characteristic of a small business bank. The Middlefield Banking Company actively seeks to serve the lending and deposits needs not only of business customers but also individuals, for example individuals seeking home mortgage credit who do not have a preexisting commercial borrowing or deposit relationship with The Middlefield Banking Company. Middlefield believes the Merger will have the consequence of Liberty's office locations being occupied by a community bank with a broader customer focus, with more active consumer marketing of The Middlefield Banking Company's products and services in its new market in Cuyahoga County and Summit County.

### **The Reorganization Agreement (page 78)**

If all of the Reorganization Agreement conditions are satisfied or waived, Liberty will merge into The Middlefield Banking Company, with The Middlefield Banking Company surviving. The Reorganization Agreement is Annex A to this joint proxy statement/prospectus and forms part of this joint proxy statement/prospectus. ***We encourage you to read the Reorganization Agreement carefully. It is the principal legal document governing the Merger.*** Immediately before Liberty merges into The Middlefield Banking Company, an interim bank subsidiary organized by Middlefield will merge into Liberty, with Liberty surviving momentarily before Liberty immediately thereafter merges into The Middlefield Banking Company.





## **Table of Contents**

### **What Liberty stockholders will receive in the Merger (page 79)**

Liberty stockholders will be entitled to receive from Middlefield a combination of cash and Middlefield common stock when the Merger is completed, in addition to a special dividend of approximately \$3.13 per share in cash immediately prior to the completion of the Merger. Subject to allocation procedures in the Reorganization Agreement ensuring that approximately 45% of the outstanding Liberty common stock is converted into Middlefield common stock and the remaining outstanding Liberty common stock is converted into cash, at the effective time of the Merger Liberty common stock not owned by Middlefield will be converted into the right to receive either:

\$37.96 in cash, or

1.1934 shares of Middlefield common stock

Liberty stockholders will own up to approximately 20% of the Middlefield common stock outstanding after the Merger. Middlefield will not issue fractional shares. Instead, a holder of Liberty common stock who would otherwise be entitled to a fractional share (after taking into account all Liberty common stock owned by the holder at the effective time of the Merger) will receive cash, without interest, equal to the product of the fractional share to which the holder would otherwise be entitled multiplied by the volume-weighted average closing sale price of Middlefield common stock for the 30 trading days immediately before the effective time.

It technically is not part of the Merger consideration, but pursuant to the Reorganization Agreement, Liberty must declare a special dividend to stockholders before Merger closing. The special dividend is currently estimated to be approximately \$3.0 million in the aggregate, or \$3.13 per share. Middlefield will not receive Merger consideration for its 23,218 Liberty shares but will be entitled to a proportionate share of the special dividend payment.

### **What holders of Liberty stock options and phantom shares will receive (page 79)**

Liberty's compensation arrangements for officers and employees include equity-based awards, including stock options and phantom awards. There are option awards outstanding for 13,572 shares, all of which are vested, including options held by Liberty's Chief Credit Officer to acquire a total of 4,000 shares. At the effective time of the Merger each outstanding and unexercised option to purchase Liberty common stock will be cancelled in exchange for a cash payment equal to (x) the positive difference between \$41.09 and the exercise price of the option, multiplied by (y) the number of shares of Liberty common stock acquirable by option exercise. There are also outstanding 2,000 phantom share awards made in 2013. The phantom share awards consist of the right to a cash payment equal to the positive difference between Liberty's stock value on December 31, 2016 and the stock value on the award date, multiplied by the number of phantom shares awarded, with value being determined by Liberty's board of directors. The total cash payment for cancellation of the options and phantom awards is estimated to be \$161,931, of which \$62,986 is payable to Liberty's Chief Credit Officer. The \$41.09 figure is the sum of the \$37.96 per share cash Merger consideration and the \$3.13 per share special dividend.

### **Exchange of Liberty common stock certificates (page 79)**

When the Merger is complete, acting as exchange agent, American Stock Transfer & Trust Company, LLC will mail to Liberty stockholders transmittal materials and instructions for exchanging Liberty share certificates for Middlefield common stock to be issued by book-entry transfer.



**Table of Contents**

**Liberty annual meeting of stockholders (page 34)**

The Liberty annual meeting of stockholders will be held at 9:00 a.m., local time, on December 22, 2016 at Corporate College East, 4400 Richmond Road, Warrensville Heights, Ohio 44128 for the purpose of considering and voting on proposals to

adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement,

adjourn the annual meeting if adjournment is necessary to allow solicitation of additional proxies because of insufficient votes to adopt and approve the Reorganization Agreement,

elect twelve directors to serve until the earlier of (i) completion of the Merger or (ii) the 2017 annual meeting and until their successors are elected and qualified,

ratify the appointment of Maloney + Novotny LLC as independent public accountants for the fiscal year ending December 31, 2016, and

transact any other business properly presented at the meeting or at any adjournment or postponement. The Liberty board of directors currently is not aware of any other business to be presented at the meeting. You are entitled to vote at the annual meeting if you owned Liberty common stock as of the close of business on the November 25, 2016 record date. As of that date a total of \_\_\_\_\_ shares of Liberty common stock were outstanding and eligible to vote at the Liberty annual meeting.

**Middlefield special meeting of stockholders (page 44)**

A special meeting of stockholders of Middlefield will be held at 10:00 a.m., local time, on January 10, 2017 at The Middlefield Banking Company, 15985 East High Street, Middlefield, Ohio, 44062 for the purpose of considering and voting on proposals to

approve the transactions under the Reorganization Agreement,

issue up to 563,261 shares of Middlefield common stock in the Merger,

adjourn the special meeting if adjournment is necessary to allow solicitation of additional proxies because of insufficient votes to adopt and approve the Reorganization Agreement, and

transact any other business properly presented at the special meeting or any adjournment or postponement. The Middlefield board of directors currently is not aware of any other business to be presented at the meeting.

You are entitled to vote at the special meeting if you owned Middlefield common stock as of the close of business on the November 17, 2016 record date. As of that date a total of 2,250,893 shares were outstanding and eligible to vote at the Middlefield special meeting.

**Required vote (pages 34, 44)**

*Liberty.* A quorum will exist at Liberty's annual meeting if a majority of the outstanding common stock is represented in person or by proxy. The Reorganization Agreement will be adopted and approved and the transactions contemplated by the Reorganization Agreement will be approved if they receive the affirmative vote of the holders of at least two-thirds of Liberty's outstanding common stock. If there are insufficient votes to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement when the meeting is held, the meeting may be adjourned to allow solicitation of additional proxies. The affirmative vote of the holders of a majority of the shares represented at the meeting in person or by proxy and entitled to vote is necessary to approve adjournment.

---

**Table of Contents**

All of Liberty's directors agreed to vote their Liberty shares in favor of adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement, in favor of the adjournment proposal and in favor of entering into voting agreements with Middlefield as a condition to Middlefield's agreement to enter into the Reorganization Agreement ( *Voting Agreements* ). Excluding Liberty shares held by their immediate family members, Liberty's directors collectively own 354,986 shares of Liberty common stock, or approximately 34.3% of the shares outstanding. The form of Voting Agreement is an exhibit to the Reorganization Agreement attached as Annex A to this joint proxy statement/prospectus. As a group, Liberty's directors, executive officers, and affiliates own 357,889 shares of Liberty common stock, or 34.6% of shares outstanding, with the right to acquire an additional 4,000 shares. As a holder of 23,218 shares of Liberty common stock, or 2.2%, Middlefield intends to vote in favor of adoption and approval of the Reorganization Agreement and approval of the transactions contemplated under the Reorganization Agreement and in favor of the adjournment proposal.

For the proposal to elect directors at Liberty's annual meeting, directors are elected by plurality vote, which means the directors receiving the greatest number of votes are elected. The affirmative vote of the holders of a majority of the shares represented at the meeting in person or by proxy and entitled to vote is necessary to ratify selection of Liberty's independent auditor. Middlefield intends to vote in favor of electing the director nominees identified in this joint proxy statement/prospectus and in favor of ratifying the selection of Liberty's independent auditor.

*Middlefield.* A quorum at Middlefield's special meeting is a majority of the shares outstanding, whether present in person or by proxy. The Reorganization Agreement will be adopted and approved if it receives the affirmative vote of the holders of at least two-thirds of Middlefield's outstanding common stock. If there are insufficient votes to adopt and approve the Reorganization Agreement when the meeting is held, the meeting may be adjourned to allow solicitation of additional proxies. The affirmative vote of the holders of a majority of the votes cast is necessary to approve adjournment. To approve issuance of Middlefield common stock in the Merger, the affirmative vote of a majority of the votes cast is necessary.

As a group, Middlefield's directors, executive officers, and affiliates own 106,138 shares of Middlefield common stock, or 4.72% of shares outstanding, with the right to acquire 28,249 additional shares.

**Recommendation to Liberty stockholders (page 55)**

Liberty's board of directors unanimously approved the Reorganization Agreement and the transactions contemplated by the Reorganization Agreement. Liberty's board believes the Merger is in the best interests of Liberty and its stockholders. The board unanimously recommends that Liberty stockholders vote **FOR** adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement and, if the adjournment proposal is presented for a vote, **FOR** adjournment to allow additional proxy solicitation. Liberty's board considered many factors in this decision, which are described in the section captioned *THE MERGER Background of the Merger* beginning on page 49 and *THE MERGER Liberty's Reasons for the Merger* beginning on page 53 of this joint proxy statement/prospectus. Liberty's board also recommends that stockholders vote **FOR** election of the identified director nominees and **FOR** ratification of the selection of independent accountants.

**Opinion of Liberty's Financial Advisor (page 55)**

On July 27, 2016 Liberty's financial advisor, Boenning & Scattergood, Inc. ( *Boenning* ), delivered to Liberty's board of directors a written opinion concerning the fairness, from a financial point of view, of the Merger consideration to be received by the holders of Liberty common stock. The full text of the opinion,



## Table of Contents

describing the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Boenning, is attached as Annex C to this joint proxy statement/prospectus.

**Boenning's opinion was for the information of and was directed to Liberty's board for the board's consideration of the financial terms of the Merger. The opinion does not pertain to Liberty's underlying business decision to engage in the Merger or enter into the Reorganization Agreement. The opinion does not constitute a recommendation to the Liberty board regarding the Merger and it does not constitute a recommendation to any holder of Liberty common stock or any stockholder of any other entity regarding how to vote on the Merger or on any other proposal.**

### **Recommendation to Middlefield stockholders (page 63)**

Middlefield's board of directors also unanimously approved the Reorganization Agreement. Middlefield's board believes the Merger is in the best interests of Middlefield and its stockholders. The board unanimously recommends that Middlefield stockholders vote **FOR** approval of the transactions contemplated by the Reorganization Agreement, **FOR** issuance of up to 563,261 shares of common stock in the Merger, and **FOR** adjournment to allow additional proxy solicitation if the adjournment proposal is presented for a vote. In reaching this decision Middlefield's board of directors considered many factors as described in the section captioned *THE MERGER Background of the Merger* beginning on page 49 and *THE MERGER Middlefield's Reasons for the Merger* beginning on page 62 of this joint proxy statement/prospectus.

### **Opinion of Middlefield's Financial Advisor (page 63)**

Middlefield's financial advisor, Donnelly Penman & Partners Inc., delivered to Middlefield's board of directors a July 27, 2016 opinion concerning the fairness to Middlefield stockholders, from a financial point of view, of the consideration being paid. Describing the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Donnelly Penman & Partners Inc., the full text of the opinion is attached as Annex D to this joint proxy statement/prospectus.

**Donnelly Penman & Partners Inc.'s opinion was for the information of and was directed to Middlefield's board for its consideration of the financial terms of the Merger. The opinion does not pertain to Middlefield's underlying business decision to engage in the Merger or enter into the Reorganization Agreement. The opinion does not constitute a recommendation to the Middlefield board regarding the Merger and it does not constitute a recommendation to any Middlefield stockholder regarding how to vote on the Merger or on any other proposal.**

### **Material U.S. federal income tax consequences (page 73)**

The U.S. federal income tax consequences of the Merger to a Liberty stockholder will depend on the relative mix of cash and Middlefield common stock received by such Liberty stockholder. Liberty stockholders should not recognize any gain or loss for U.S. federal income tax purposes if they exchange their Liberty shares solely for shares of Middlefield common stock in the Merger, except with respect to cash received in lieu of fractional shares of Middlefield common stock. Liberty stockholders will recognize gain or loss if they exchange their Liberty shares solely for cash in the Merger. Liberty stockholders will recognize gain, but not loss, if they exchange their Liberty shares for a combination of Middlefield common stock and cash, but their taxable gain in that case will not exceed the cash they receive in the Merger. **The tax consequences of the Merger to each Liberty stockholder will depend on such Liberty stockholder's own situation. Liberty stockholders should consult with their own tax advisors for a full understanding of the tax consequences of the Merger to them.** Tucker Ellis LLP has delivered a tax opinion,



dated September 26, 2016, to the effect that the Merger qualifies as a reorganization under Section 368(a) of the Internal Revenue Code. In addition, the completion of

## **Table of Contents**

the Merger is conditioned on receipt of a tax opinion from Tucker Ellis LLP, dated the closing date, to the same effect as the opinion described in the preceding sentence. The opinion will not bind the Internal Revenue Service, which could take a different view.

See *THE MERGER Material U.S. Federal Income Tax Consequences* for a more detailed discussion of the tax consequences of the Merger.

### **Interests of directors and certain executive officers of Liberty (page 72)**

Directors and certain executive officers of Liberty have employment and other compensation agreements or economic interests that give them interests in the Merger that are somewhat different from or in addition to their interests as Liberty stockholders. These interests and agreements include:

two members of the Liberty board of directors will be appointed to Middlefield's board of directors. These directors are Chairman, President, and CEO William A. Valerian and Director Thomas W. Bevan,

all outstanding stock options issued by Liberty to officers and employees will be cancelled in exchange for cash equal to (x) the positive difference between \$41.09 and the exercise price of the option, multiplied by (y) the number of shares of Liberty common stock acquirable by option exercise; of the \$161,931 total payable in cancellation of options and phantom stock, \$62,986 will be paid to Senior Vice President and Chief Credit Officer Craig E. Reay. Mr. Valerian's son holds 1,000 phantom shares, which will be cancelled in exchange for \$15,200 in cash,

Liberty's CEO William A. Valerian and CFO Richard C. Ebner have employment agreements with Liberty. The employment agreements provide that they are entitled to a payment equal to 2.5 times salary when a change in control occurs, payable in equal installments over 30 months, plus payments for the cost of life insurance, long-term disability, and medical benefits over those 30 months. The Merger will constitute a change in control under those employment agreements. Mr. Valerian's total payments are estimated to be \$929,502 and Mr. Ebner's are estimated to be \$716,900,

certain Liberty officers will receive retention bonuses to remain with Liberty through consummation of the Merger,

the Reorganization Agreement provides that Middlefield will consult with Liberty about forming a Northeast Ohio Advisory Board, which would include some of Liberty's current directors, and

the Reorganization Agreement preserves for six years the rights of Liberty's officers and directors to continued indemnification coverage and continued coverage under directors' and officers' liability insurance policies. Each of Middlefield's and Liberty's board of directors was aware of these interests and considered them in approving the Reorganization Agreement and the transactions contemplated by the Reorganization Agreement. See *THE MERGER Interests of Liberty Directors and Executive Officers in the Merger* beginning on page 72 of this joint

proxy statement/prospectus.

**Dissenters' rights of Liberty stockholders (page 48)**

The National Bank Act gives Liberty stockholders the right to dissent from the Merger and elect to have the fair market value of their shares appraised, receiving payment for their shares in cash. To assert dissenters' rights of appraisal, a stockholder must comply with the requirements of the National Bank Act, which include voting against the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement or giving notice in writing at or before Liberty's meeting that the

## **Table of Contents**

stockholder dissents by giving notice to the presiding officer. For more information, see *DISSENTERS RIGHTS* and the copy of the applicable statutory provision attached as Annex B to this joint proxy statement/prospectus.

A Liberty stockholder who has questions regarding dissenters' rights should consult his or her legal advisers.

### **Differences in stockholder rights (page 91)**

Liberty stockholders who receive Middlefield common stock will be Middlefield stockholders when the Merger is completed. As such, their rights will be governed by Middlefield's Second Amended and Restated Articles of Incorporation and Regulations, as well as Ohio law. For a summary of significant differences between the rights of Middlefield stockholders and the rights of Liberty stockholders, see *COMPARISON OF RIGHTS OF LIBERTY AND MIDDLEFIELD STOCKHOLDERS* beginning on page 91 of this joint proxy statement/prospectus.

### **Conditions to the Merger (page 88)**

As more fully described in this joint proxy statement/prospectus and in the Reorganization Agreement, completion of the Merger depends on adoption and approval of the Reorganization Agreement by Middlefield stockholders and by Liberty stockholders, and satisfaction or waiver of other customary merger closing conditions. Middlefield and Liberty desire to complete the Merger in the first quarter of 2017. See *THE REORGANIZATION AGREEMENT Conditions to the Merger* beginning on page 88 of this joint proxy statement/prospectus.

### **Termination; Termination Fee (page 89)**

The Reorganization Agreement may be terminated before the effective time of the Merger, whether before or after approval by Liberty stockholders and Middlefield stockholders:

by mutual written consent of Middlefield and Liberty,

by either Middlefield or Liberty if the other party breaches its covenants or representations and warranties and the breach is not cured within 30 days after written notice or by its nature cannot be cured (provided the terminating party is not also in breach of its covenants or representations and warranties),

by either Middlefield or Liberty if the Merger does not occur by May 30, 2017 (or a later date the parties may agree to), unless the failure to close by that date is the result of the terminating party's breach of covenants or representations and warranties in the Reorganization Agreement,

by either Middlefield or Liberty if the Liberty stockholders or the Middlefield stockholders do not vote to approve the Reorganization Agreement,

by either party if a required governmental approval is denied by final, non-appealable action, or if a governmental entity issues a final, non-appealable order, injunction, or ruling enjoining or otherwise prohibiting consummation of the Merger,

by Middlefield if Liberty becomes subject to a formal bank regulatory enforcement action,

by Middlefield if Liberty's board fails to recommend adoption and approval of the Reorganization Agreement to Liberty stockholders or withdraws or adversely changes the recommendation in favor of the Reorganization Agreement, or if Liberty accepts a competing acquisition proposal, and

**Table of Contents**

by Liberty if it accepts a superior acquisition proposal, but Liberty's termination right is conditioned on Liberty giving to Middlefield notice of the superior proposal and the opportunity to modify Middlefield's merger proposal.

Liberty may be required to pay a termination fee of \$1.65 million to Middlefield if (i) the Reorganization Agreement is terminated as described in the seventh and eighth bullet points above or (ii) if a competing acquisition proposal is made known to Liberty, Middlefield subsequently terminates the Reorganization Agreement, and Liberty enters into a definitive agreement relating to the competing acquisition proposal within one year of the termination of the Reorganization Agreement. See *THE REORGANIZATION AGREEMENT Termination; Termination Fee* beginning on page 89.

---

**Table of Contents**

**SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL DATA**

The following unaudited pro forma condensed combined consolidated balance sheet as of September 30, 2016 and the unaudited pro forma condensed combined consolidated statements of income for the nine months ended September 30, 2016 and for the year ended December 31, 2015 are based on the historical financial statements of Middlefield and Liberty after giving effect to the Merger. The Merger will be accounted for using the acquisition method of accounting in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 805, Business Combinations ( ASC 805 ).

The unaudited pro forma condensed combined consolidated statements of income for the nine months ended September 30, 2016 and for the year end December 31, 2015 give effect to the Merger as of the beginning of all periods presented. The unaudited pro forma condensed combined consolidated balance sheet as of September 30, 2016 assumes that the Merger took place on September 30, 2016.

The unaudited condensed combined consolidated balance sheet and statement of income as of and for the nine months ended September 30, 2016 were derived from Middlefield s unaudited condensed financial statements and Liberty s unaudited condensed financial statements and as of and for the nine months ended September 30, 2016. The unaudited condensed statement of income for the year ended December 31, 2015 was derived from Middlefield s and Liberty s audited statements of income for the year ended December 31, 2015.

The pro forma condensed combined consolidated financial statements reflect management s best estimate of the fair value of the tangible and intangible assets acquired and liabilities assumed. As final valuations are performed, increases or decreases in the fair value of assets acquired and liabilities assumed will result in adjustments, which may be material, to the balance sheet and/or statement of income.

As required, the unaudited pro forma condensed combined consolidated financial data includes adjustments which give effect to the events that are directly attributable to the Merger, expected to have a continuing impact and are factually supportable. We expect that we will incur reorganization and restructuring expenses as a result of combining our companies. We also anticipate that the Merger will provide the combined company with financial benefits that include reduced operating expenses (as compared to the sum of expenses from each company while operating separately) and the opportunity to earn more revenue. The pro forma information does not take into account these expected expenses or anticipated financial benefits, and does not attempt to predict or suggest future results.

The unaudited pro forma condensed combined consolidated financial statements are provided for informational purposes only and are subject to a number of uncertainties and assumptions and do not purport to represent what the companies actual performance or financial position would have been had the Merger occurred on the dates indicated and does not purport to indicate the financial position or results of operations as of any date or for any future period.

Please refer to the following information in conjunction with the accompanying notes to these pro forma financial statements and the historical financial statements and the accompanying notes thereto and the section MANAGEMENT S DISCUSSION AND ANALYSIS OF MIDDLEFIELD S FINANCIAL CONDITION AND RESULTS OF OPERATIONS in this joint proxy statement/prospectus.

**The unaudited pro forma stockholders equity and net income are qualified by the statements set forth under this caption and should not be considered indicative of the market value of Middlefield common stock or the actual or future results of operations of Middlefield for any period. Actual results may be materially different from the pro forma information presented.**





**Table of Contents****UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED BALANCE SHEET****AS OF SEPTEMBER 30, 2016**

(Dollars in Thousands, Except Per Share Amounts)

	<b>HISTORICAL</b>				
	<b>Middlefield</b>				
	<b>Banc Corp.</b>	<b>Liberty Bank, N.A.</b>	<b>Pro Forma Adjustments</b>		<b>Combined Pro Forma</b>
<b>ASSETS</b>					
Cash and due from banks	\$ 21,976	\$ 22,804	\$ (2,933)	<b>A</b>	\$ 32,578
			(1,536)	<b>B</b>	
			(7,166)	<b>C</b>	
			(567)	<b>D</b>	
Fed funds sold	1,300				1,300
<b>Cash and cash equivalents</b>	<b>23,276</b>	<b>22,804</b>	<b>(12,202)</b>		<b>33,878</b>
Investment securities available for sale, at fair value	123,054		(580)	<b>E</b>	122,474
Loans held for sale	880	358			1,238
Loans	586,329	197,400	(3,860)	<b>F</b>	779,869
Less allowance for loan and lease losses	6,334	3,276	(3,276)	<b>G</b>	6,334
<b>Net loans</b>	<b>579,995</b>	<b>194,124</b>	<b>(584)</b>		<b>773,535</b>
Premises and equipment, net	9,921	358			10,279
Goodwill	4,559		11,651	<b>H</b>	16,210
Core deposit intangibles	46		582	<b>I</b>	628
Bank owned life insurance	13,438	1,653			15,091
Other real estate owned	1,205				1,205
Accrued interest and other assets	5,884	2,171	79	<b>J</b>	8,134
<b>TOTAL ASSETS</b>	<b>\$ 762,258</b>	<b>\$ 221,468</b>	<b>\$ (1,054)</b>		<b>\$ 982,672</b>
<b>LIABILITIES</b>					
Noninterest-bearing demand	\$ 136,320	\$ 29,515			\$ 165,835
Interest-bearing demand	67,061	30,197			97,258
Money market	77,774	82,886			160,660
Savings	173,272	9,953			183,225
Time	184,915	35,689	224	<b>K</b>	220,828
<b>Total deposits</b>	<b>639,342</b>	<b>188,240</b>	<b>224</b>		<b>827,806</b>
Short-term borrowings	32,803				32,803
Other borrowings	9,713		12,000	<b>L</b>	21,713
Accrued interest and other liabilities	2,208	1,806			4,014
<b>TOTAL LIABILITIES</b>	<b>\$ 684,066</b>	<b>\$ 190,046</b>	<b>\$ 12,224</b>		<b>\$ 886,336</b>

<b>EQUITY</b>					
Common stock	\$ 47,812	\$ 9,603	\$ (9,603)	<b>M</b>	\$ 66,119
			18,307	<b>N</b>	
Surplus / additional paid in capital		16,977	(16,977)	<b>M</b>	
Retained earnings	40,282	4,842	(4,842)	<b>M</b>	40,119
			(567)	<b>D</b>	
			404	<b>E</b>	
Accumulated other comprehensive income	3,616				3,616
Treasury stock	(13,518)				(13,518)
<b>TOTAL STOCKHOLDERS EQUITY</b>	\$ 78,192	\$ 31,422	\$ (13,278)		\$ 96,336
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>					
	\$ 762,258	\$ 221,468	\$ (1,054)		\$ 982,672

*See accompanying notes to the unaudited pro forma condensed combined consolidated financial statements.*

**Table of Contents****UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED STATEMENT OF INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Dollars in Thousands, Except Per Share Amounts)

	<b>HISTORICAL</b>				<b>Combined Pro Forma</b>
	<b>Middlefield Banc Corp.</b>	<b>Liberty Bank, N.A.</b>	<b>Pro Forma Adjustments</b>		
<b>INTEREST INCOME</b>					
Interest and fees on originated loans	\$ 18,949	\$ 7,202	\$ 271	<b>F</b>	\$ 26,422
Interest-bearing deposits in other institutions	42	119			161
Federal funds sold	16				16
Investment securities:	3,092				3,092
Dividends on stock	74	34			108
<b>Total interest income</b>	<b>22,173</b>	<b>7,355</b>	<b>271</b>		<b>29,799</b>
<b>INTEREST EXPENSE</b>					
Deposits	2,665	621	(146)	<b>K</b>	3,140
Short-term borrowings	282				282
Other borrowings	53		348	<b>L</b>	401
Trust preferred securities	117				117
<b>Total interest expense</b>	<b>3,117</b>	<b>621</b>	<b>202</b>		<b>3,940</b>
<b>Net interest income</b>	<b>19,056</b>	<b>6,734</b>	<b>69</b>		<b>25,859</b>
Provision for loan losses	315				315
<b>Net interest income after provision for loan and lease losses</b>	<b>18,741</b>	<b>6,734</b>	<b>69</b>		<b>25,544</b>
<b>NONINTEREST INCOME</b>					
Service charges on deposit accounts	1,443	240			1,683
Investment securities gains, net	303				303
Earnings on bank-owned life insurance	298	27			325
Gains on sale of loans	322	530			852
Other income	693	285			978
<b>Total noninterest income</b>	<b>3,059</b>	<b>1,082</b>			<b>4,141</b>
<b>NONINTEREST EXPENSE</b>					
Salaries and employee benefits	7,740	3,258			10,998
Occupancy expense	933	390			1,323
Equipment expense	700	152			852

Edgar Filing: MIDDLEFIELD BANC CORP - Form S-4/A

Data processing costs	928	315			1,243
Core deposit intangible amortization	30		50	<b>I</b>	80
Other expense	5,584	1,185			6,769
<b>Total noninterest expense</b>	<b>15,915</b>	<b>5,300</b>	<b>50</b>		<b>21,265</b>
Income before taxes	5,885	2,516	19		8,420
Income taxes	1,129	856	7	<b>O</b>	1,992
<b>NET INCOME</b>	<b>\$ 4,756</b>	<b>\$ 1,660</b>	<b>\$ 12</b>		<b>\$ 6,428</b>
Less: Income attributable to common stock subject to possible conversion					
Pro forma net income attributable to common stock not subject to possible conversion	\$ 4,756	\$ 1,660	\$ 12		\$ 6,428
Pro forma net income per common share basic	\$ 2.31	\$ 1.73			\$ 2.59
Pro forma net income per common share diluted	2.30	1.71			2.58
Weighted average number of shares outstanding basic	2,059,656	959,115	515,695	<b>N</b>	2,480,352
Weighted average number of shares outstanding diluted	2,068,532	969,433	515,695	<b>N</b>	2,488,874

*See accompanying notes to the unaudited pro forma condensed combined financial statements.*

**Table of Contents**

**UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED STATEMENT OF INCOME  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015**

(Dollars in Thousands, Except Per Share Amounts)

	<b>HISTORICAL</b>				<b>Combined Pro Forma</b>
	<b>Middlefield Banc Corp.</b>	<b>Liberty Bank, N.A.</b>	<b>Pro Forma Adjustments</b>		
<b>INTEREST INCOME</b>					
Interest and fees on originated loans	\$ 23,824	\$ 8,282	\$ 359	<b>F</b>	\$ 32,465
Interest-bearing deposits in other institutions	33	91			124
Federal funds sold	13				13
Investment securities:	4,627				4,627
Dividends on stock	98	66			164
<b>Total interest income</b>	<b>28,595</b>	<b>8,439</b>	<b>359</b>		<b>37,393</b>
<b>INTEREST EXPENSE</b>					
Deposits	3,426	950	(167)	<b>K</b>	4,209
Short-term borrowings	194				194
Other borrowings	83		464	<b>L</b>	547
Trust preferred securities	117				117
<b>Total interest expense</b>	<b>3,820</b>	<b>950</b>	<b>297</b>		<b>5,067</b>
<b>Net interest income</b>	<b>24,775</b>	<b>7,489</b>	<b>62</b>		<b>32,326</b>
Provision for loan losses	315				315
<b>Net interest income after provision for loan and lease losses</b>	<b>24,460</b>	<b>7,489</b>	<b>62</b>		<b>32,011</b>
<b>NONINTEREST INCOME</b>					
Service charges on deposit accounts	1,874	282			2,156
Investment securities gains, net	323				323
Earnings on bank-owned life insurance	624	54			678
Gains on sale of loans	329	476			805
Other income	894	330			1,224
<b>Total noninterest income</b>	<b>4,044</b>	<b>1,142</b>			<b>5,186</b>
<b>NONINTEREST EXPENSE</b>					
Salaries and employee benefits	9,751	3,703			13,454
Occupancy expense	1,253	493			1,746
Equipment expense	944	212			1,156

Edgar Filing: MIDDLEFIELD BANC CORP - Form S-4/A

Data processing costs	1,071	418			1,489
Core deposit intangible amortization	40		67	<b>I</b>	107
Other expense	7,018	1,070			8,088
<b>Total noninterest expense</b>	<b>20,077</b>	<b>5,896</b>	<b>67</b>		<b>26,040</b>
Income before taxes	8,427	2,735	(5)		11,157
Income taxes	1,562	943	(2)	<b>O</b>	2,503
<b>NET INCOME</b>	<b>\$ 6,865</b>	<b>\$ 1,792</b>	<b>\$ (3)</b>		<b>\$ 8,654</b>
Less: Income attributable to common stock subject to possible conversion	\$	\$	\$		\$
Pro forma net income attributable to common stock not subject to possible conversion	\$ 6,865	\$ 1,792	\$ (3)		\$ 8,654
Pro forma net income per common share basic	\$ 3.41	\$ 1.88			\$ 3.42
Pro forma net income per common share diluted	3.39	1.86			3.41
Weighted average number of shares outstanding basic	2,014,966	954,033	515,695	<b>N</b>	2,530,130
Weighted average number of shares outstanding diluted	2,024,120	962,091	515,695	<b>N</b>	2,539,284

*See accompanying notes to the unaudited pro forma condensed combined financial statements.*

**Table of Contents****Notes to Unaudited Pro Forma Condensed Combined Consolidated Balance Sheets and Income Statements****(Dollars in thousands)****1) Description of the Merger and Basis of Preparation****The Merger**

Upon consummation of the Merger Middlefield Banc Corp. will continue to operate as a bank holding company under that name. Pursuant to the Reorganization Agreement, Liberty will merge with and into The Middlefield Banking Company, a subsidiary of Middlefield, with The Middlefield Banking Company being the surviving entity and remaining Middlefield s wholly owned subsidiary.

**Basis of Presentation**

The unaudited pro forma condensed combined consolidated financial statements have been prepared based on Middlefield s and Liberty s historical financial information. Certain disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted as permitted by SEC rules and regulations.

These unaudited pro forma condensed combined consolidated financial statements are not necessarily indicative of the results of operations that would have been achieved had the Merger actually taken place at the dates indicated and do not purport to be indicative of future financial condition or operating results.

**2) Acquisition Method**

The pro forma condensed combined consolidated financial statements reflect the accounting for the transaction in accordance with ASC 805. Under the acquisition method, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values, with any excess of the purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill.

The purchase price allocation for Liberty is summarized as follows (in thousands):

Cash to holders of Liberty common stock	\$ 19,166
Value of Liberty common stock owned by Middlefield	984
Middlefield common stock to holders of Liberty common stock	18,307
<b>Total purchase price</b>	<b>38,457</b>
Allocated to:	
Historical book value of Liberty s assets and liabilities	31,422
Pre-closing special dividend to Liberty s common stockholders	(2,933)
Pre-closing cash out of existing Liberty stock options	(1,536)
Historical book value of Liberty s assets and liabilities to be allocated	26,953

To adjust Liberty's assets and liabilities to fair value:

Loans	(3,860)
Elimination of allowance for loan and lease losses	3,276
Core deposit intangible	582
Net deferred tax asset	79
Time deposits	(224)
Total allocation of purchase price	(147)
Excess of purchase price over allocation of identifiable assets and liabilities	\$ 11,651



**Table of Contents****3) Pro Forma Adjustments and Assumptions**

- A. Represents payment of special dividend to Liberty common stockholders prior to execution of the transaction.

Special dividend per share	\$ 3.13
Outstanding number of shares	960,273
<b>Total special dividends</b>	<b>\$ 3,006</b>
Liberty shares held by Middlefield	23,218
Special dividends paid in cash	\$ 2,933

- B. Represents cashing out of existing Liberty stock options and phantom stock.

Special dividend per share	\$ 3.13
Consideration per share (market value of \$35.50, 1.1934 exchange rate)	42.37
<b>Total consideration per share</b>	<b>\$ 45.50</b>
Stock options and phantom stock weighted average strike price	28.54
<b>Cash out of options and phantom stock per share</b>	<b>16.96</b>
Stock options and phantom stock outstanding	90,571
<b>Total option and phantom stock consideration</b>	<b>\$ 1,536</b>

- C. Represents the cash component of the purchase price.

Cash consideration per share	\$ 37.96
Outstanding number of shares	960,273
Anticipated cash conversion rate	52.58%
<b>Total cash consideration</b>	<b>\$ 19,166</b>
Cash proceeds from new debt	12,000
<b>Net cash outflow</b>	<b>\$ 7,166</b>

- D. Represents payment of \$872 of fees to financial advisors, net of 35% anticipated tax effect, payable upon the closing of the acquisition. The fees are non-recurring items directly attributable to the closing of the transaction and are not expected to have a continuing impact on operations and therefore are not included in the Unaudited Pro Forma Statement of Income.

- E. Reflects elimination of Middlefield's minority investment in Liberty, carried at \$580, and related gain realized as a result of the transaction.

Carrying value of Liberty stock	\$ 580
Closing price of common stock as of November 16, 2016	35.50
Liberty shares held by Middlefield	23,218
Fixed exchange ratio of common stock	1.1934
Middlefield realized gain on Liberty stock	\$ 404

**Table of Contents**

- F. Reflects the pro forma purchase accounting adjustment of Liberty's loan portfolio to fair value. The preliminary fair value adjustment will be accreted over the loans' remaining life on a level yield basis. The initial pro forma amount recorded to the balance sheet as of the acquisition date and subsequent accretion, including the related impact to the provision for loan losses, are as follows:

Book value:	\$ 197,400
Fair value:	193,540
Fair value adjustment:	(3,860)
Accretion:	
For the year ended December 31, 2015	359
For the nine months ended September 30, 2016	271

- G. Represents elimination of Liberty's allowance for loan and lease losses of \$3,276 as of the acquisition date.
- H. Reflects the pro forma adjustment to goodwill of \$11,651, representing the excess of the purchase price over the fair value of net assets to be acquired.
- I. Reflects the pro forma impact of the core deposit intangible asset of Liberty. The preliminary fair value adjustment will be amortized over ten years on an accelerated basis. The initial pro forma amount recorded to the balance sheet as of the acquisition date and subsequent amortization are as follows:

Fair value:	\$ 582
Amortization:	
For the year ended December 31, 2015	67
For the nine months ended September 30, 2016	50

- J. Reflects creation of a net deferred tax asset resulting from purchase accounting adjustments, estimating a 35% tax rate.
- K. Reflects the pro forma purchase accounting adjustment of Liberty's time deposits to fair value. The preliminary fair value adjustment will be accreted over the life of the time deposits on a level yield basis. The initial pro forma amount recorded to the balance sheet as of the acquisition date and subsequent accretion are as follows:

Book value:	\$ 35,689
Fair value:	35,913
Fair value adjustment:	224
Accretion:	

For the year ended December 31, 2015	167
For the nine months ended September 30, 2016	146

- L. Reflects new Middlefield debt of \$12,000 at a blended interest rate of 3.86% utilized to finance the transaction. Borrowings include an \$8,000 facility at 3.78% (1-month LIBOR plus 325 basis points) and a \$4,000 facility at 4.03% (1-month LIBOR plus 350 basis points).
  
- M. Reflects the elimination of Liberty's historical net equity of approximately \$31,422 as a result of the acquisition.

**Table of Contents**

N. Represents the common stock component of the purchase price.

Closing price of common stock as of November 16, 2016	\$ 35.50
Outstanding number of shares	960,273
Fixed exchange ratio of common stock	1.1934
Anticipated stock conversion rate	45.00%
Total stock consideration	\$ 18,307
New shares of common stock issued	515,695

O. Reflects tax impact of accretion and amortization of purchase accounting adjustments, assuming a 35% tax rate.

Table of Contents**UNAUDITED COMPARATIVE PER SHARE DATA**

The following table summarizes selected share and per share information about Middlefield and Liberty, giving effect to the Merger (known as pro forma information). The data in the table should be read together with the financial information and the financial statements of Middlefield and Liberty incorporated by reference or included in this joint proxy statement/prospectus. The pro forma information is presented as an illustration only, does not represent actual combined financial position per share or combined results of operations per share, and is not a forecast of the combined financial position or combined results of operations for any future period.

The information about book value per share and shares outstanding assumes that the Merger took place as of the dates presented and is based on the assumptions set forth in the preceding unaudited pro forma condensed combined consolidated balance sheets. The information about dividends and earnings per share assumes that the Merger took place as of the beginning of the periods presented and is based on the assumptions set forth in the preceding unaudited pro forma condensed combined consolidated income statements. No pro forma adjustments have been included to reflect potential effects of the Merger related to integration expenses, cost savings, or operational synergies Middlefield expects by combining the operations of Middlefield and Liberty, or to reflect the costs of combining the companies and their operations other than Merger-related expenses. It is further assumed that Middlefield will pay a cash dividend after completion of the Merger at the annual rate of \$1.20 per share. The actual payment of dividends is subject to numerous factors, and no assurance can be given that Middlefield will pay dividends after the Merger or that dividends will not be reduced in the future.

	<b>Middlefield Historical</b>	<b>Liberty Historical</b>	<b>Pro Forma Combined (1)(2)(3)</b>	<b>Equivalent Pro Forma Liberty (4)</b>
<b>Basic Net Income Per Share</b>				
Nine Months Ended September 30, 2016	2.31	1.73	2.59	3.09
<b>Diluted Income Per Share</b>				
Nine Months Ended September 30, 2016	2.30	1.71	2.58	3.08
<b>Dividends Declared Per Share</b>				
Nine Months Ended September 30, 2016	0.81	0.60	0.68	0.81
<b>Book Value Per Share</b>				
September 30, 2016	34.80	32.72	34.87	41.62

	<b>Middlefield Historical</b>	<b>Liberty Historical</b>	<b>Pro Forma Combined (1)(2)(3)</b>	<b>Equivalent Pro Forma Liberty (4)</b>
<b>Basic Net Income Per Share</b>				
Year Ended December 31, 2015	3.41	1.88	3.42	4.08
<b>Diluted Income Per Share</b>				
Year Ended December 31, 2015	3.39	1.86	3.41	4.07
<b>Dividends Declared Per Share</b>				
Year Ended December 31, 2015	1.07	0.60	1.08	1.29
<b>Book Value Per Share</b>				
December 31, 2015	33.19	31.59	33.62	40.12

(1)

The pro forma combined book value per share of Middlefield common stock is based on the pro forma combined common stockholders' equity for the merged entities divided by total pro forma shares of the combined entities.

- (2) Pro forma dividends per share represent Middlefield historical dividends per share.
- (3) The pro forma combined diluted net income per share of Middlefield common stock is based on the pro forma combined diluted net income for the merged entities divided by total pro forma diluted shares of the combined entities.
- (4) Represents the Pro Forma Combined information multiplied by the 1.1934 exchange ratio.

**Table of Contents****MARKET PRICE AND DIVIDEND INFORMATION**

Middlefield's common stock trades on the Nasdaq Capital Market under the symbol MBCN. Liberty's common stock does not trade in an established market. Trades in Liberty common stock that occur are the result of direct, private negotiation between buyers and sellers. Accordingly, the management of Liberty does not have information with respect to the price at which all of its common stock has traded. Liberty has 272 stockholders of record.

Liberty paid total cash dividends on its common stock of \$0.60 per share in 2015 and \$0.40 per share for the first six months of 2016. Liberty has not declared any stock dividends on its common stock during the two most recently completed fiscal years.

A summary of the high and low bid prices of and cash dividends paid on Middlefield common stock for the first nine months of 2016 and for the 2015 and 2014 fiscal years follows. This information does not reflect retail mark-up, markdown or commissions, and does not necessarily represent actual transactions.

	<b>High Bid</b>	<b>Low Bid</b>	<b>Dividend</b>
<b>2014</b>			
First Quarter	28.00	26.00	0.26
Second Quarter	30.50	27.05	0.26
Third Quarter	35.70	28.55	0.26
Fourth Quarter	34.50	33.00	0.26
<b>2015</b>			
First Quarter	34.82	31.50	0.26
Second Quarter	33.65	31.60	0.27
Third Quarter	34.00	30.20	0.27
Fourth Quarter	34.75	28.90	0.27
<b>2016</b>			
First Quarter	34.00	30.00	0.27
Second Quarter	33.00	30.00	0.27
Third Quarter	33.95	31.35	0.27

On July 27, 2016, the last trading day before the Merger was announced, the closing price of Middlefield common stock was \$33.74. The closing price was \$ on the more recent date of , 2016. The table to follow presents the implied value of Liberty common stock based on those prices for Middlefield common stock and the 1.1934 fixed exchange ratio. We can give no assurance of what the market price of Middlefield common stock will be if and when the Merger is completed.

<b>closing price of Middlefield common stock on Nasdaq</b>	<b>implied value per share of Liberty common stock at the 1.1934 fixed exchange</b>
--	---



		<b>ratio</b>
July 27, 2016	33.74	40.27
, 2016		

---

**Table of Contents****RISK FACTORS**

*This RISK FACTORS section identifies some of the significant factors that make investment in Middlefield common stock speculative or risky, but it does not purport to present an exhaustive description of all significant risks. You should carefully consider the following risk factors before you decide how to vote concerning the proposals presented in this joint proxy statement/prospectus. You should also consider the other information in this joint proxy statement/prospectus, including but not limited to the section captioned FORWARD-LOOKING STATEMENTS, and information in any documents incorporated by reference in this joint proxy statement/prospectus. See WHERE YOU CAN FIND MORE INFORMATION in the forepart of this document*

***Because the market value of Middlefield common stock fluctuates, Liberty stockholders cannot be sure of the value of the stock portion of the Merger consideration they may receive.***

Approximately 45% of the Liberty shares of common stock exchanged in the Merger will be exchanged for Middlefield common stock, and the remaining Liberty shares of common stock exchanged in the Merger (approximately 55%) will be exchanged for cash. This does not take into account the special dividend of approximately \$3.0 million, to be declared before closing of the Merger. The cash portion of the Merger consideration is fixed at \$37.96 per share, and the stock portion also is fixed at 1.1934 shares of Middlefield common stock for each share of Liberty common stock exchanged for stock. Changes in the price of Middlefield common stock before the Merger is completed will affect the value of the stock portion of the Merger consideration. Changes may result from many factors, including but not limited to general market and economic conditions and changes in Middlefield's business, operations, and prospects. Therefore, when Liberty stockholders vote on the Merger they will not know the final aggregate value of the Merger consideration to be received. Liberty stockholders should obtain current sale prices for Middlefield common stock before voting at the Liberty annual meeting.

***You may receive a form of consideration different from the form of consideration you elect***

Under the terms of the Reorganization Agreement, stockholders of Liberty will be entitled to receive, for each share of Liberty common stock: (i) \$37.96 in cash, or (ii) 1.1934 Middlefield common shares, or (iii) a combination of both. The form of consideration to be received by each Liberty stockholder is subject to reallocation in order to ensure that approximately 45% of the Liberty shares of common stock exchanged in the merger will be exchanged for Middlefield's common shares and 55% of the Liberty shares of common stock exchanged in the merger will be exchanged for cash. The Reorganization Agreement contains proration and allocation methods to achieve this result. If you elect to receive all cash and the available cash is oversubscribed, then you may receive a portion of the Merger consideration in the form of Middlefield common shares. If you elect to receive all Middlefield common shares and the available common shares are oversubscribed, then you may receive a portion of the Merger consideration in cash. If you elect a combination of cash and Middlefield's common shares, you may not receive the specific combination you request.

***Middlefield could experience difficulties managing its growth and effectively integrating the operations of Liberty.***

The earnings, financial condition and prospects of Middlefield after the Merger will depend in part on Middlefield's ability to integrate successfully the operations of Liberty and continue to implement Middlefield's business plan. Middlefield may not be able to fully achieve its strategic objectives and projected operating efficiencies. The costs or difficulties of integrating Liberty with the Middlefield organization may be greater than expected or the cost savings from anticipated economies of scale of the combined organization may be lower or take longer to realize than expected. Inherent uncertainties exist in integrating the operations of an acquired entity, and Middlefield may encounter difficulties, including but not limited to loss of key employees and customers, disruption of its ongoing

business, or possible inconsistencies in standards, controls, procedures, and policies. These factors could contribute to Middlefield not fully achieving its anticipated benefits of the Merger.

---

**Table of Contents**

***The Reorganization Agreement limits Liberty's ability to pursue alternatives to the Merger.***

With limited exceptions, the Reorganization Agreement prohibits Liberty from soliciting, negotiating, or providing confidential information to any third party relating to competing proposals for acquisition of Liberty. In addition, Liberty must pay \$1.65 million to Middlefield for termination of the Reorganization Agreement if (a) Middlefield terminates the Reorganization Agreement because Liberty accepts another acquisition proposal, or withdraws its recommendation or fails to recommend to the stockholders adoption of the Reorganization Agreement, or breaches the prohibition against soliciting other acquisition proposals, or (b) Liberty terminates the Reorganization Agreement with the intention of accepting an alternate, superior proposal. Liberty's obligation to make the payment could discourage another company from making a competing proposal.

***The circumstances of Liberty and Middlefield may have changed since the date of the fairness opinions obtained from Liberty's and Middlefield's financial advisors.***

Liberty's board of directors received an opinion dated July 27, 2016 from its financial advisor and Middlefield's board received a July 27, 2016 opinion from its financial advisor concerning the fairness of the Merger consideration from a financial point of view. Subsequent changes in the operation and prospects of Liberty or Middlefield, changes in general market and economic conditions, and other factors that may be beyond the control of Liberty or Middlefield could significantly alter the value of Liberty or Middlefield or the price of Middlefield common stock by the time the Merger is completed. The opinions state that the Merger consideration is fair from a financial point of view on the date of the opinion, not as of the date the Merger is finally completed or as of any other date. The opinion of Liberty's financial advisor is attached as Annex C to this joint proxy statement/prospectus. The opinion of Middlefield's financial advisor is attached as Annex D. For a description of the opinions, see *THE MERGER Opinion of Liberty's Financial Advisor* on page 55 and *THE MERGER Opinion of Middlefield's Financial Advisor* on page 63 of this joint proxy statement/prospectus.

***Middlefield and Liberty stockholders will have a reduced ownership and voting interest after the Merger and will exercise less influence over management of the combined organization.***

The Merger will dilute the ownership position of Middlefield stockholders and result in Liberty's stockholders having an ownership stake in the combined company that is smaller than their current 100% stake in Liberty. Upon completion of the Merger, we estimate that continuing Middlefield stockholders will own approximately 80% of the issued and outstanding common stock of Middlefield, while former Liberty stockholders will own approximately 20%. Middlefield stockholders and Liberty stockholders will therefore have less influence over the management and policies of the post-Merger organization than they currently have.

***Failure to complete the Merger could adversely affect the value of Liberty common stock and future businesses and financial results of both Middlefield and Liberty.***

If the Merger is not completed, the ongoing businesses of Middlefield and Liberty could be adversely affected. Middlefield and Liberty would be subject to several risks, including:

Middlefield and Liberty will have to pay costs even if the Merger is not completed, such as legal, accounting, financial advisor, and printing fees,

under the Reorganization Agreement, Liberty is subject to restrictions regarding the conduct of its business before completing the Merger, which could adversely affect Liberty's ability to execute business strategies, and

the Merger requires substantial commitments of time and resources by Middlefield and Liberty management, which would instead be devoted to other opportunities that could be beneficial to Middlefield and Liberty as independent companies.

---

**Table of Contents**

In addition, if the Merger is not completed, Middlefield and Liberty may experience negative reactions from their respective customers and employees. Employees could resign and obtain other employment as a result of the potential Merger or failure to complete the Merger. Middlefield or Liberty also could be subject to litigation related to failure to complete the Merger.

***The Middlefield common stock received by Liberty stockholders upon completion of the Merger will have different rights from Liberty shares.***

When the Merger is completed, Liberty stockholders receiving the stock form of Merger consideration will no longer be stockholders of Liberty but will instead be Middlefield stockholders, with rights governed by the Ohio Revised Code and Middlefield's articles of incorporation and regulations, which are in some respects materially different from the terms of Liberty's Bylaws and Amended and Restated Articles of Association. See *COMPARISON OF RIGHTS OF LIBERTY AND MIDDLEFIELD STOCKHOLDERS* on page 91 of this joint proxy statement/prospectus.

***Liberty directors and certain of Liberty's officers have interests that are different from, or in addition to, interests of Liberty's stockholders generally.***

The directors and certain executive officers of Liberty have interests in the Merger that are different from, or in addition to, the interests of Liberty stockholders generally. These interests include covenants in the Reorganization Agreement providing for the election of two current Liberty directors (Messrs. Valerian and Bevan), to the Middlefield board of directors immediately after the Merger is consummated, indemnification and insurance for directors and officers of Liberty for events occurring before the Merger as well as the possible formation of a Northeast Ohio Advisory Board that would include some current Liberty directors. In addition, the Reorganization Agreement provides for retention payments to be made to certain officers and the payment of amounts due under employment agreements with Liberty's Chairman and President and with its Chief Operating Officer and Chief Financial Officer.

***Liberty will be subject to business uncertainties and contractual restrictions while the Merger is pending.***

Uncertainty about the effect of the Merger on employees and customers may have an adverse effect on Liberty and consequently on Middlefield. These uncertainties may impair Liberty's ability to attract, retain and motivate key personnel until the Merger is consummated, and could cause customers and others that deal with Liberty to seek to change existing business relationships with Liberty. Retention of certain employees may be challenging during the pendency of the Merger, as certain employees may experience uncertainty about their future roles with Middlefield. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Middlefield, Middlefield's business following the Merger could be harmed. In addition, the Reorganization Agreement restricts Liberty from making certain acquisitions and taking other specified actions until the Merger occurs without the consent of Middlefield. These restrictions may prevent Liberty from pursuing attractive business opportunities that may arise prior to the completion of the Merger. Please see the section entitled *THE REORGANIZATION AGREEMENT - Covenants and Agreements* beginning on page 79 of this proxy statement/prospectus for a description of the restrictive covenants to which Liberty is subject under the Reorganization Agreement.

***Completion of the Merger is subject to many conditions and if these conditions are not satisfied or waived, the Merger will not be completed.***

The obligation of Middlefield and Liberty to complete the Merger is subject to the fulfillment or written waiver of many conditions, including approval by the requisite vote of Middlefield and Liberty stockholders, absence of orders

prohibiting completion of the Merger, effectiveness of the registration statement of which this document is a part, approval for Nasdaq Stock Market ( Nasdaq ) listing of the Middlefield shares to be issued, continued accuracy of the representations and warranties of the parties, and performance by the parties of

**Table of Contents**

covenants and agreements. See *THE REORGANIZATION AGREEMENT Conditions to the Merger* on page 88 of this joint proxy statement/prospectus. These conditions to the consummation of the Merger might not be fulfilled, and the Merger therefore might not be completed. If the Merger is not completed by May 30, 2017 (or a later date the parties may agree to), either Middlefield or Liberty could choose not to proceed with the Merger. The parties also could mutually decide to terminate the Reorganization Agreement at any time, before or after approval by stockholders. In addition, Middlefield or Liberty could elect to terminate the Reorganization Agreement in other circumstances. See *THE REORGANIZATION AGREEMENT Termination; Termination Fee* on page 89 of this joint proxy statement/prospectus for details or refer to Article 10 of the Reorganization Agreement attached as Annex A.



**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus contains forward-looking statements, including statements about Middlefield's, Liberty's, and the post-Merger organization's financial condition, results of operations, earnings outlook, asset quality trends, and profitability. Forward-looking statements express Middlefield and Liberty management's current expectations or forecasts of future events. By their nature the forward-looking statements are subject to assumptions, risks, and uncertainties. Statements contained in this joint proxy statement/prospectus that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, or the Reform Act, even if the statements are not specifically identified as forward looking. In addition, statements in future filings of Middlefield with the SEC, in press releases, and in oral and written statements made by or with the approval of Middlefield or Liberty that are not statements of historical fact constitute forward-looking statements within the meaning of the Reform Act. Examples of forward-looking statements include but are not limited to:

statements about the benefits of the Merger, including future financial and operating results, cost savings, enhanced revenues, and accretion to reported earnings that may be realized from the Merger,

statements regarding plans, objectives, and expectations of Middlefield or Liberty or their respective management or boards of directors,

statements regarding future economic performance, and

statements regarding underlying assumptions.

Words such as believes, anticipates, expects, intends, targeted, continue, remain, will, should, may expressions are intended to identify forward-looking statements but are not the exclusive means of identifying forward-looking statements. Forward-looking statements are not guarantees of future performance. They involve certain risks, uncertainties, and assumptions that are difficult to predict with confidence. Therefore, actual outcomes and results could differ materially from what is expressed or forecasted in the forward-looking statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include but are not limited to:

the risk that the businesses of The Middlefield Banking Company and Liberty will not be integrated successfully or that integration is more difficult, time-consuming, or costly than expected,

the risk that revenue synergies and cost savings from the Merger are not fully realized or are not realized within the expected time frame,

the risk that post-Merger revenues or earnings are lower than expected,

deposit attrition, operating costs, customer loss, business disruption, or employee loss after the Merger could be greater than anticipated,

failure of Middlefield or Liberty stockholders to approve the Merger,

local, regional, national, and international economic conditions and the impact they may have on The Middlefield Banking Company and Liberty and their customers and Middlefield's and Liberty's assessments of that impact,

changes in the level of non-performing assets, delinquent loans, and charge-offs,

material changes in the value of Middlefield common stock,

changes in estimates of future loan loss reserve requirements based upon periodic review in accordance with regulatory and accounting requirements,

the risk that management's assumptions and estimates used in applying critical accounting policies prove unreliable, inaccurate, or not predictive of actual results,

**Table of Contents**

inflation, interest rate, securities market, and monetary fluctuations,

changes in interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity,

competitive pressures among depository and other financial institutions could increase and adversely affect pricing, spending, third-party relationships, and revenues,

changes in applicable laws and regulations (including laws and regulations concerning taxes, banking, and securities),

the effects of and changes in trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve,

legislation affecting the financial services industry as a whole, and/or Middlefield and its subsidiaries, individually or collectively,

governmental and public policy changes, and

the impact of various domestic or international military or terrorist actions or conflicts.

All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters and attributable to Middlefield or Liberty or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements made or referred to above. Forward-looking statements are made only as of the date on which they are made. Middlefield and Liberty are not undertaking to update forward-looking statements.

**Table of Contents**

**THE ANNUAL MEETING OF LIBERTY STOCKHOLDERS**

**Time, Date and Place**

This joint proxy statement/prospectus is provided to Liberty stockholders by Liberty's board of directors for solicitation of proxies to be used at the annual meeting of stockholders. The annual meeting will be held at 9:00 a.m. local time on December 22, 2016 at Corporate College East, 4400 Richmond Road, Warrensville Heights, Ohio 44128, including any adjournment. This joint proxy statement/prospectus is also being furnished by Middlefield to Liberty stockholders as a prospectus for issuance of Middlefield common stock in the proposed Merger.

**Matters to be Considered**

Liberty stockholders will be asked at the annual meeting to consider and vote upon proposals to

adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement,

adjourn the meeting to allow solicitation of additional proxies if there are insufficient votes at the meeting to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement,

elect twelve directors to serve until the earlier of (i) completion of the Merger or (ii) Liberty's 2017 annual meeting and until their successors are elected and qualified,

ratify the appointment of Maloney + Novotny LLC as independent public accountants for the fiscal year ending December 31, 2016, and

transact any other business properly presented at the annual meeting or at any adjournment. Liberty's board of directors is not aware of any other business to be transacted at the meeting.

Liberty's board of directors believes the Merger with Middlefield is in the best interests of Liberty stockholders. The board recommends that you vote (1) **FOR** adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement, (2) if the adjournment proposal is presented for a vote, **FOR** adjournment to allow additional proxy solicitation, (3) **FOR** election of the identified director nominees, and (4) **FOR** ratification of the selection of independent accountants.

**Record Date; Shares Outstanding and Entitled to Vote**

November 25, 2016 is the record date for determining Liberty stockholders entitled to vote at the annual meeting. Only holders of Liberty common stock at the close of business on the record date are entitled to vote at the meeting. As of the close of business on the record date there were \_\_\_\_\_ shares of Liberty common stock outstanding and entitled to vote. Liberty common stock is held of record by 272 stockholders. Each share of Liberty common stock entitles the holder to one vote on all matters properly presented at the meeting. Stockholders are not

entitled to vote cumulatively in the election of directors.

**Votes Required; Quorum**

Adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement require the affirmative vote of the holders of at least two-thirds of the shares of Liberty common stock outstanding. When the stockholder meeting is held, if there are insufficient votes to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement the meeting may be adjourned to allow solicitation of additional proxies. The affirmative vote of the holders of a majority of the shares represented at the meeting in person or by proxy and entitled to vote is necessary to approve adjournment. For the proposal to elect directors, directors are elected by plurality vote,

**Table of Contents**

which means the directors receiving the greatest numbers of votes are elected. The affirmative vote of the holders of a majority of the shares represented at the meeting in person or by proxy and entitled to vote is necessary to ratify selection of Liberty's independent accountants.

If you are a Liberty stockholder and you do not return a proxy card or vote in person at the Liberty annual meeting or if you mark the proxy card or ballot **ABSTAIN** for the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement, this will have the same effect as a vote **AGAINST** the proposal. Marking your proxy card or ballot **ABSTAIN** will have the same effect as a vote **AGAINST** the adjournment proposal and the auditor ratification proposal. Failure to return your proxy card or vote in person will have no effect on the adjournment proposal, the proposal to elect directors, or the proposal to ratify the auditor selection.

If you hold your Liberty stock in street name through a broker, bank, or other nominee, you must provide your broker, bank, or nominee with voting instructions. Under applicable FINRA and stock exchange rules, brokers who hold shares in street name for a beneficial owner are allowed to vote in their discretion on routine proposals, even without voting instructions from beneficial owners. For proposals stock exchanges consider non-routine, however, brokers are not allowed to exercise voting discretion and cannot vote on those non-routine proposals unless the beneficial owner gives specific voting instructions. Broker non-votes occur when a broker or nominee does not receive voting instructions from the beneficial owner. Except for the auditor ratification proposal, Liberty believes the proposals to be voted on at Liberty's annual meeting are non-routine and that brokers therefore will not be able to vote on those proposals without specific voting instructions. Therefore, if you hold Liberty shares in street name but do not give voting instructions to your broker, bank, or other nominee, the broker, bank, or other nominee may not vote your shares on the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement, the proposal to adjourn the meeting, or the proposal to elect directors.

Broker non-votes will have the same effect as votes **AGAINST** the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement and the proposal to adjourn the meeting. Failing to give voting instructions also will prevent the broker, bank, or other nominee from voting on the director election proposal, but directors nevertheless will be elected because directors are elected by a plurality. Your broker, bank, or other nominee will be able to vote on the auditor selection proposal without voting instructions. Your broker, bank, or other nominee will provide you with a proxy card and directions for giving voting instructions. Please follow the broker, bank, or other nominee's directions to give voting instructions.

A quorum will exist at Liberty's annual meeting if a majority of the outstanding common stock is represented in person or by proxy. A quorum must be present in person or by proxy at the meeting before any action other than adjournment can be taken. A properly executed proxy card marked **ABSTAIN** will be counted for purposes of determining whether a quorum is present.

All of Liberty's directors agreed to vote their Liberty shares in favor of adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement, in favor of the adjournment proposal and in favor of entering into Voting Agreements with Middlefield as a condition to Middlefield's agreement to enter into the Reorganization Agreement. Excluding Liberty shares held by their immediate family members, Liberty's directors collectively own 354,986 shares of Liberty common stock, or approximately 34.3% of the shares outstanding. As a holder of 23,218 shares of Liberty common stock, or 2.2%, Middlefield intends to vote in favor of adoption and approval of the Reorganization Agreement and approval of the transactions contemplated therein, in favor of the adjournment proposal if applicable, in favor of electing the director nominees identified in this joint proxy statement/prospectus, and in favor of ratifying the selection of independent auditors.



**Table of Contents**

**Solicitation and Revocation of Proxies**

A proxy card accompanies this joint proxy statement/prospectus. If you are a Liberty stockholder your proxy is being solicited by Liberty's board of directors. Regardless of whether you attend the annual meeting, the Liberty board of directors urges you to return your properly executed proxy card as soon as possible. If you return your properly executed proxy card before the meeting and do not revoke it, the shares of Liberty common stock represented by the proxy card will be voted at the annual meeting or adjournment.

The Liberty common stock will be voted as specified on the proxy card. If you are a Liberty stockholder and you sign, date, and return a proxy card without stating how you want your shares to be voted, your shares will be voted **FOR** adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement, and if adjournment of the meeting is necessary to allow time for solicitation of additional proxies your shares will be voted **FOR** adjournment. Similarly, your shares will be voted **FOR** election of the identified director nominees and **FOR** ratification of the auditor selection if you return a valid proxy card without giving voting instructions. Although Liberty's board currently does not expect any other proposals to be presented at the meeting, if any other proposals are properly presented the Liberty common stock represented by properly executed proxy cards will, to the extent permitted by applicable law, be voted in the discretion of the persons named in the proxy card in accordance with their best judgment.

If you return a properly executed proxy card, you may revoke it at any time before a vote is taken at the meeting by:

filing a written notice of revocation with Richard C. Ebner, Secretary of Liberty, at 25201 Chagrin Boulevard, Suite 120, Beachwood, Ohio 44122,

executing and returning another proxy card with a later date, or

attending the meeting and giving notice of revocation in person.

***Attending Liberty's annual meeting will not, by itself, revoke your proxy.*** If you instructed your broker, bank, or other nominee to vote your shares but you wish to change or revoke those voting instructions, you must follow your broker, bank, or other nominee's directions for changing or revoking your vote.

Liberty will bear its own cost of solicitation of proxies. Proxies will be solicited by mail and may also be solicited by personal contact, telephone, facsimile, or electronic mail by directors, officers, and employees, none of whom will receive additional compensation for their solicitation activities. Liberty will pay the standard charges and expenses of brokerage houses, voting trustees, banks, associations, and other custodians, nominees, and fiduciaries who are record holders of Liberty common stock not beneficially owned by them for forwarding this joint proxy statement/prospectus and other proxy solicitation materials to and obtaining voting instructions from the beneficial owners of Liberty common stock.



**Table of Contents**

**PROPOSALS SUBMITTED TO LIBERTY STOCKHOLDERS**

**Director Election Proposal**

The board of directors of Liberty, elected by Liberty's stockholders, oversees the business and management of Liberty. Members of the board monitor and evaluate Liberty's business performance through regular communication with the CEO and senior management, and by participating in board and board committee meetings. The Liberty board is committed to sound and effective corporate governance policies and high ethical standards. Under Liberty's Amended and Restated Articles of Association and By-Laws, the board must consist of at least 5 directors, but may not exceed 25 directors. The By-Laws provide that the number of directors constituting the board may be changed from time to time, either pursuant to a resolution adopted by a majority of the board, or pursuant to the affirmative vote of a majority of the stockholders present in person or by proxy at any meeting of stockholders which has as one of its purposes the election of directors, provided that a quorum is present. The board has fixed the number of authorized directors at thirteen (13). There is currently one vacancy on the board. The board will fill that vacancy when a suitable candidate is identified unless the Merger is consummated prior to that time. Twelve seats on the board are currently filled by the individuals identified as directors in the table below, each of whom has been nominated by the board for re-election. Each such nominee has consented to being named in this proxy statement and has agreed to serve if elected.

**Term of Office**

Each director serves for a term ending at the next Annual Meeting of Stockholders following his appointment or election as a director, and until his or her successor is elected and qualified. The term of each of Liberty's twelve current directors expires at the annual meeting, upon the election of their successors. The board has nominated the twelve current directors for re-election to the board for a term ending upon the earliest of the completion of the Merger, the 2017 annual meeting and until his successor is elected and qualified, or until he resigns or is otherwise removed and his successor is duly elected and qualified.

**Nominations of Directors**

Upon the recommendation of the Corporate Governance/Nominating Committee, the board has nominated the twelve individuals identified below for election as directors. The board believes that the qualifications and experience of the 2016 director nominees will contribute to an effective and well-functioning board. The board and the Corporate Governance/Nominating Committee believe that, individually and as a whole, the directors possess the necessary qualifications to provide effective oversight of Liberty's business and quality advice and counsel to Liberty's management.

Nominations of candidates for election as directors at the meeting are governed by Liberty's By-Laws. The By-Laws provide that such nominations may be made either by the board or by any stockholders entitled to vote at a meeting of stockholders at which directors are elected. The By-Laws require that such nominations, if not made by or on behalf of the board, be made in writing and delivered in person or mailed to Liberty's Secretary and to the Office of the Comptroller of the Currency ( OCC ) in Washington, D.C., not less than 14 days nor more than 50 days prior to such meeting. However, if less than 21 days' notice of such meeting is given to stockholders, such nominations shall be mailed or delivered to the Secretary and to the OCC not later than the close of business on the seventh day following the day on which the notice of meeting was given to stockholders. Notice of the meeting of Liberty's stockholders is deemed to be given on the date on which such notice is deposited in the United States mail. For the purpose of the herein notice with respect to the meeting, such date is \_\_\_\_\_, 2016.

Liberty's By-Laws further require that nominations for election as director, if not made by or on behalf of the board, set forth the name, address, and the number and class of Liberty common stock owned by the nominating stockholder, and must include all information relating to the proposed nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including the proposed nominee's written consent to serve as a director if elected.

**Table of Contents**

Liberty's By-Laws provide that if the Chairman of the meeting determines that the nomination of any candidate for election as a director was not made in accordance with the By-Laws, then the Chairman may order that such nomination, and all votes cast for the election of such candidate, be disregarded.

Liberty expects that there will be one vacancy on the board following the meeting. In such event, it is the intention of the Board to consider qualified candidates for appointment to the board. As provided by the By-Laws of Liberty, a majority of the board then in office may fill a vacancy on the board.

**Directors of Liberty**

The following table identifies each director nominee of Liberty. Ages shown are as of November 25, 2016. The term of each current director expires at the meeting, or until he or she resigns or is otherwise removed and his or her successor is duly elected and qualified. There are no family relationships among any of Liberty's directors.

<b>Director Nominees</b>	<b>Age</b>	<b>Director Since</b>	<b>Position</b>
Thomas W. Bevan (3), (5)	50	2011	Director
Michael A. Carlin (1), (2), (4), (5)	68	2014	Director
Joseph E. Cirigliano (4), (5)	92	2011	Director
Dominic M. D'Amore, Jr. (2), (4), (7)	63	2002	Director
Richard C. Ebner (1), (5), (6)	66	2004	Director, Chief Operating Officer, Chief Financial Officer & Secretary
Donald A. Latore (3), (4), (6), (7)	74	1999	Director
Joseph D. Miceli (1), (3)	67	2005	Director
James Mirgliotta (3), (6), (7)	83	1989	Director
Ralph R. Razinger (2), (4), (5), (6), (7)	68	2007	Vice Chairman of the Board
Thomas A. Reitan (2), (4), (5)	55	2011	Director
Daniel D. Smith (1), (2), (3)	61	2002	Director
William A. Valerian (1), (5), (6), (7)	73	2001	Chairman of the Board, Chief Executive Officer & President

- (1) Member of the Asset/Liability Committee
- (2) Member of the Audit Committee
- (3) Member of the Corporate Governance/Nominating Committee
- (4) Member of the Compensation Committee
- (5) Member of the Risk Committee
- (6) Member of the Executive Committee
- (7) Member of the Loan Committee

**Information Concerning Nominees for Director**

*Thomas W. Bevan, J.D.* is a founding shareholder and CEO of Bevan & Associates, LPA, Inc. in Boston Heights, Ohio. Bevan & Associates is a law firm that concentrates on asbestos litigation and workers' compensation. Mr. Bevan has been licensed to practice law in the State of Ohio since 1991 and the United States District Court, Northern District of Ohio since 1992. He has practiced law fulltime in Ohio since 1991 and is a member of the Ohio State Bar Association, the Akron Bar Association, the Ohio Association for Justice, the American Association for Justice, and

the Public Justice Foundation.

*Michael A. Carlin, CPA (inactive)* is a financial management executive with extensive experience in the banking and financial services industries as well as over forty years of advising businesses. Prior to forming Carolan Partners LLC in 2006, Mr. Carlin was a partner with Deloitte & Touche LLP from 1989 to 2006. As an advisor to numerous clients, Mr. Carlin has guided both strategic and financial buyers regarding mergers and acquisitions.

**Table of Contents**

Mr. Carlin also has extensive experience in bank lending and credit including modeling financial needs, development of deal structure and negotiating terms. He has experience with troubled debt restructurings and resolving liquidity and working capital problems. Mr. Carlin has extensive public markets experience including initial public offerings and SEC and bank regulation compliance. He was also a firm-designated specialist in financial instruments and derivatives.

*Joseph E. Cirigliano, J.D.* retired after twenty-four years as a Common Pleas and Ninth District Court of Appeals Judge. He is presently a member of the Wickens, Herzer, Panza, Cook & Batista Co. law firm (litigation department). He is a member of the American Bar Association, Ohio State Bar Association, Lorain County Bar Association (Executive Committee, Ethics & Grievance Committee), and American Judicature Society. He is a former member of the Board of Governors of the Ohio State Bar Association. He has served as chairman of Lorain County Community College and is a former Ohio Judicial College trustee.

*Dominic M. D Amore, Jr., CPA* is one of the founding members of The D Amore Tatman Group, LLC, a certified public accounting and business consulting firm, and has been with that firm since 1999. Mr. D Amore is a member of the American Institute of Certified Public Accountants, the Ohio Society of Certified Public Accountants, and the National Association of Business Valuation Analysts.

*Richard C. Ebner, CPA, GCMA* has served as the Chief Operating Officer and Chief Financial Officer of the Bank since 2004. Mr. Ebner is a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants.

*Donald A Latore* was the President of Howard Hanna Mortgage Services, formerly Home Mortgage Assured Corporation, a Howard Hanna Smythe, Cramer Co. subsidiary, from 1999 to his retirement in 2012. Prior to this, he was President and CEO of Assured Mortgage Corporation, a company he started in 1982. Mr. Latore is a member of, and has served on committees for the Mortgage Bankers Associations of America and Ohio, the Mortgage Brokers Associations of America and Ohio, the National Advisory Board for Lenders One, and the Cleveland Area Board of Realtors. Mr. Latore also served as a trustee and past vice president for the Alta House.

*Joseph D. Miceli* has been the Chief Executive Officer of Miceli Dairy Products Company since 1980. Mr. Miceli is a member of the Board of Trustees of the Northern Ohio Italian Americans (NOIA), and a member of the Board of Directors of Urban Community School.

*James Mirgliotta* has been a principal officer of Forest City Erectors Inc., a Twinsburg-based steel erection firm, since 1961, and is also a director of that company. He has also served as past Chairman of the Board and a director of Pre-Cast Services Company, a construction company that erects pre-cast concrete and granite products, and President of T.W. Easton Corporation, a heavy machinery rigging and cartage company. In addition, Mr. Mirgliotta has been the past President of the Steel and Iron Contractors Association of Cleveland, past President and a member of the executive board of the National Erectors Association, a past President and a current member of the Board of Directors of the Cleveland Construction Employers Association, and a member and past President of the Twinsburg Rotary Club. Mr. Mirgliotta served as Chairman of Liberty from 1989 through June 2003.

*Ralph R. Razinger* has been CEO of CABMAT, LLC, a processor and distributor of non-ferrous metals, since 2006 when he founded the firm. He has over twenty-five years of experience in the non-ferrous metals industry. Mr. Razinger is also a partner in RDR Development Group, LLC, which develops commercial and residential properties in both Ohio and Florida, and a partner in R&J Development, which builds custom homes in Northeastern Ohio. He is a former director of the American Copper Council. Mr. Razinger is Vice Chairman of the board.

*Thomas A. Reitan* is Executive Vice President of HUB Financial Services, a specialized business unit of HUB International. HUB International is the tenth largest global insurance brokerage and risk management consulting

---

**Table of Contents**

firm. Prior to HUB, Mr. Reitan was a Principal of The Burnham Insurance group, which was purchased by HUB in 2001. Mr. Reitan has thirty years of experience working exclusively with financial institutions on lending and enterprise risk solutions. His clients and experiences range from super-regional banks to community based lenders throughout the U.S. He has served on a variety of regional and national banking and mortgage banking associations.

*Daniel D. Smith* is President of Consolidated Investment Corporation, a real estate investment and management company. Since 1993, Mr. Smith has been a member of the Board of Directors of Lake Erie College. He also serves on the Lake-Geauga Committee of the Cleveland Foundation.

*William A. Valerian* has been Chief Executive Officer of the Bank since 2004. He has served as a director of Liberty since 2001 and the Chairman of the Board since July 2003.

**Independent Directors**

A majority of the directors and all of the members of the Audit Committee, the Corporate Governance/Nominating Committee, and the Compensation Committee are independent, as such term is defined in Rule 5605(a)(2) of the Nasdaq listing standards. Under Nasdaq Rule 5605(a)(2), independent director means a person other than an executive officer or employee of Liberty or any other individual having a relationship which, in the opinion of Liberty's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. For purposes of this rule, family member means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home. Under the Nasdaq rule, the following persons shall not be considered independent:

**(A)** a director who is, or at any time during the past three years was, employed by Liberty;

**(B)** a director who accepted or who has a family member who accepted any compensation from Liberty in excess of \$120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:

**(i)** compensation for board or board committee service;

**(ii)** compensation paid to a family member who is an employee (other than an Executive Officer) of Liberty; or

**(iii)** benefits under a tax-qualified retirement plan, or non-discretionary compensation.

Provided, however, that in addition to the requirements contained in this paragraph (B), Audit Committee members are also subject to additional, more stringent requirements under Nasdaq Rule 5605(c)(2).

**(C)** a director who is a family member of an individual who is, or at any time during the past three years was, employed by the company as an executive officer;

**(D)** a director who is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which Liberty made, or from which Liberty received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:

**(i)** payments arising solely from investments in Liberty's securities; or

**(ii)** payments under non-discretionary charitable contribution matching programs.

**(E)** a director of Liberty who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of Liberty serve on the compensation committee of such other entity; or



## **Table of Contents**

(F) a director who is, or has a family member who is, a current partner of Liberty's outside auditor, or was a partner or employee of Liberty's outside auditor who worked on Liberty's audit at any time during any of the past three years.

The board has determined that all of the current directors, except for Messrs. Valerian and Ebner, who are executive officers of Liberty, are independent directors within the meaning of the foregoing requirements.

## **Executive Session**

The non-management or independent directors of the board meet periodically in executive session without the directors who are executive officers.

## **Audit Committee**

The Audit Committee of Liberty is required to have at least three members, each of whom must comply with the independence and other standards for audit committee members under Nasdaq Rule 5605(c)(2) and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the Act). The current members of the Audit Committee of the Bank are Michael A. Carlin, Dominic M. D'Amore, Jr. (Chair), Ralph R. Razinger, Thomas A. Reitan and Daniel D. Smith.

Each Audit Committee member must: (i) be independent as defined under the Nasdaq director independence rules set forth above; (ii) meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Act (subject to the exemptions provided in Rule 10A-3(c) under the Act); (iii) not have participated in the preparation of the financial statements of Liberty or any current subsidiary of Liberty at any time during the past three years; and (iv) be able to read and understand fundamental financial statements, including Liberty's balance sheet, income statement, and cash flow statement. Furthermore, at least one member of the Audit Committee has, and will continue to have, past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Liberty has determined that Audit Committee members Michael A. Carlin and Dominic M. D'Amore, Jr. meet these requirements.

## **Compensation of Directors; Certain Transactions**

Members of the board who are not employees of Liberty were compensated for their attendance at meetings of the board during 2015 at the rate of \$800 per meeting attended. They received no other compensation for their service on the board. In addition, members of the board who are not employees of Liberty and who served on committees of the board received \$275 per meeting attended. Effective January 1, 2016, the compensation for attendance at meetings of the board for members who are not employees of Liberty was increased from \$800 to \$900 per meeting while compensation for attendance at meetings of committees of the board was increased from \$275 to \$300 per meeting.

Mr. Valerian was compensated \$12,000 in 2015 for his services on the board and the committees on which he serves. Mr. Valerian will be compensated \$12,000 in 2016 for his services on the board and the committees on which he serves.

**Table of Contents**

The following table sets forth the compensation paid to the directors who are not employees of Liberty during 2015:

<b>Name</b>	<b>Board Fees</b>	<b>Committee Fees</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Thomas W. Bevan	8,800		8,800
Michael A. Carlin	9,600	2,750	12,350
Joseph E. Cirigliano	9,600	825	10,425
Dominic M. D Amore, Jr.	9,600	2,200	11,800
Donald A. Latore	9,600	1,100	10,700
Joseph D. Miceli	8,000	1,100	9,100
James Mirgliotta	8,800	550	9,350
Ralph R. Razinger	7,200	2,200	9,400
Thomas A. Reitan	8,800	1,650	10,450
Daniel D. Smith	9,600	2,200	11,800

The board met twelve (12) times during 2015. Each director attended at least 75% of the meetings of the board.

From time to time, Liberty extends credit to its directors and executive officers for business and personal uses. All extensions of credit to directors and executive officers are made in the ordinary course of Liberty's business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers involving similar credit risk. Such credit extensions are made after a determination by the Bank that they do not involve more than the normal risk of collectability or present other unfavorable features.

*Liberty's board of directors recommends voting **FOR** election of the identified director nominees.*

**Liberty Merger Proposal**

As discussed throughout this joint proxy statement/prospectus, Liberty is asking stockholders to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement. Liberty stockholders should carefully read this document in its entirety for more detailed information regarding the Reorganization Agreement and the Merger. In particular, stockholders are directed to the copy of the Reorganization Agreement attached as Annex A to this joint proxy statement/prospectus.

*Liberty's board of directors recommends voting **FOR** approval and adoption of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement.*

**Liberty Adjournment Proposal**

If there are insufficient votes at the time of the Liberty annual meeting to approve and adopt the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement, the meeting may be adjourned to another time or place to allow additional time for proxy solicitations. If the number of shares of Liberty common stock voting in favor is insufficient to approve and adopt the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement, Liberty intends to move for adjournment to enable the Liberty board of directors to solicit additional proxies for approval. If that occurs, Liberty will ask the Liberty stockholders to vote upon the adjournment proposal (but not the Merger proposal) and will also ask stockholders to vote on the director election proposal and auditor ratification proposal. Liberty is asking stockholders to authorize the proxy holder to vote in favor of adjournment of the Liberty annual meeting to another time and place for the purpose

of soliciting additional proxies. If the adjournment proposal is approved, proxies will remain valid if not revoked and Liberty could use the additional time to solicit additional proxies, including the solicitation of proxies from Liberty stockholders who have previously voted.

**Table of Contents**

*Liberty's board of directors recommends voting **FOR** the adjournment proposal.*

**Auditor Ratification Proposal**

The Audit Committee of Liberty's board appointed Maloney + Novotny LLC, Certified Public Accountants, to serve as the Bank's independent auditors for its fiscal year ending December 31, 2016. The board is seeking stockholder ratification of the Audit Committee's appointment of Maloney + Novotny LLC. Representatives of Maloney + Novotny LLC are expected to attend the annual meeting to respond to appropriate questions, and will have an opportunity to make a statement if they desire. If the appointment of Maloney + Novotny LLC is not ratified by the stockholders, the Audit Committee may appoint another independent accounting firm or may decide to maintain the appointment of Maloney + Novotny LLC. Notwithstanding the selection and ratification, the Audit Committee, in its discretion, may direct the appointment of a new independent public accounting firm at any time during the year if the Audit Committee believes that such a change would be in the best interest of Liberty and its stockholders.

The affirmative vote of a majority of the voting power of the common stock present is necessary for ratification of the selection of independent auditors.

*Liberty's board of directors recommends voting **FOR** ratification of the selection of Maloney + Novotny LLC as independent auditors.*

**Table of Contents**

**THE SPECIAL MEETING OF MIDDLEFIELD STOCKHOLDERS**

**Time, Date and Place**

This joint proxy statement/prospectus is provided to Middlefield stockholders by Middlefield's board of directors for solicitation of proxies to be used at the special meeting of stockholders. The special meeting will be held at 10:00 a.m. local time on January 10, 2017 at The Middlefield Banking Company, 15985 East High Street, Middlefield, Ohio 44062, including any adjournment.

**Matters to be Considered**

Middlefield stockholders will be asked at the special meeting to consider and vote upon proposals to

adopt and approve the Reorganization Agreement,

approve the issuance of up to 563,261 shares of Middlefield common stock in the Merger,

adjourn the meeting to allow solicitation of additional proxies if there are insufficient votes to adopt and approve the Reorganization Agreement,

transact any other business properly presented at the special meeting or at any adjournment. Middlefield's board of directors is not aware of any other business to be transacted at the meeting.

Middlefield's board of directors believes the Merger is in the best interests of Middlefield stockholders and recommends that you vote (1) **FOR** the Reorganization Agreement, (2) **FOR** issuance of common stock, and (3) if the adjournment proposal is presented for a vote, **FOR** adjournment.

**Record Date; Shares Outstanding and Entitled to Vote**

The board of directors fixed the close of business on November 17, 2016 as the record date for determining Middlefield stockholders entitled to vote at the special meeting. As of the close of business on the record date there were 2,250,893 shares of Middlefield common stock outstanding and entitled to vote at the special meeting. Middlefield common stock is held of record by approximately 1,060 stockholders. Each share of Middlefield common stock entitles the holder to one vote on all proposals at the special meeting.

**Votes Required; Quorum**

Under the Ohio General Corporation Law and Middlefield's Second Amended and Restated Articles of Incorporation, adoption and approval of the Reorganization Agreement requires the affirmative vote of the holders of at least two-thirds of Middlefield's outstanding common stock. Under Nasdaq rules, approval of the issuance of Middlefield common stock requires the affirmative vote of the holders of a majority of votes cast on the proposal. Under Middlefield's regulations, approval of adjournment requires the affirmative vote of the holders of a majority of the votes cast on the proposal. On the record date Middlefield directors owned a total of 102,153 shares of Middlefield common stock, or approximately 4.6%.

If you are a Middlefield stockholder and you do not return a proxy card or vote in person at the Middlefield special meeting or if you mark the proxy card or ballot **ABSTAIN** for the proposal to adopt and approve the Reorganization Agreement, this will have the same effect as a vote **AGAINST** that proposal. Failing to vote or abstaining will have no effect on the adjournment proposal or the proposal to approve issuance of shares.

If you hold your Middlefield stock in street name through a broker, bank, or other nominee, please provide your broker, bank, or nominee (the record holder of your common stock) with voting instructions. Under Nasdaq rules, brokers who hold shares in street name for a beneficial owner are allowed to vote in their

## Table of Contents

discretion on routine proposals, even without voting instructions from beneficial owners. For proposals Nasdaq considers non-routine, however, brokers are not allowed to exercise voting discretion and cannot vote on those non-routine proposals unless the beneficial owner gives specific voting instructions. Broker non-votes occur when a broker or nominee does not receive voting instructions from the beneficial owner. Middlefield believes the proposals to be voted on at the special meeting are non-routine and that brokers therefore will not be able to vote on those proposals without specific voting instructions. Therefore, if you hold Middlefield stock in street name but do not give voting instructions to your broker, bank, or other nominee, the broker, bank, or other nominee may not vote your shares on the proposal to adopt and approve the Reorganization Agreement, the proposal to approve share issuance, or the proposal to adjourn the meeting.

Broker non-votes on the proposal to adopt and approve the Reorganization Agreement will have the same effect as votes **AGAINST** that proposal. Failing to give voting instructions also will prevent your broker, bank, or other nominee from voting on the proposal to issue common stock and the adjournment proposal, but under Middlefield's regulations broker non-votes on those proposals have no effect because the proposals are decided by a majority of votes actually cast. Your broker, bank, or other nominee will provide you with a proxy card and directions for giving voting instructions. Please follow the broker, bank, or other nominee's directions to give voting instructions.

A quorum will exist at Middlefield's special meeting if a majority of the outstanding common stock is represented in person or by proxy. A quorum must be present in person or by proxy at the meeting before any action other than adjournment can be taken. A properly executed proxy card marked **ABSTAIN** will be counted for purposes of determining whether a quorum is present.

## **Solicitation and Revocation of Proxies**

A proxy card accompanies this joint proxy statement/prospectus. If you are a Middlefield stockholder your proxy is solicited by Middlefield's board of directors. Regardless of whether you attend the special meeting, the Middlefield board urges you to return your properly executed proxy card as soon as possible. If you return a properly executed proxy card before the special meeting and do not revoke it, the Middlefield common stock represented by the proxy card will be voted at the special meeting or adjournment. The common stock will be voted as specified on the proxy card.

If you are a Middlefield stockholder and you sign, date, and return a proxy card but do not specify how your shares are to be voted, your shares will be voted **FOR** adoption and approval of the Reorganization Agreement and the transactions contemplated thereby, **FOR** issuance of common stock in the Merger, and if adjournment of the meeting is necessary to allow time for solicitation of additional proxies your shares will be voted **FOR** adjournment. Although Middlefield's board currently does not expect any other proposals to be presented at Middlefield's special meeting, if any other proposals are properly presented the common stock represented by properly executed proxy cards will, to the extent permitted by applicable law, be voted in the discretion of the persons named in the proxy card in accordance with their best judgment.

If you return a properly executed proxy card, you may revoke it at any time before a vote is taken at the meeting by:

filing a written notice of revocation with Ms. Kathleen M. Johnson, Secretary, Middlefield Banc Corp.,  
15985 East High Street, P.O. Box 35, Middlefield, Ohio 44062,

executing and returning another proxy card with a later date, or

attending the meeting and giving notice of revocation in person.

***Attending Middlefield's special meeting will not, by itself, revoke your proxy.*** If you instructed your broker, bank, or other nominee to vote your shares but you wish to change or revoke those voting instructions, you must follow your broker, bank, or other nominee's directions for changing or revoking your vote.



**Table of Contents**

Middlefield will bear its own cost of solicitation of proxies. Proxies will be solicited by mail and may also be solicited by personal contact, telephone, facsimile, or electronic mail by directors, officers, and employees, none of whom will receive additional compensation for their solicitation activities. Middlefield has also engaged D.F. King & Co., a proxy soliciting firm, to assist in the solicitation of proxies for a fee of \$15,000 and reimbursement of reasonable out-of-pocket expenses. Middlefield will pay the standard charges and expenses of brokerage houses, voting trustees, banks, associations, and other custodians, nominees, and fiduciaries who are record holders of Middlefield common stock not beneficially owned by them for forwarding this joint proxy statement/prospectus and other proxy solicitation materials to and obtaining proxies from the beneficial owners of Middlefield common stock.

Table of Contents

**PROPOSALS SUBMITTED TO MIDDLEFIELD STOCKHOLDERS**

**Middlefield Merger Proposal**

As discussed throughout this joint proxy statement/prospectus, Middlefield is asking its stockholders to adopt and approve the Reorganization Agreement and approve the transactions contemplated thereby. Middlefield stockholders should read this document carefully in its entirety for more detailed information regarding the Reorganization Agreement and the Merger. In particular, stockholders are directed to the copy of the Reorganization Agreement attached as Annex A to this joint proxy statement/prospectus.

*Middlefield's board of directors recommends voting **FOR** approval and adoption of the Reorganization Agreement and approval of the transactions contemplated thereby.*

**Middlefield Proposal to Approve Issuance of Common Stock**

Middlefield is also asking stockholders to consider and vote on the proposal to issue up to 563,261 shares of Middlefield common stock in the Merger. A company with Nasdaq-listed stock is required by Nasdaq rules to obtain stockholder approval if a proposed stock issuance equals or exceeds 20% of the number of shares outstanding before the issuance. The number of shares to be issued by Middlefield in the Merger is approximately 25% of the number of shares outstanding, and for this reason Nasdaq rules require Middlefield to seek stockholder approval. **If Middlefield stockholders do not approve the common stock issuance, Middlefield will not be able to complete the Merger.**

*Middlefield's board of directors recommends voting **FOR** approval of the issuance of up to 563,261 shares of Middlefield common stock in the Merger.*

**Middlefield Adjournment Proposal**

If there are insufficient votes at the time of Middlefield's special meeting to approve and adopt the Reorganization Agreement, the meeting may be adjourned to another time or place to allow additional time for proxy solicitations. If the number of shares of Middlefield common stock voting in favor is insufficient to approve and adopt the Reorganization Agreement, Middlefield intends to move for adjournment to enable Middlefield's board to solicit additional proxies for approval. If that occurs, Middlefield will ask stockholders to vote upon adjournment but not the merger proposal or the proposal to approve share issuance. Middlefield is asking stockholders to authorize the proxy holder to vote in favor of adjournment of the Middlefield special meeting to another time and place for the purpose of allowing additional proxy solicitation. If the adjournment proposal is approved, proxies will remain valid if not revoked and Middlefield could use the additional time to solicit additional proxies, including solicitation of proxies from Middlefield stockholders who have previously voted.

*Middlefield's board of directors recommends voting **FOR** the adjournment proposal.*

**Table of Contents**

**DISSENTERS RIGHTS**

Liberty stockholders are entitled to exercise dissenters' rights of appraisal under the National Bank Act, 12 U.S.C. §215. A copy of the dissenters' rights provisions of 12 U.S.C. 215 is attached as Annex B to this joint proxy statement/prospectus. Under these provisions of federal law, Liberty stockholders may dissent from the Merger and elect to have the fair market value of their shares appraised, receiving payment of the appraised value in cash. To assert dissenters' right of appraisal, a stockholder must vote against the proposal to adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement or give notice in writing at or before Liberty's meeting that the stockholder dissents, giving such notice to the presiding officer. The dissenting stockholder must make a written request to Middlefield for payment of the appraised value of his or her shares at any time before 30 days after Merger consummation, accompanied by surrender of his or her stock certificates.

The value of a dissenter's Liberty shares will be determined by a committee of three persons, including one selected by a majority vote of the dissenting stockholders, one selected by the directors of The Middlefield Banking Company, and the third by the two so chosen. The valuation agreed upon by any two of these three appraisers governs, but if the value fixed by the appraisers is not satisfactory to a dissenting stockholder, the stockholder may within five days after being notified of the appraised value of his or her shares appeal to the OCC, which will cause a reappraisal to be made. The OCC's reappraisal will be final and binding. If within 90 days after the effective date of the Merger one or more of the appraisers is not selected or the appraisers fail to determine the value of the dissenting shares, upon written request of any interested party the OCC will cause an appraisal to be made, which will be final and binding on all parties. The expenses of the OCC in making the appraisal or reappraisal will be paid by The Middlefield Banking Company.

This summary of dissenters' rights is qualified in its entirety by reference to the statutory provisions of 12 U.S.C. 215, paragraphs (b) through (d), reproduced in Annex B. Failure by a Liberty stockholder to follow the required steps for perfecting rights as a dissenting stockholder will result in a loss of those rights. Stockholders' notices of intent to demand appraisal of and payment for their shares should be sent to: William A. Valerian, Chairman, President and Chief Executive Officer, Liberty Bank, N.A., 25201 Chagrin Boulevard, Suite 120, Beachwood, Ohio 44122. When the Merger is completed, before the 30<sup>th</sup> day after completion of the Merger stockholders who have properly asserted dissenters' rights should request in writing to Middlefield that it pay the appraised value of their shares, surrendering their stock certificates to Middlefield at that time. The written request after the Merger should be sent to: Thomas G. Caldwell, President and Chief Executive Officer, The Middlefield Banking Company, 15985 East High Street, P.O. Box 35, Middlefield, Ohio 44062.

**Table of Contents**

**THE MERGER**

**The Proposed Merger**

The Reorganization Agreement provides for the merger of Liberty into The Middlefield Banking Company with The Middlefield Banking Company being the surviving entity. As part of the transaction, MBC Interim Bank will first merge into Liberty, followed immediately by Liberty's merger into The Middlefield Banking Company.

The Reorganization Agreement is attached to this joint proxy statement/prospectus as Annex A and is an integral part of this joint proxy statement/prospectus. *You are encouraged to read the Reorganization Agreement carefully. The Reorganization Agreement is the principal legal document governing the Merger.*

**Background of the Merger**

Retained by Liberty as financial advisor for a possible strategic transaction, in March 2016 Boenning & Scattergood, Inc. ( Boenning ) invited financial organizations including Middlefield to review a confidential information memorandum concerning Liberty and to submit an initial acquisition bid, with an April 18, 2016 deadline for non-binding indications of interest. Executing the March 21, 2016 confidentiality agreement, Middlefield received a copy of Boenning's confidential information memorandum. After reviewing the confidential information memorandum, Middlefield management declined to submit a bid. Beginning with the financial crisis of 2007 and 2008 merger and acquisition activity for financial institutions remained for many years at greatly reduced levels by comparison to the ten-year period ended in 2006, with much of the post-crisis activity involving acquisitions of problem institutions or sales of control to private equity firms. But by the end of 2015 the pace of healthy financial institution acquisitions was again accelerating. This was one of the factors that led Middlefield management to initially decline submitting a bid for Liberty, believing a very competitive bidding process would lead to deal terms outside the range sanctioned by Middlefield's internal policies.

In the first half of 2016 Middlefield management's attention was focused on raising additional equity in a private offering. Middlefield engaged Boenning to assist with the private equity offering, entering into a letter agreement with Boenning on February 12, 2016, later superseded by an April 27, 2016 Placement Agency Agreement. Under the letter agreement and Placement Agency Agreement, Boenning acted as Middlefield's exclusive placement agent. A private placement to accredited investors only of no more than 20% of Middlefield's common stock outstanding, the private offering began on or about May 2, 2016 and ended June 30, 2016. Middlefield sold to 29 accredited investors a total of 360,815 shares at \$33 per share, or approximately 19% of the shares outstanding before the private placement and 16% of the shares outstanding after. Middlefield's net proceeds of the private offering were \$11.3 million, after commissions of approximately \$577,000 payable to Boenning and reimbursement of \$20,245 of Boenning expenses. With the proceeds of the private placement Middlefield repaid borrowings, including a \$3.0 million line of credit from Liberty. If within 24 months after the end of the private offering Middlefield raises additional equity from an investor contacted by Boenning, Boenning will be entitled by the Placement Agency Agreement to a commission at the same rate applicable to the 2016 private sales. Boenning is entitled to indemnification from Middlefield for liabilities arising out of the private offering, as well as contribution by Middlefield to the damages, costs, and expenses that may be incurred by Boenning. Boenning has the right of first refusal to act as Middlefield's placement agent if Middlefield engages in a rights offering to stockholders at any time before July 1, 2017, with a 5.0% commission rate on sales to persons who became Middlefield stockholders through the private offering and a reduced commission rate for sales to directors, executives, and other stockholders.

Middlefield also has an investment banking relationship of long standing with Donnelly Penman & Partners Inc. In early April 2016, after Middlefield management initially declined Boenning's invitation to bid on the Liberty

transaction, Donnelly Penman informed Middlefield management that a number of other potential bidders also had declined to submit bids because of other acquisition transactions or for other reasons not having

---

**Table of Contents**

to do with Liberty. With a reduced number of potential bidders, Donnelly Penman suggested that management reconsider the decision not to submit a bid, outlining in very general terms a deal proposal management could consider making. Management discussed this with the Executive Committee of the board of directors of Middlefield at a meeting on Tuesday, April 12, 2016, a meeting at which the principal item of business was the private placement transaction that management desired to complete. The directors on the Executive Committee were Directors Turk, Skidmore, Caldwell, and Heslop. Director Darryl Mast also joined the meeting.

The Executive Committee and Director Mast convened again two days later, on April 14, 2016, to discuss the Liberty proposal, with representatives of Donnelly Penman present as well. At this meeting a deal proposal was outlined by Donnelly Penman and discussed at length, with consideration given to transaction-related costs such as the cost of Liberty's data processing contract and the costs associated with Liberty's executive severance arrangements, the future of Liberty's student loan portfolio, the uncertain status of Liberty's recently added loan production office in Wooster, Wayne County, Ohio, potential loss of Liberty's significant deposit customers, the source of funds for the cash component of the potential transaction and the potential dilution resulting from the equity component, the effect of the acquisition on Middlefield's regulatory capital, and potential cost savings that could result for the combined organization if redundancies are eliminated after acquisition. Aware of the Monday, April 18, 2016, deadline for submitting bid proposals, the committee authorized management to request from Donnelly Penman a post-acquisition financial projection revised to assume loss of Liberty's two deposit customers, who according to the confidential information memorandum together accounted for deposits of more than \$50 million, and sale of Liberty's student loan portfolio at a slight loss.

On Friday, April 15, 2016 the Executive Committee—Directors Turk, Skidmore, Caldwell, and Heslop—reviewed Donnelly Penman's revised projections of financial results. The committee concluded that the overall effect of the revised assumptions was not materially adverse, noting that the period to earn back the dilution of Middlefield's tangible book value and the period in which the transaction becomes accretive to Middlefield's earnings are within Middlefield's internal guidelines, although the tangible book value dilution is slightly outside of the guidelines recommended range. Authorizing management to submit a nonbinding bid at the price of 125% of Liberty's tangible book value, the committee instructed management that the bid must be subject to the condition that Liberty sell its student loan portfolio and declare a special cash dividend before acquisition closing to reduce excess capital.

With a 24-hour extension for submitting the indication of interest, the same Executive Committee members met again on Monday, April 18, 2016, to finalize Middlefield's bid, with Donnelly Penman participating by telephone conference. Subject to obtaining legal review, the Executive Committee authorized management to submit to Boenning a bid in the form of a nonbinding letter of intent, with a total transaction value in the range of approximately 125% to 130% of tangible book value, or 137.5% to 145.0% of tangible book value adjusted for the proposed special cash dividend. Recognizing that Liberty stockholders would possess approximately 17% of Middlefield's outstanding stock after the acquisition, Middlefield agreed to offer two board seats to Liberty, one at the level of the holding company and another at the level of The Middlefield Banking Company. Middlefield submitted its bid by the Tuesday, April 19, 2016 deadline.

On April 19, 2016 Boenning informed Middlefield that it was one of four bidders (three banks and one individual investor) being invited to perform due diligence and thereafter to submit a final bid. Middlefield submitted its due diligence request list to Boenning on April 22, 2016

CEO Thomas G. Caldwell updated the board at its May 9, 2016 regular meeting about the status of Middlefield's indication of interest. CEO Thomas G. Caldwell, COO James R. Heslop, II, and CFO Donald L. Stacy met on Thursday, May 12, 2016, with Liberty's board of directors, the day immediately after Middlefield's 2016 annual meeting, outlining for the benefit of Liberty's board the terms of Middlefield's acquisition proposal. Middlefield

representatives performed on-site due diligence of Liberty on May 9, 10, and 11, and during this period and thereafter Middlefield and its advisors made use of Boenning s electronic data room, where books and records of Liberty were available confidentially. On May 20, 2016 CEO Thomas G. Caldwell

---

**Table of Contents**

had a breakfast meeting at which he was introduced by Liberty's CEO William A. Valerian to Director Thomas W. Bevan. Mr. Bevan is not only a director of Liberty but also controls an organization that is one of Liberty's two largest depositors.

Middlefield's Executive Committee met again on May 25, 2016, with Directors Turk, Skidmore, Caldwell, and Heslop and with Director Mast added to the Executive Committee's membership. Representatives of Donnelly Penman attended the May 25, 2016 meeting by teleconference. The committee noted with approval that the Liberty acquisition would give Middlefield the opportunity to achieve its goal of entering the Cuyahoga County and Summit County markets, add SBA lending expertise to Middlefield's lending products and services, generate income through sale of the government-guaranteed portion of SBA loans into the secondary market, and with Liberty's student loan product constitute another potential addition to Middlefield's loan products and services. Donnelly Penman discussed its updated merger analysis, slightly decreasing its estimate of the post-acquisition value of Liberty's loan portfolio, reducing the estimated loss of deposits after the acquisition, which is referred to as deposit runoff, and slightly reducing the estimated severance benefits payable to Liberty executives as a result of the acquisition. Donnelly Penman's updated analysis also took into account Middlefield's ongoing private placement, which would strengthen Middlefield's capital position, and presented updated projections of Middlefield's financial condition on a stand-alone basis (stand-alone meaning without taking the Merger into account).

For the final bid Donnelly Penman outlined a proposed price of 145% of Liberty's adjusted tangible book value, for a total transaction value of approximately \$39.6 million, including a \$12.5 million special dividend payable by Liberty before closing, with 50% of the merger consideration consisting of cash and the other half Middlefield stock. The requirement that Liberty sell the student loan portfolio was no longer part of Middlefield's proposal, because the portion of Liberty's student loan portfolio maintained on Liberty's books performs satisfactorily and the portion originated for sale has significant associated correspondent deposit balances maintained at Liberty by the parties to whom Liberty sells the loans. The May 25 meeting ended with the committee agreeing to recommend that the full board approve the proposed transaction terms at the board's June 6 special meeting, one day before the June 7 final bid deadline. Donnelly Penman met again with the Executive Committee on June 1, 2016, updating the committee about the status of the letter of intent.

CEO Thomas G. Caldwell updated the board at its June 6 special meeting about the bid process. Donnelly Penman and Middlefield's counsel joined the meeting by teleconference. By this time two of the four bidders invited to submit a final bid dropped out, leaving Middlefield and one unknown bidder remaining. Based on conversations with Thomas W. Bevan, a director of Liberty and one of its two largest depositors, the projected deposit runoff calculated by Donnelly Penman was reduced again. Mr. Caldwell noted favorably to the board that Liberty and Middlefield have a community banking focus in common, that Liberty does not have material asset quality concerns, that the due diligence process revealed nothing negative about Liberty, that Liberty's offices are located in Middlefield's targeted area of expansion, and that Liberty's SBA lending would expand Middlefield's products and potentially generate income from sale of the government-guaranteed portion of the SBA loans. For the proposed final bid, the period to earn back the estimated 16.5% dilution of Middlefield's tangible book value and the period in which the transaction becomes accretive to Middlefield's earnings remained within Middlefield's internal guidelines, but the tangible book value dilution remained slightly outside of the guidelines' recommended range. The board's special meeting ended with unanimous approval for management to submit a final bid on the terms outlined at the meeting, at 145% of Liberty's adjusted tangible book value, or approximately \$40.54 per share (including the amount of the special dividend).

Middlefield submitted its final bid in the form of a nonbinding letter of intent on June 6, 2016. Liberty informed Middlefield that the final bids would be reviewed at Liberty's board meeting on Friday, June 10. After the June 10 board meeting, at Liberty's request Boenning informed Donnelly Penman that Liberty's counterproposal was to obtain two holding company board seats at Middlefield, a \$1.00 per share increase in the bid price, and a continued interest



in future recoveries on previously charged off student loans.

---

**Table of Contents**

At a special meeting of Middlefield's board on Monday, June 13, with Donnelly Penman and Middlefield's counsel joining by teleconference, the board approved a final offer, agreeing to add CEO William A. Valerian and Director Thomas W. Bevan to Middlefield's board and agreeing to a price increase of approximately \$0.55 per share, half in additional cash and half in additional Middlefield stock, but declined to offer Liberty a continued interest in future recoveries of previously charged off loans. The letter of intent also provided for continued indemnification and insurance coverage of Liberty's officers and directors for six years after the transaction. Middlefield's board also made clear that the company's willingness to enter into a definitive acquisition agreement was conditioned on Liberty directors executing voting agreements, committing themselves to vote their Liberty shares in favor of the transaction with Middlefield.

Promptly after the June 13 special meeting Donnelly Penman informed Boenning of Middlefield's final offer. Middlefield's letter of intent was signed and returned by Liberty on June 14, 2016, and the parties then proceeded to negotiation of the definitive Reorganization Agreement. The letter of intent provided for the merger of Liberty into The Middlefield Banking Company in a transaction qualifying as a tax-free reorganization, at the price of 147% of Liberty's adjusted tangible May 31, 2016 book value. Excluding approximately \$1.147 million payable for cancellation of Liberty's outstanding options and phantom stock, total transaction consideration under the final letter of intent was approximately \$39.416 million, consisting of (1) \$12.5 million in the form of a special cash dividend before acquisition closing, (2) \$13.458 million in cash merger consideration, and (3) \$13.458 million in stock merger consideration at a 0.882 fixed exchange ratio of Middlefield stock for 50% of Liberty stock, based on the \$31.81 closing price for Middlefield stock on June 13, 2016.

Subsequently, Liberty's outside tax counsel reviewed Middlefield's revised indication of interest and, after consultation with and concurrence from Middlefield's outside tax counsel, determined that the proposed payment by Liberty of a \$12.5 million dividend to its stockholders immediately prior to completion of the Merger would adversely affect the tax-free reorganization treatment of the Merger and the ability of Liberty's tax counsel to issue a favorable tax opinion. Following further discussions among the parties and their counsel, it was determined that the transaction should be restructured to reduce the Liberty special dividend from \$12.5 million to approximately \$3.0 million, increase the cash portion of the Merger consideration from 50% to 55% and decrease the common shares portion of the Merger consideration to 45%, while maintaining the same total transaction value. Over the next several weeks, the parties revised the draft Reorganization Agreement to reflect the latest structure of the transaction and negotiated its terms and conditions.

At a July 11, 2016 special meeting, with counsel present and Donnelly Penman present by teleconference, the board reviewed the status of the proposed transaction and the progress toward execution of the definitive acquisition agreement. Donnelly Penman presented a revised analysis of the transaction consideration, reducing from \$12.5 million to \$3.0 million the amount of the special cash dividend payable to Liberty stockholders before closing and increasing the portion of the cash merger consideration from 50% to 55%, with the stock portion therefore decreasing to 45%, while maintaining the total transaction value. According to Donnelly Penman's analysis of the revised final terms, Liberty stockholders would have a slightly larger 18.7% stake in the combined Middlefield organization after acquisition, rather than the initial estimate of approximately 17%, Middlefield would earn back the tangible book value dilution within the time range sanctioned by Middlefield's internal policy, and Middlefield's regulatory capital ratios would be within policy limits as well. The slight increase in the number of shares to be issued to Liberty stockholders has the consequence of requiring a vote of Middlefield stockholders as well. The number of shares of Middlefield common stock issuable to Liberty stockholders slightly exceeds 20% of the number outstanding before the acquisition, requiring Middlefield approval under Nasdaq rules, and one-sixth of the number outstanding after the acquisition, requiring stockholder approval under OGCL section 1701.83(A).

On July 25, 2016, Liberty's on-site due diligence investigation of Middlefield occurred, conducted by management of Liberty as well as a representative of Boenning. Liberty had been reviewing Middlefield's SEC filings and additional information provided to Boenning, as well as information provided by Middlefield in connection with the May 12 presentation to the Liberty Board.

---

**Table of Contents**

Middlefield's board considered the proposed final Reorganization Agreement at a special meeting on July 27, 2016, with Donnelly Penman participating and Middlefield's counsel present by teleconference. The Reorganization Agreement was signed on July 28, 2016. The board considered the slight change in the transaction structure, with the introduction of a first-step merger of MBC Interim Bank into Liberty occurring immediately before the merger of Liberty into The Middlefield Banking Company. The change in transaction structure is for the sole purpose of minimizing adverse potential tax consequences to The Middlefield Banking Company if the transaction does not qualify for tax-free reorganization treatment. Donnelly Penman presented its fairness opinion to the board and outlined the significant terms and financial impact of the transaction, including a special dividend of \$3.13 per share for each of Liberty's 959,283 outstanding shares, cash merger consideration of \$20.88 per share and stock consideration valued at \$17.08, for total consideration of approximately \$39.1 million (including the special dividend), or \$41.09 per share. Donnelly Penman informed the board that tangible book value dilution would be approximately 16.3%, projected to be earned back in a period of less than 3.5 years, with accretion to earnings exceeding 38% in the first year, an internal rate of return exceeding 20%, and a pro forma Tier 1 leverage ratio at The Middlefield Banking Company of 7.71% and a ratio of tangible common equity to tangible assets of 8.32%. Donnelly Penman informed the board that total consideration is approximately 1.31 times Liberty's tangible book value and 19.12 times last-twelve-months earnings, with a core deposit premium of 5.16%. The July 27, 2016 special meeting concluded with Middlefield's board approving the Reorganization Agreement unanimously.

**Liberty's Reasons for the Merger**

The Liberty Board of Directors has regularly reviewed and discussed Liberty's business strategy, performance and prospects in the context of developments in the banking industry, the regulatory environment and the competitive landscape. Among other things, the board of directors from time to time has discussed various strategic alternatives, including both acquiring other institutions and being acquired by another institution. Based on Liberty's continued growth, the board of directors believed that it would need to engage in a strategic transaction at some point in time.

For a considerable time, the board of directors of Liberty has been concerned about the increasing expense and complexity of regulatory compliance for financial institutions, as well as the competition among large and small financial institutions for the same loan and deposit products. The directors have discussed in recent years how to best ensure the continued sound operation and profitability of Liberty in the face of these concerns.

Over the years, the board considered from time to time how to best provide for the continued safe and sound operation and strong performance of Liberty in the challenging regulatory and competitive environment. The board also discussed the lack of liquidity of Liberty's stock as well as management succession issues. These discussions included a number of formal and informal meetings at which the directors discussed, among other possibilities, whether to proceed with exploring the possibility of acquiring or merging with another bank. Board members received the unsolicited views of some Liberty stockholders regarding a need for greater liquidity in the Liberty shares. As a result of these stockholder discussions and the board's concerns regarding the increasingly challenging competitive and regulatory environment, the board decided to consider the possibility of exploring a merger and to learn more about the current merger and acquisition market.

From time to time over the years, the board invited Boenning to make a presentation about regional and national merger and acquisition activity. During 2015, Boenning reviewed such trends as well as the procedure and timeline for soliciting nonbinding indications of interest from potential merger partners. Boenning also presented a list of bank and thrift holding companies that, according to Boenning's analysis, might have a logical interest in a possible merger with Liberty. In evaluating whether to proceed with the possibility of soliciting potential merger partners, the board also considered the stated desires of some Liberty stockholders for greater liquidity in Liberty shares and the board's long-held concerns regarding competition and regulation. After careful consideration of all the foregoing, the directors

decided to consider Boenning's presentation and reconvene at a later time to determine whether to pursue the process of soliciting interest in a possible merger.

---

**Table of Contents**

At a meeting of the board held on December 14, 2015, the Liberty directors resumed their discussions regarding whether to enter into the process of soliciting interest in a possible merger. After lengthy consideration of all the foregoing factors, and in light of the board's numerous prior discussions regarding exploring the possibility of a merger, the board unanimously decided to proceed with the process, subject to the agreement and understanding that they could terminate the process at any time before the execution of a definitive agreement in the event that their expectations for stockholder value were not realized.

In January 2016, Boenning was hired by Liberty as its financial advisor to counsel Liberty with respect to a possible strategic transaction. Boenning assisted Liberty in preparing a confidential information memorandum and a limited data room containing certain financial and operational information of Liberty. Liberty and Boenning identified thirty-three (33) potential partners to contact and inquire as to whether such party would be interested in reviewing the memorandum and data room. Of those parties, twenty-two (22) executed confidentiality agreements and accessed the data room and four (4) submitted written indications of interest, three of which were from other banks and one of which was from an individual investor. On April 19, 2016, the board of directors met to consider the four (4) indications of interest. The board of directors reviewed with Boenning the current state of the national and local banking markets, as well as the current environment for bank transactions. The board of directors also reviewed in detail each potential partner's business, operations and financial performance. The board of directors discussed each of the indications of interest in detail and considered the merits of an all cash offer versus a part-stock, part-cash offer. The board of directors also reviewed and considered the financial and operating performance of each party and considered the effect of each offer on the submitting party's financial condition. The board, with the advice of Boenning, determined that providing these four (4) bidders the opportunity to continue the due diligence process would maintain a competitive bidding process, while minimizing the potential disruption to Liberty's operations. Each of the parties subsequently conducted a thorough due diligence process, including on-site meetings with Liberty management and extensive review of materials in the online data room.

At a special meeting of the board of directors on June 10, 2016, Boenning informed the board that two (2) of the potential acquirers had decided not to continue in the process, leaving two finalists. At that same meeting, the board reviewed the remaining two (2) indications of interest in detail and provided Boenning with a list of requested changes to each indication of interest. Boenning contacted each party to review and discuss the board's requested changes and provided each party a last opportunity to increase its bid.

At a telephonic special meeting of the board of directors on June 14, 2016, Liberty's board of directors reviewed the two (2) final bid offers and reviewed the process that had resulted in an attractive price for Liberty. The board considered the value of each offer and the liquidity each one provided to its stockholders, while also evaluating the merits of remaining independent and growing Liberty organically or through acquisitions. The board also considered the quality of Middlefield's operating performance as well as a relative valuation of Middlefield's stock that appeared to be attractive for those Liberty stockholders electing to receive stock. The board determined that the updated oral offer from Middlefield was in the best interest of the stockholders and authorized management to execute the latest indication of interest from Middlefield. Specifically, Middlefield's revised indication of interest provided for a price increase of approximately \$0.55 per share of Liberty common stock and inclusion of two (2) current directors of Liberty (Messrs. Bevan and Valerian) on the Middlefield board of directors immediately following the closing of the transaction. Middlefield's revised indication of interest also contemplated that, immediately prior to the consummation of the Merger, Liberty would distribute a \$12.5 million special dividend to its stockholders.

The parties executed the revised indication of interest on June 14, 2016 and began preparation of the Reorganization Agreement. Subsequently, Liberty's outside tax counsel reviewed Middlefield's revised indication of interest and, after consultation with and concurrence from Middlefield's outside tax counsel, determined that the proposed payment by Liberty of a \$12.5 million dividend to its stockholders immediately prior to completion of the Merger would adversely

affect the tax-free reorganization treatment of the Merger and the ability of Liberty's tax counsel to issue a favorable tax opinion. Following further discussions among the

## **Table of Contents**

parties and their counsel, it was determined that the transaction should be restructured to reduce the Liberty special dividend from \$12.5 million to approximately \$3.0 million, increase the cash portion of the Merger consideration from 50% to 55% and decrease the common shares portion of the Merger consideration to 45%, while maintaining the same total transaction value. Over the next several weeks, the parties revised the draft Reorganization Agreement to reflect the latest structure of the transaction and negotiated its terms and conditions.

At a meeting of the board of directors on July 27, 2016, the board of directors reviewed in detail the draft Reorganization Agreement and also received the opinion from Boenning that the proposed Merger consideration was fair to Liberty's stockholders from a financial point of view. The board of directors authorized the execution of the Merger Agreement, and each member of the board of directors who owns Liberty common stock entered into a written agreement to vote all of the Liberty shares that he or she beneficially owns in favor of the approval of the transactions contemplated by the Reorganization Agreement.

Management of Liberty signed the Reorganization Agreement on behalf of Liberty as of July 28, 2016 on the terms approved by the board of directors.

### **Recommendation of Liberty's Board of Directors**

The directors of Liberty believe that adoption and approval of the Reorganization Agreement and approval of the transactions contemplated by the Reorganization Agreement are in the best interest of Liberty and its stockholders. Consequently, the directors unanimously recommend that Liberty stockholders adopt and approve the Reorganization Agreement and approve the transactions contemplated by the Reorganization Agreement. The directors of Liberty have agreed to vote their shares of Liberty common stock in favor of the Merger Proposal.

### **Opinion of Liberty's Financial Advisor**

Boenning is acting as financial advisor to Liberty in connection with the proposed Merger. Boenning is a registered broker-dealer providing investment banking services with substantial expertise in transactions similar to the proposed Merger. As part of its investment banking activities, Boenning is regularly engaged in the valuation of businesses and securities in connection with mergers, acquisitions, underwritings, private placements and valuations for estate, corporate and other purposes.

On July 27, 2016, Boenning rendered its oral opinion, which was subsequently confirmed in writing, to the Liberty board of directors that, as of such date and subject to the assumptions made, matters considered and limitations of the review undertaken by Boenning, the Merger consideration to be received by the holders of Liberty's common stock pursuant to the Reorganization Agreement was fair, from a financial point of view, to such holders.

The full text of Boenning's written opinion dated July 27, 2016, which sets forth the assumptions made, matters considered and limitations of the review undertaken, is attached as Annex C to this proxy statement. You are urged to, and should, read this opinion carefully and in its entirety in connection with this joint proxy statement/prospectus. The summary of Boenning's opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Boenning's opinion speaks only as of the date of the opinion and does not reflect any developments that may occur or may have occurred after the date of its opinion and prior to the completion of the proposed Merger.

No limitations were imposed by Liberty on the scope of Boenning's investigation or the procedures to be followed by Boenning in rendering its opinion. Boenning was not requested to, and did not, make any recommendation to the Liberty board of directors as to the form or amount of the consideration to be paid to the Liberty stockholders, which



was determined through arm's length negotiations between the parties. In arriving at its opinion, Boenning did not ascribe a specific range of values to Liberty. Its opinion is based on the financial and comparative analyses described below.

**Table of Contents**

In connection with its opinion, Boenning, among other things:

- (i) reviewed the historical financial performance, current financial position and general prospects of each of Middlefield and Liberty and reviewed certain internal financial analyses and forecasts prepared by the respective management teams of Middlefield and Liberty;
- (ii) reviewed the proposed Reorganization Agreement;
- (iii) reviewed and analyzed the stock performance and trading history of Middlefield;
- (iv) studied and analyzed the consolidated financial and operating data of Middlefield and Liberty;
- (v) reviewed the pro forma financial impact of the proposed Merger on Middlefield, based on assumptions relating to transaction expenses, purchase accounting adjustments, cost savings and other synergies determined by the respective management teams of Middlefield and Liberty;
- (vi) considered the financial terms of the proposed Merger as compared with the financial terms of comparable bank and bank holding company mergers and acquisitions;
- (vii) met and/or communicated with certain members of each of Middlefield's and Liberty's senior management to discuss their respective operations, historical financial statements and future prospects; and

(viii) conducted such other financial analyses, studies and investigations as Boenning deemed appropriate. Boenning's opinion was given in reliance on information and representations made or given by Middlefield, Liberty, and their respective officers, directors, auditors, counsel and other agents, and on filings, releases and other information issued by each of Middlefield and Liberty including financial statements, financial projections, and stock price data as well as certain information from recognized independent sources. Boenning did not independently verify the information concerning Middlefield or Liberty nor any other data Boenning considered in its review and, for purposes of its opinion, Boenning assumed and relied upon the accuracy and completeness of all such information and data. Boenning assumed that all forecasts and projections provided to it had been reasonably prepared and reflected the best currently available estimates and good faith judgments of the respective management teams of Middlefield and Liberty as to their most likely future financial performance. Boenning expressed no opinion as to any financial projections or the assumptions on which they were based. Boenning did not conduct any valuation or appraisal of any assets or liabilities of Middlefield or Liberty, nor have any such valuations or appraisals been provided to Boenning. Additionally, Boenning assumed that the proposed Merger is, in all respects, lawful under applicable law.

With respect to anticipated transaction costs, purchase accounting adjustments, expected cost savings and other synergies and financial and other information relating to the general prospects of Middlefield and Liberty, Boenning assumed that such information had been reasonably prepared and reflected the best currently available estimates and

good faith judgment of the respective management teams of Middlefield and Liberty as to their most likely future performance. Boenning further relied on the assurances of the respective management teams of Middlefield and Liberty that they were not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Boenning was not asked to and did not undertake an independent verification of any of such information and Boenning did not assume any responsibility or liability for the accuracy or completeness thereof. Boenning assumed that the allowance for loan losses indicated on the balance sheet of each of Middlefield and Liberty was adequate to cover such losses; Boenning did not review individual loans or credit files of Middlefield and Liberty. Boenning assumed that all of the representations and warranties contained in the reorganization Agreement and all related agreements were true and correct, that each party under the agreements will perform all of the covenants required to be performed by such party under the agreements, and that the conditions precedent in the agreements were not waived. Also, in rendering its opinion, Boenning assumed that in the course of obtaining the necessary regulatory approvals for the consummation of the proposed Merger no conditions will be imposed that will have a material adverse effect on the combined entity or contemplated benefits of the proposed Merger, including the cost savings and related expenses expected to result from the proposed Merger.

---

**Table of Contents**

Boenning's opinion is based upon information provided to it by the respective management teams of Middlefield and Liberty, as well as market, economic, financial and other conditions as they existed and could be evaluated only as of the date of its opinion and accordingly, it speaks to no other period. Boenning did not undertake to reaffirm or revise its opinion or otherwise comment on events occurring after the date of its opinion and did not have an obligation to update, revise or reaffirm its opinion. Boenning's opinion does not address the relative merits of the proposed Merger or the other business strategies that Liberty's board of directors has considered or may be considering, nor does it address the underlying business decision of Liberty's board of directors to proceed with the proposed Merger. Boenning's opinion is for the information of Liberty's board of directors in connection with its evaluation of the proposed Merger and does not constitute a recommendation to the board of directors of Liberty in connection with the proposed Merger or a recommendation to any stockholder of Liberty as to how such stockholder should vote or act with respect to the proposed Merger.

In connection with rendering its opinion, Boenning performed a variety of financial analyses that are summarized below. This summary does not purport to be a complete description of such analyses. Boenning believes that its analyses and the summary set forth herein must be considered as a whole and that selecting portions of such analyses and the factors considered therein, without considering all factors and analyses, could create an incomplete view of the analyses and processes underlying its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Boenning considered the results of all of its analyses as a whole and did not attribute any particular weight to any analyses or factors considered by it. The range of valuations resulting from any particular analysis described below should not be taken to be Boenning's view of the actual value of Liberty.

In its analyses, Boenning made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of Liberty or Middlefield. Any estimates contained in Boenning's analyses are not necessarily indicative of actual future values or results, which may be significantly more or less favorable than suggested by such estimates. Estimates of values of companies do not purport to be appraisals or necessarily reflect the actual prices at which companies or their securities actually may be sold. No company or transaction utilized in Boenning's analyses was identical to Liberty or Middlefield or the proposed Merger. Accordingly, an analysis of the results described below is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other facts that could affect the public trading value of the companies to which they are being compared. None of the analyses performed by Boenning was assigned a greater significance by Boenning than any other, nor does the order of analyses described represent relative importance or weight given to those analyses by Boenning. The analyses described below do not purport to be indicative of actual future results, or to reflect the prices at which Liberty's common stock or Middlefield's common stock may trade in the public markets, which may vary depending upon various factors, including changes in interest rates, dividend rates, market conditions, economic conditions and other factors that influence the price of securities.

In accordance with customary investment banking practice, Boenning employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses that Boenning used in providing its opinion on July 27, 2016. Some of the summaries of financial analyses are presented in tabular format. In order to understand the financial analyses used by Boenning more fully, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of Boenning's financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Boenning. The summary data set forth below do not represent and should not be viewed by anyone as constituting conclusions reached by Boenning with respect to any of the analyses performed by it in connection with its opinion. Rather, Boenning made its determination as to the fairness to the holders of Liberty's common stock of the Merger consideration, from a financial point of view, on the basis of its

experience and professional judgment after considering the results of all of the analyses performed. Accordingly, the data included in the summary tables and the corresponding imputed ranges of value for Liberty should be

**Table of Contents**

considered as a whole and in the context of the full narrative description of all of the financial analyses set forth in the following pages, including the assumptions underlying these analyses. Considering the data included in the summary table without considering the full narrative description of all of the financial analyses, including the assumptions underlying these analyses, could create a misleading or incomplete view of the financial analyses performed by Boenning.

In connection with rendering its opinion and based upon the terms of the draft Agreement and Plan of Reorganization reviewed by it, Boenning assumed the effective aggregate indicated Merger consideration to be \$41.57 million and the per share Merger consideration to be \$42.14, based on Middlefield's closing stock price on July 26, 2016, of \$33.76.

*Comparison of Selected Companies.* Boenning reviewed and, as reflected in Table 1 below, compared the multiples and ratios of the offer price to Liberty's book value, tangible book value, latest 12 months earnings per share, assets, tangible book premium to core deposits, and deposits, such multiples referred to herein as the pricing multiples, with the median pricing multiples for the current trading prices, after the application of a 29.7% assumed control premium, referred to as the adjusted trading price, of the common stock of a peer group of 22 selected public banks and thrifts with assets between \$150 million and \$400 million, tangible common equity / tangible assets between 11% and 15% and latest 12 months return on average tangible common equity between 5% and 8.5%, excluding merger targets. The 29.7% equity control premium is the median one day stock price premium for all bank and thrift merger and acquisition deals announced since January 1, 2000, based on data from SNL Financial.

**Table 1**

<b>Pricing Multiple</b>	<b>Adjusted Trading Price Median Statistics for</b>	
	<b>Offer Price</b>	<b>Peer Group (1)</b>
Price/Book Value	130.3%	129.0%
Price/Tangible Book Value	130.3%	129.0%
Price/Latest Twelve Months Core Earnings Per Share	19.0x	18.3x
Price/Assets	18.7%	15.3%
Premium over Tangible Book Value/Core Deposits	5.6%	4.6%
Price/Deposits	21.9%	18.6%

(1) Peer metrics are based on prices as of market close on July 26, 2016.

*Analysis of Bank Merger Transactions.* Boenning analyzed certain information relating to recent transactions in the banking industry, consisting of (i) nine Midwest bank and thrift transactions announced since January 1, 2014 with target assets between \$100 million and \$600 million, tangible equity / tangible assets between 11% and 17%, latest 12 months return on average equity between 5% and 10%, and disclosed pricing, referred to below as Group A; and (ii) 17 nationwide bank and thrift deals announced since January 1, 2014 with target assets between \$150 million and \$400 million, tangible equity / tangible assets between 12% and 18%, latest 12 months return on average equity between 2% and 12%, and disclosed pricing, referred to below as Group B. As reflected in Table 2 below, Boenning then reviewed and compared the pricing multiples of the offer price and the median pricing multiples of the selected transaction values for Group A and Group B.



**Table of Contents****Table 2**

<b>Pricing Multiple</b>	<b>The Merger</b>	<b>Median for Selected Transactions</b>	
		<b>Group A</b>	<b>Group B</b>
Price/Book Value	130.3%	119.8%	126.1%
Price/Tangible Book Value	130.3%	124.3%	126.5%
Price/Latest Twelve Months Core Earnings Per Share	19.0x	21.4x	25.2x
Price/Assets	18.7%	17.1%	17.1%
Premium over Tangible Book Value/Core Deposits	5.6%	4.9%	5.9%
Price/Deposits	21.9%	19.9%	19.5%

*Discounted Cash Flow Analysis.* Discounted cash flow analysis approximates the value of a share of stock to an acquiror by calculating the present value of the target's dividendable cash flow in perpetuity. This analysis assumed a short-term earnings growth rate of 5% and a long-term growth rate of 2%, as well as a short-term balance sheet growth rate of 3.5% and a long-term growth rate of 2%, based on guidance from Liberty's management. The estimated cost savings of 30% in year one, 35% in year two and 40% thereafter, transaction costs of \$3.1 million pre-tax and gross credit mark of approximately \$5.1 million, or 2.75% of loans (equal to \$1.8 million net of Liberty's loan loss reserve) were based on guidance provided by Middlefield. A discount rate of 13% was determined using the Capital Asset Pricing Model and the Build-Up Method, both of which take into account certain factors such as the current risk free rate, the beta of bank stocks compared to the broader market and the Ibbotson risk premiums for small, illiquid stocks and for commercial bank stocks, as well as comparable company returns on tangible common equity. The average of the three methods was approximately 13%. Sensitivity analyses for discount rates and cost savings ranged from 11% to 15% and 33.5% to 46.5%, respectively. The present value of Liberty common stock calculated using discounted cash flow analysis ranged from \$34.50 per share to \$55.26 per share based on the cost savings estimates and discount rates used, compared to the offer price of \$42.14 per share. This analysis does not purport to be indicative of actual future results and does not purport to reflect the prices at which shares of Liberty common stock may trade in the public markets. A discounted cash flow analysis was included because it is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings growth rates, dividend payout rates and discount rates.

*Present Value Analysis.* Applying present value analysis to Liberty's theoretical future earnings, dividends and tangible book value, Boenning compared the offer price for one share of Liberty's common stock to the present value of one share of Liberty's common stock on a stand-alone basis. The analysis was based upon management's projected earnings growth, a range of assumed price/earnings ratios, a range of assumed price/tangible book value ratios and a 13% discount rate, which was determined using the Capital Asset Pricing Model and the Build-Up Method, both of which take into account certain factors such as the current risk free rate, the beta of bank stocks compared to the broader market and the Ibbotson risk premiums for small, illiquid stocks and for commercial bank stocks, as well as comparable company returns on tangible common equity. The average of the three methods was approximately 13%. The valuation was completed with a sensitivity analysis on the discount rate ranging from 11% to 15%. Boenning derived the terminal price/earnings multiple of 15.8x and terminal price/tangible book value multiple of 123.7% from the three-year median trading multiples of the SNL Bank < \$500 Million Index as of July 26, 2016. Sensitivity analyses for terminal price/earnings and price/tangible book ranged from 11.4x to 20.2x and 103.4% to 144.0%, respectively. The present value of Liberty's common stock on a standalone basis is \$22.86 to \$45.10 per share based on price/earnings multiples, and \$22.55 to \$40.65 per share based on price/tangible book value multiples,



compared to the offer price of \$42.14 per share. This analysis does not purport to be indicative of actual future results and does not purport to reflect the prices at which shares of Liberty's common stock may trade in the public markets. A present value analysis was included because it is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings growth rates, dividend payout rates and discount rates.

---

**Table of Contents**

*Pro Forma Merger Analysis.* Boenning analyzed certain potential pro forma effects of the Merger, assuming the following: (i) the proposed Merger is completed December 31, 2016; (ii) each share of Liberty's common stock will be eligible to receive consideration of approximately \$42.14 consisting of a \$3.13 special cash dividend, \$20.88 in cash, and \$17.09 in Middlefield stock; (iii) estimated pre-tax cost savings of approximately 40% of Liberty's noninterest expense on an annual basis, recognized 75% in 2017 and 87.5% in 2018; (iv) estimated one-time transaction-related costs of approximately \$3.5 million pre-tax are expensed prior to closing; (v) Liberty performance was calculated in accordance with Liberty management's earnings forecasts; (vi) Middlefield's performance was calculated in accordance with Middlefield management's earnings forecasts; and (vii) certain other assumptions pertaining to costs and expenses associated with the transaction, intangible amortization, opportunity cost of cash and other items. The analyses indicated that, for the full years 2017 and 2018, the proposed Merger (excluding transaction expenses) would be accretive to the combined company's projected earnings per share and accretive to Liberty's per share equivalent earnings, tangible book value and dividends. Additionally, the combined company's regulatory capital ratios would exceed regulatory guidelines for well capitalized. The actual results achieved by the combined company may vary from projected results and the variations may be material.

As described above, Boenning's opinion was just one of the many factors taken into consideration by the Liberty board of directors in making its determination to approve the proposed Merger.

Boenning, as part of its investment banking business, regularly is engaged in the valuation of assets, securities and companies in connection with various types of asset and security transactions, including mergers, acquisitions, private placements, public offerings and valuations for various other purposes, and in the determination of adequate consideration in such transactions. In the ordinary course of Boenning's business as a broker-dealer, it may, from time to time, purchase securities from, and sell securities to, Middlefield, Liberty, and/or their respective affiliates. In the ordinary course of business, Boenning may also actively trade the securities of Middlefield and Liberty for its own account and/or for the accounts of customers and accordingly may at any time hold a long or short position in such securities.

Boenning is acting as Liberty's financial advisor in connection with the proposed Merger and will receive a customary fee for its services, a significant portion of which is contingent upon consummation of the Proposed Merger. Boenning also received a fee for rendering the fairness opinion. Boenning's fee for rendering the fairness opinion was not contingent upon any conclusion that Boenning reached or upon completion of the proposed Merger. The Company has also agreed to indemnify Boenning against certain liabilities that may arise out of Boenning's engagement.

*Prior Engagements by Middlefield and Liberty.* Boenning was engaged in February 2016 by Middlefield to serve as placement agent for a private placement of common stock. The offering ultimately closed on June 30, 2016, and Boenning was paid a commission for its role. Boenning advised, and received compensation from, Liberty in 2014 relating to the exploration of strategic alternatives, although no transaction was consummated at that time.

Except for the arrangements between Boenning and Liberty and Middlefield described in the preceding paragraphs, Boenning has not had any material relationship with either Middlefield or Liberty during the past two years in which compensation was received or was intended to be received. Boenning may provide services to Middlefield in the future (and/or to Liberty if the proposed Merger is not consummated), although as of the date of Boenning's opinion, there was no agreement to do so nor any mutual understanding that such services are contemplated.

Boenning's opinion was approved by Boenning's fairness opinion committee. Boenning did not express any opinion as to the fairness of the amount or nature of the compensation to be received in the proposed Merger by any of the officers, directors, or employees of any party to the reorganization Agreement, or any class of such persons, relative to the compensation to be received by the holders of Liberty's common stock in the proposed Merger.



---

**Table of Contents****Nonpublic Financial Projections Provided to Financial Advisors**

For a number of reasons, including the unpredictability of underlying assumptions and estimates, Liberty does not routinely publicly disclose forecasts or internal projections of future performance, earnings, or other results. However, Boenning considered financial projections provided by or reviewed with senior management of Liberty for the purpose of preparing the financial analyses supporting Boenning's fairness opinion, as described in this joint proxy statement/prospectus under the heading "Opinion of Liberty's Financial Advisor." In addition, Donnelly Penman & Partners Inc. considered internal financial projections provided by and/or reviewed with senior management of Liberty for the purpose of preparing the financial analyses supporting Donnelly Penman's fairness opinion, as described in this joint proxy statement/prospectus under the heading "Opinion of Middlefield's Financial Advisor." A summary of these projections is therefore included in this joint proxy statement/prospectus because the projections were considered by Boenning and by Donnelly Penman in preparing their analyses.

When the financial projections were prepared, they represented the best estimates and judgments of Liberty management about future financial performance. The financial projections summarized below were prepared in good faith, but financial projections are subjective in many respects and are susceptible to interpretation and periodic revision based on actual experience and recent developments. Accordingly, financial projections do not reliably predict future operating results. The financial projections were not prepared with the expectation of public disclosure or with the goal of complying with American Institute of Certified Public Accountants guidelines for prospective financial information or SEC guidelines regarding forward-looking statements. Although presented with numeric specificity, the financial projections reflect numerous estimates and assumptions that might not be realized and are subject to significant uncertainties and contingencies, many of which are beyond Liberty's control. For these reasons and because of the uncertainties inherent in financial projections, Liberty stockholders and Middlefield stockholders should not unduly rely on these financial projections as predictions of future operating results.

The financial projections of Liberty included in this joint proxy statement/prospectus were prepared by and are the responsibility of Liberty management. Neither Liberty's independent registered public accounting firm nor any other independent accounting firm examined, compiled, or performed any procedures on these financial projections, and therefore express no opinion or any other form of assurance regarding the financial projections. Inclusion of the financial projections in this joint proxy statement/prospectus is not an admission or representation by Liberty or Middlefield that Liberty or Middlefield consider the financial projections to be material information.

All of the financial projections are forward-looking statements. The estimates and assumptions underlying the financial projections summarized below involve judgments regarding future economic, competitive, regulatory, and financial market conditions and future business decisions. The estimates and assumptions may not be realized and are inherently subject to significant business, economic, competitive, and regulatory uncertainties, all of which are difficult to predict and many of which are beyond Liberty's control. In addition, these financial projections represent Liberty's evaluation at the time the projections were prepared of its future financial performance on a stand-alone basis, and without reference to the proposed Merger or transaction-related costs or benefits. Accordingly, Liberty gives no assurance that the projected results will be realized or that actual results will not differ materially from those presented in the financial projections. Inclusion of these financial projections should not be interpreted as a statement that Liberty or Middlefield considers this information a reliable prediction of future results, or that the projections would be the same if prepared by Liberty as of the date of this document, and this information should not be unduly relied on for that purpose.

**Table of Contents**

Liberty provided to Boenning and Donnelly Penman the following estimate of per share earnings on a stand-alone basis for the period 2017 through 2020, based on its internal strategic plan for 2016-2018 and forward growth expectations for 2019 and beyond:

	Year ended December 31,			
	2017	2018	2019	2020
<b>EPS stand-alone</b>	2.39	2.85	3.14	3.30
<b>Middlefield's Reasons for the Merger</b>				

Middlefield's board of directors believes the Merger is in the best interests of Middlefield and its stockholders and therefore unanimously approved the transactions contemplated by the Reorganization Agreement and the Merger. The board reached this decision after consulting with management and with Middlefield's financial and legal advisors. The board's reasoning was based on many factors, including but not limited to the following:

the Merger will expand Middlefield's northeastern Ohio business into Cuyahoga County and Summit County, two counties to the immediate west and south of Middlefield's market but contiguous to Middlefield's market

Liberty has a diversified loan portfolio, but its primary focus on commercial lending opportunities targeted to professionals and small business owners is compatible with Middlefield's goals and could allow for significant lending growth in these markets

the Merger will make Middlefield a leading community banking organization in desirable markets within northeastern Ohio, adding scale, profitability, and growth potential

Middlefield anticipates that eliminating back office redundancies will lead to savings opportunities

although there are regional and national financial institutions in northeastern Ohio with significantly greater assets, at approximately \$1.0 billion in total assets after the Merger Middlefield will not lose its identity as a community banking organization but it will have improved economies of scale to compete more effectively in an increasingly competitive and increasingly concentrated banking market, along with enhanced growth opportunities through three productive new offices in the Cleveland and Akron markets

the resulting institution will have a stronger regional presence and greater brand recognition

Liberty customers will have access to a broader range of banking products and services from a bank with greater lending authority

Liberty's SBA lending will be a positive addition to Middlefield's lending products, potentially also generating income from sale of the government-guaranteed portion of the SBA loan portfolio

The Middlefield Banking Company and Liberty are compatible organizations because of similar strategies and a shared customer focus and community orientation

the pro forma financial aspects of the Merger are favorable, with an estimated earnings per share accretion in 2017 of over 38% and an estimated internal rate of return exceeding 20%, with a manageable three- to four-year period to earn back the approximately 16% anticipated tangible book value dilution

when Liberty board members William A. Valerian and Thomas W. Bevan become Middlefield board members at Merger closing their insights about Middlefield's expanded market in Cuyahoga and Summit Counties will enable Middlefield to take greater advantage of competitive opportunities in that expanded market

The continued employment of many Liberty personnel will help with the transition of customers, employees, and the Liberty community, reducing the Merger's potential execution risk

The Middlefield Banking Company will continue to be well capitalized after the Merger

## Table of Contents

based on improved performance and collections of charged off loans, an opportunity exists to collect on student loans previously charged off by Liberty Middlefield's board of directors considered many factors in its evaluation. The board did not quantify or assign relative weights to any individual factors in its decision.

### **Recommendation of Middlefield's Board of Directors**

Middlefield's board of directors unanimously approved the transactions contemplated by the Reorganization Agreement and the issuance of common stock in the Merger. The board believes the Merger and the common stock issuance are in the best interests of Middlefield and its stockholders. Accordingly, the directors unanimously recommend that Middlefield stockholders vote **FOR** adoption and approval of the Reorganization Agreement and **FOR** issuance of common stock in the Merger.

### **Opinion of Middlefield's Financial Advisor**

On April 19, 2016 Middlefield's board of directors retained Donnelly Penman to provide merger advisory services. As part of the engagement, Donnelly Penman was asked to assess the fairness to Middlefield stockholders, from a financial point of view, of the approximately \$40.0 million consideration being paid.

Donnelly Penman is a regional investment banking firm headquartered in Grosse Point, Michigan. Donnelly Penman is continually engaged in the valuation of businesses and securities in mergers and acquisitions, in secondary distributions of securities, and in private placements, as well as valuations for going-private transactions, corporate, and other purposes.

Donnelly Penman representatives attended the July 27, 2016 meeting at which Middlefield's board of directors evaluated and ultimately approved the Reorganization Agreement and proposed Merger. At this meeting Donnelly Penman reviewed the financial aspects of the proposed transaction and rendered an opinion that as of such date the approximately \$40.0 million consideration being paid, including the cash and stock consideration payable to Liberty stockholders in exchange for their Liberty common stock, the approximately \$3.0 million special dividend to be declared by Liberty before closing, and the cash payable in cancellation of Liberty's outstanding options and phantom stock, was fair from a financial point of view to Middlefield stockholders.

The full text of Donnelly Penman's written opinion is attached as Annex D to this joint proxy statement/prospectus. The following summary of the opinion is qualified in its entirety by reference to the full text of the opinion in Annex D. You should read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Donnelly Penman. Donnelly Penman's opinion is necessarily based upon economic and market conditions and other circumstances as they existed and were evaluated on the date of the opinion.

**Donnelly Penman's opinion speaks only as of the date of the opinion. The opinion is directed to Middlefield's Board of Directors and addresses only the fairness to Middlefield stockholders, from a financial point of view, of the consideration being paid. It does not address the underlying business decision to proceed with the Merger and does not constitute a recommendation to any stockholder about how the stockholder should vote regarding the Merger.**

**Table of Contents**

Donnelly Penman discussed current business operations, financial conditions and prospects of Middlefield and Liberty the management teams of Middlefield and Liberty, in addition to discussions with independent directors of Middlefield. The resources Donnelly Penman reviewed in the process of forming its fairness opinion also include but are not limited to the following:

the July 28, 2016 Reorganization Agreement and exhibits

public information of Middlefield, including audited financial statements and Form 10-Ks for the years ended December 31, 2015, 2014 and 2013, interim financial results for the six months ended June 30, 2016 and 2015 as disclosed in Form 10-Q, and the quarterly call reports of The Middlefield Banking Company for the periods March 31, 2016 and December 31, September 30, June 30, and March 31, 2015

the capital ownership structure of Middlefield, including information about Middlefield's private offering of common stock in May and June of 2016

historical market prices and trading volume of Middlefield common stock

historical and forecasted financial information relating to earnings, dividends, assets, liabilities, and prospects of Middlefield furnished and deemed reasonable by Middlefield's senior management

Middlefield senior management's projected earnings estimates for fiscal years 2016 through 2018, which Donnelly Penman extrapolated into fiscal year 2020

nonpublic information about Liberty made available in the due diligence process, including Liberty's audited financial statements for the years ended December 31, 2015, 2014, and 2013, as well as publicly available information, including Liberty's quarterly call reports for quarters ended on June 30 and March 31, 2016 and December 31, September 30, June 30, and March 31, 2015

Liberty's problem loan reports as of March 31 and June 30, 2016

Liberty senior management's projected earnings estimates for fiscal years 2016 through 2018, which Donnelly Penman extrapolated into fiscal year 2020

valuation analyses of Middlefield that Donnelly Penman performed, including analysis of comparable transactions, a dividend discount model analysis on a standalone basis for Middlefield and on a pro forma basis including Liberty, and analysis of comparable public companies to Middlefield on a standalone and pro forma basis



a summary merger model of the pro forma impact of the transaction to Middlefield

a contribution analysis of Middlefield and Liberty to the combined entity as of June 30, 2016, and

other information, financial studies, analyses, investigations, and factors that Donnelly Penman deemed relevant

Donnelly Penman also discussed with Middlefield management past and current business operations, regulatory relations, financial condition, future prospects, and other matters. Donnelly Penman also discussed with Liberty management that bank's business operations, regulatory relations, earnings results, and future prospects.

Donnelly Penman relied upon the accuracy and completeness of all financial and other information provided to it or publicly available, and did not assume responsibility for the accuracy, completeness, or reasonableness of or responsibility for verification of the information. Donnelly Penman did not make any independent evaluations, valuations, or appraisals of the assets or liabilities of Middlefield or Liberty, did not review individual credit files, and assumed that the aggregate allowances for credit losses relating to the loans of Middlefield and Liberty are and will continue to be adequate to cover losses. Donnelly Penman relied upon Middlefield management regarding the reasonableness and achievability of the financial and operating forecasts and projections (and the

---

**Table of Contents**

assumptions and bases therefor) prepared by and provided by Middlefield management, and similarly relied on Liberty management regarding the reasonableness and achievability of the financial and operating forecasts and projections (and the assumptions and bases therefor) prepared by and provided by Liberty management. Donnelly Penman assumed that the forecasts and projections of Middlefield management reflect management's best currently available estimates and judgments and that the forecasts and projections will be realized in the amounts and in the time periods estimated and that they provide a reasonable basis for Donnelly Penman's opinion. Likewise, Donnelly Penman assumed that the forecasts and projections of Liberty management reflect Liberty management's best currently available estimates and judgments and that the forecasts and projections will be realized in the amounts and in the time periods estimated and that they provide a reasonable basis for Donnelly Penman's opinion. The Middlefield and Liberty forecasts and projections were not prepared with the expectation of public disclosure. The projected financial information is based on numerous variables and assumptions that are inherently uncertain, including without limitation factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from projected results. Donnelly Penman relied on the projected information without independent verification or analysis. Donnelly Penman relied upon the assurance of Middlefield management and Liberty management that they were unaware of any facts that would make the information provided or available to Donnelly Penman incomplete or misleading.

The following is a summary of the material analyses presented by Donnelly Penman to the Middlefield's board of directors on July 27, 2016. The Donnelly Penman opinion was not the only factor taken into consideration by Middlefield's board of directors in the board's decision to approve the Reorganization Agreement and the Merger. Consequently, the analyses described below were not determinative in the board's decision. The summary is not a complete description of the analyses underlying the Donnelly Penman opinion or the presentation made by Donnelly Penman to Middlefield's board of directors, but summarizes the material analyses performed and presented. The preparation of a fairness opinion is a complex analytic process. Donnelly Penman did not attribute any particular weight to any analysis or factor it considered, but rather made qualitative judgments about the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. Accordingly, Donnelly Penman believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

The summary of Donnelly Penman's analyses to follow includes a summary of its analysis of comparable transactions, analysis of a dividend discount model on a stand-alone basis for Middlefield (stand-alone meaning without taking the Merger into account) and on a pro forma, post-merger basis, analysis of tangible book value dilution and earnings accretion attributable to the Merger, analysis of comparable public companies to Middlefield on a stand-alone basis and pro forma basis, and finally a contribution analysis that considers the anticipated 18.7% pro forma outstanding shares of Middlefield common stock held by Liberty stockholders relative to the percentage contribution of Liberty assets, loans, deposits, and tangible common equity to the pro forma combined entity. Donnelly Penman made numerous assumptions regarding industry performance, business and economic conditions, and other matters, many of which are beyond the control of Middlefield and Liberty. Credit, financial, and stock markets can experience unusual volatility. No company or merger included in Donnelly Penman's analysis is identical to Middlefield or Liberty and the comparable transactions considered by Donnelly Penman are not identical to the proposed Merger. Accordingly, Donnelly Penman's analyses are not based solely on arithmetic calculations but instead involve complex considerations and judgments concerning differences in financial and operating characteristics of the relevant companies, the timing of the relevant mergers and prospective buyer interests, as well as other factors that could affect the public trading markets of companies to which Middlefield is being compared. None of the analyses performed by

Donnelly Penman was assigned a greater significance than any other.

**Table of Contents**

*Comparable Transaction Analysis.* Donnelly Penman reviewed publicly available information related to comparable acquisitions of banks and bank holding companies as well as thrifts and thrift holding companies. The selection criteria were (1) transaction announcement after June 30, 2014, (2) total assets of acquired company between \$100 and \$300 million, (3) last twelve month (LTM) return on average assets (ROAA) of acquired company between 0.75% and 1.00%, and (4) nonperforming assets as a percent of total assets of acquired company less than 3.0%. Based on these criteria, Donnelly Penman identified 22 comparable acquisition transactions on a national level

<b>Acquiring company</b>	<b>Acquired company</b>
1) Arbor Bancorp, Inc.	Birmingham Bloomfield Bancshares, Inc.
2) Oakstar Bancshares, Inc.	Bank of Urbana
3) Pinnacle Financial Corporation	Independent Bank of Georgia
4) Nacogdoches Commercial Bancshares, Inc.	First National Bank of Emory
5) Cascade Bancorp	Prime Pacific Financial Services
6) Boscobel Bancorp, Inc.	Rural Bancshares of Wisconsin, Inc.
7) Citizens Community Bancorp, Inc.	Community Bank of Northern Wisconsin
8) Horizon Bancorp	Kosciusko Financial, Inc.
9) County Bancshares, Inc.	First Live Oak Bancshares, Inc.
10) Franklin Financial Network, Inc.	Civic Bank & Trust
11) CVB Financial Corp.	County Commerce Bank
12) Community Bank Holdings of Texas, Inc.	StarBanc Holding Company
13) WSB Bancshares, Inc.	XIT Bancshares, Inc.
14) Town and Country Financial Corporation	West Plains Investors, Inc.
15) Glacier Bancorp, Inc.	Canon Bank Corporation
16) Southern States Bancshares, Inc.	Columbus Community Bank
17) Carolina Alliance Bank	PBSC Financial Corporation
18) Hambac, Inc.	Kentucky Home Bancshares, Inc.
19) Pacific Continental Corporation	Capital Pacific Bancorp
20) Partnership Community Bancshares, Inc.	Partnership Bank
21) Pilgrim Bancorporation	North Central Texas Bancshares, Inc.
22) Community Bancshares, Inc.	Citizens Bank of Ashville, Ohio

Donnelly Penman considered the transaction price per share as a percent of the acquired company's June 30, 2016 book value, as a percent of the acquired company's tangible book value as of that date, as a multiple of the acquired company's LTM earnings per share in the twelve-month period ended June 30, 2016, and as a percent of the acquired company's June 30, 2016 core deposits, which generally consist of total deposits other than time deposits exceeding \$100,000. For comparison purposes, Donnelly Penman calculated the total transaction price to be \$40.6 million, or \$42.28 per share, which is derived from an estimated \$16,387,359 stock consideration to be issued in the Merger in exchange for 45% of Liberty's 959,283 outstanding shares and an estimated \$23,027,910 cash consideration. The cash component includes not only cash Merger consideration payable in exchange for Liberty common stock but also the \$3.0 million special dividend and the approximately \$1.1 million payable for cancellation of outstanding shares and phantom stock. As a percent of book value, tangible book value, LTM earnings per share, and core deposits, the \$42.28 per share price is

<b>deal value relative to . . .</b>	<b>comparable transactions</b>			<b>national</b>
	<b>minimum</b>	<b>median</b>		<b>maximum</b>

	<b>Middlefield/Liberty merger</b>		<b>25<sup>th</sup> percentile</b>		<b>75<sup>th</sup> percentile</b>	
<b>book value</b>	1.307x	1.022x	1.245x	1.411x	1.496x	1.839x
<b>tangible book value</b>	1.307x	1.022x	1.245x	1.411x	1.496x	1.839x
<b>LTM EPS</b>	19.12x	12.33x	17.87x	19.58x	22.18x	25.51x
<b>core deposit premium</b>	5.16%	0.36%	4.60%	6.10%	9.05%	17.77%

**Table of Contents**

Of the 22 comparable acquisition transactions on a national level, nine are transactions of companies in the greater Midwest

<b>Acquiring company</b>	<b>Acquired company</b>
1) Arbor Bancorp, Inc.	Birmingham Bloomfield Bancshares, Inc.
2) Oakstar Bancshares, Inc.	Bank of Urbana
3) Boscobel Bancorp, Inc.	Rural Bancshares of Wisconsin, Inc.
4) Citizens Community Bancorp, Inc.	Community Bank of Northern Wisconsin
5) Horizon Bancorp	Kosciusko Financial, Inc.
6) Town and Country Financial Corporation	West Plains Investors, Inc.
7) Hambac, Inc.	Kentucky Home Bancshares, Inc.
8) Partnership Community Bancshares, Inc.	Partnership Bank
9) Community Bancshares, Inc.	Citizens Bank of Ashville, Ohio

As a percent of book value, tangible book value, LTM earnings per share, and core deposits for this regional group, the \$42.28 per share price is

<b>deal value relative to . . .</b>	<b>Middlefield/Liberty</b>		<b>comparable transactions</b>		<b>Midwest</b>	
	<b>merger</b>	<b>minimum</b>	<b>25<sup>th</sup> percentile</b>	<b>median</b>	<b>75<sup>th</sup> percentile</b>	<b>maximum</b>
<b>book value</b>	1.307x	1.022x	1.148x	1.409x	1.413x	1.839x
<b>tangible book value</b>	1.307x	1.022x	1.148x	1.409x	1.413x	1.839x
<b>LTM EPS</b>	19.12x	12.33x	18.21x	19.59x	19.95x	20.89x
<b>core deposit premium</b>	5.16%	0.36%	3.42%	4.48%	6.29%	8.27%

None of the companies or 22 transactions used as a comparison in these analyses is identical to Liberty, Middlefield, or the Merger. Analysis of these results is not solely mathematical, but instead involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

*Dividend Discount Model Analysis.* Donnelly Penman performed a discounted cash flow analysis of Middlefield on a stand-alone basis and on a pro forma, post-merger basis, estimating the value of a share of Middlefield common stock to be \$34.56 on a stand-alone basis and \$45.14 pro forma. These estimated values are the sum of two estimated values discounted back to the hypothetical December 31, 2016 merger date: (x) cash dividends for the five year period 2016 through 2020 and (y) residual or terminal value at the end of the five-year period. To determine present value, Donnelly Penman used a 13.00% discount rate.

Donnelly Penman's estimate assumes Middlefield's dividend remains constant at \$1.08 annually both on a stand-alone basis and pro forma, post-merger. The per share values also assume Middlefield's outstanding shares increase by 20,000 annually through Middlefield's dividend reinvestment plan, with pro forma outstanding shares including the estimated 515,164 shares issuable to Liberty stockholders in the Merger. At a 13.00% discount rate, the present value of the five-year projected cash dividend income is \$3.56 on a stand-alone and pro forma basis. For the estimated total \$34.56 value of Middlefield on a stand-alone basis and \$45.14 estimated pro forma value, the residual or terminal value at the end of the five-year period is derived by taking the average of a multiple of 1.40 times projected book value at the end of 2020 and 15.0 times projected 2020 net income, discounting that average value back to the December 31, 2016 hypothetical merger date at 13.0%. To derive the estimated stand-alone value, Donnelly Penman used Middlefield management's forecasted figures for 2016 through 2018, extrapolating from that at 8.00% annual

growth for the years 2019 and 2020. Likewise, to derive the estimated pro forma, post-merger value Donnelly Penman used Middlefield management's and Liberty management's forecasts for 2016 through 2018, extrapolating at 8.00% annual growth for the years 2019 and 2020. Net income assumes Middlefield's effective tax rate is 22%. Because the projected allowance for loan losses at the end of 2018 is projected to exceed 1.25%, the pro forma estimate assumes no additional provision expense attributable to Liberty in the years 2017 and 2018, but earnings are based on a slower growth rate

**Table of Contents**

thereafter to anticipate provision expense in 2019 and 2020. For purposes of the pro forma estimate, Middlefield management estimates a 30% reduction of Liberty's noninterest expense in 2017 and 35% thereafter.

Discounted cash flow present value analysis is a widely used valuation methodology, but it relies on numerous assumptions and estimates, including but not limited to asset and earnings growth rates, discount rates, and multiples of earnings or book value or both to derive residual or terminal values. The numeric per share result of the analysis is not the stock's actual value or expected value. It is merely an estimate within a broad range of potential value estimates.

*Tangible Book Value Dilution and Earnings Accretion.* Donnelly Penman estimates that Middlefield's tangible book value per share at December 31, 2016 would be \$33.52 without taking the Merger into account, with 16.3% dilution, or \$5.46 dilution per share, on a pro forma, post-merger basis at December 31, 2016. The Middlefield Banking Company's pro forma Tier 1 leverage ratio would be 7.71%, with pro forma Total Risk-Based Capital of 10.89% and pro forma Tangible Common Equity as a percent of tangible assets at 8.32%. Donnelly Penman estimates that the dilution of tangible book value could be eliminated, or earned back, in a period ranging from three to four years, which is consistent with the 3.9 year median period to earn back tangible book value dilution in a group of nine recent acquisitions examined by Donnelly Penman. Those nine transactions were announced between July 2, 2013 and June 2, 2016, with the first three transactions not yet completed on the date of Donnelly Penman's analysis in July 2016. The nine transactions involve acquired companies in Ohio, Indiana, Pennsylvania, and Michigan, with total deal values ranging from \$30 million to \$50 million

<b>Acquiring company</b>	<b>Acquired company</b>
1) Prudential Bancorp, Inc.	Polonia Bancorp, Inc.
2) DNB Financial Corporation	East River Bank
3) CNB Financial Corporation	Lake National Bank
4) NexTier Incorporated	Eureka Financial Corporation
5) First Merchants Corporation	Community Bancshares, Inc.
6) Peoples Bancorp Inc.	North Akron Savings Bank
7) MainSource Financial Group, Inc.	MBT Bancorp
8) Peoples Bancorp Inc.	Ohio Heritage Bancorp, Inc.
9) Peoples Bancorp Inc.	Ohio Commerce Bank

*Comparable Public Company Analysis.* Donnelly Penman also analyzed a group of 20 publicly traded companies Donnelly Penman considers comparable to Middlefield on a stand-alone basis because of location, asset size, and return on average assets (ROAA). The companies are all located in the Midwest or the greater Midwest region, have total assets between \$500 million and \$1.0 billion, and have an ROAA between 0.75% and 1.25%. Taking their stock price as of July 22, 2016 and using publicly available data, Donnelly Penman determined that the companies' price to book value, price to tangible book value, and price to LTM EPS (as of June 30, 2016) are

	7/22/2016 price to 6/30/2016 book value	7/22/2016 price to 6/30/2016 tangible book value	7/22/2016 price to LTM EPS as of 6/30/2016
<b>low</b>	78.03%	80.94%	7.16x
<b>median</b>	99.48%	108.23%	10.82x



<b>mean</b>	101.00%	111.31%	11.16x
<b>high</b>	149.01%	166.16%	18.73x
<b>Middlefield</b>	96.90%	103.03%	9.27x

**Table of Contents**

The 20 companies matching Donnelly Penman's criteria are

Blackhawk Bancorp, Inc.	BNCCORP, Inc.
Cortland Bancorp	Croghan Bancshares, Inc.
CSB Bancorp, Inc.	F.S. Bancorp
First Bankers Trustshares, Inc.	First Capital, Inc.
First Savings Financial Group, Inc.	Guaranty Federal Bancshares, Inc.
Heartland BancCorp	HMN Financial, Inc.
Kentucky Bancshares, Inc.	Landmark Bancorp, Inc.
NorthWest Indiana Bancorp	Ohio Valley BancCorp.
PSB Holdings, Inc.	SB Financial Group, Inc.
Southern Michigan Bancorp, Inc.	United Bancshares, Inc.

Donnelly Penman identified a similar group of 18 publicly traded companies that Donnelly Penman considers comparable to Middlefield on a pro forma, post-merger basis, based on an asset size range of \$800 million to \$1.5 billion, again limited to companies located in the greater Midwest and with ROAA between 0.75% and 1.25%. Taking their stock price as of July 22, 2016 and using publicly available data, Donnelly Penman determined that the companies' price to book value, price to tangible book value, and price to LTM EPS (as of June 30, 2016) are

	7/22/2016 price to 6/30/2016 book value	7/22/2016 price to 6/30/2016 tangible book value	7/22/2016 price to LTM EPS as of 6/30/2016
<b>low</b>	84.17%	85.72%	8.08x
<b>median</b>	112.49%	129.44%	12.78x
<b>mean</b>	119.01%	129.15%	12.58x
<b>high</b>	153.32%	163.77%	17.71x
<b>Middlefield</b>	96.90%	103.03%	9.27x

The 18 companies matching Donnelly Penman's criteria for companies comparable to Middlefield on a pro forma basis are

Ames National Corporation	Bank First National Corporation
Civista Bancshares Inc.	Farmers & Merchants Bancorp, Inc.
First Bankers Trustshares, Inc.	First Community Financial Partners, Inc.
Foresight Financial Group, Inc.	Independent Alliance Banks, Inc.
Kentucky Bancshares, Inc.	Landmark Bancorp, Inc.
LCNB Corp.	MBT Financial Corp.
Mutual First Financial, Inc.	NorthWest Indiana Bancorp
Ohio Valley BancCorp	Security National Corporation
Southern Missouri Bancorp, Inc.	Tri City Bankshares Corporation