MIDDLEFIELD BANC CORP
Form 424B3
February 16, 2007

Table of Contents

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Registration No. 333-140287

Emerald Bank
6215 Perimeter Drive
Dublin, Ohio 43017
(614) 793-4631

Notice of Annual Meeting of Shareholders to be held on March 29, 2007

To the Shareholders of Emerald Bank:

Notice is hereby given that the annual meeting of Emerald Bank shareholders will be held on Thursday, March 29, 2007 at 1:00 p.m., Eastern Standard Time, at the main office of Emerald Bank, 6215 Perimeter Drive, Dublin, Ohio 43017. The meeting will be held for the purpose of considering and voting upon -

1. A proposal to adopt the November 15, 2006 Agreement and Plan of Merger, as amended, providing for the acquisition of Emerald Bank by Middlefield Banc Corp. through the merger of Emerald Bank into EB Interim Bank, a wholly owned subsidiary of Middlefield Banc Corp., and approve the transactions contemplated thereby, as described in the attached prospectus/proxy statement,
2. A proposal to elect one director for the term ending at the annual meeting in 2008,
3. A proposal to elect three directors for the term ending at the annual meeting in 2009,
4. A proposal to ratify the selection of Crowe Chizek and Company, LLC as independent auditor of Emerald Bank for the year ending December 31, 2007,
5. A proposal to adjourn the annual meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Agreement and Plan of Merger and approve the merger, and
6. Any other business that properly comes before the meeting or any adjournment or postponement of the meeting.

The Board of Directors is not aware of any other business to be transacted at the meeting.

Holders of record of Emerald Bank common stock at the close of business on February 12, 2007 may vote on each matter presented at the meeting and any adjournment or postponement. Adoption of the merger agreement and approval of the merger requires the affirmative vote of at least a majority of the issued and outstanding shares of Emerald Bank common stock entitled to vote.

A copy of Emerald Bank s 2006 Annual Report will be mailed separately to you before the meeting.

The Board of Directors of Emerald Bank unanimously recommends that you vote FOR the merger agreement and the transactions contemplated thereby.

Emerald Bank shareholders may dissent from the merger. If you wish to exercise dissenters rights, you must comply with the procedures specified in the Ohio General Corporation Law. See Dissenters Rights in the accompanying prospectus/proxy statement for additional information.

Your vote is very important, regardless of the number of Emerald Bank common shares that you own. Please vote as soon as possible to make sure that your shares are represented at the meeting. To vote your shares, you may complete and return the enclosed proxy card. If you are a holder of record, you also may cast your vote in person at the meeting.

By Order of the Board of Directors,
Glenn E. Aidt
President and Chief Executive Officer
Dublin, Ohio
February 12, 2007

MIDDLEFIELD BANC CORP.	EMERALD BANK
PROSPECTUS	**PROXY STATEMENT**
for the issuance of up to 100,000 shares of Middlefield Banc Corp. common stock	for the Annual Meeting of Shareholders to be held on March 29, 2007 at 1:00 p.m., Eastern Standard Time

Middlefield Banc Corp. and Emerald Bank entered into an Agreement and Plan of Merger on November 15, 2006. The merger agreement provides for Middlefield s acquisition of Emerald Bank. The acquisition will be accomplished by the merger of Emerald Bank into an interim subsidiary organized by Middlefield on December 11, 2006. We cannot complete the merger unless the holders of a majority of the issued and outstanding shares of Emerald Bank common stock adopt the merger agreement and approve the merger. At the annual meeting Emerald Bank shareholders will consider and vote upon adoption of the merger agreement and approval of the transactions contemplated thereby. The date, time, and place of the annual meeting are -

March 29, 2007 at 1:00 p.m., Eastern Standard Time
Emerald Bank
6215 Perimeter Drive
Dublin, Ohio 43017

When the acquisition of Emerald Bank occurs, shareholders will receive aggregate merger consideration of $7,326,890, one half payable in cash and the other half in shares of Middlefield common stock. If a holder of options to acquire Emerald Bank common stock exercises those options before the merger occurs, the aggregate merger consideration will increase by the amount of cash paid to Emerald Bank by the option holder. Conversely, the aggregate merger consideration will decrease if Emerald Bank s shareholders equity (after certain adjustments) is less than $5.3 million at the end of the month immediately before the month in which the merger occurs.

Emerald Bank shareholders may elect to receive cash, Middlefield shares, or a combination of cash and Middlefield shares. The exact number of Middlefield shares to be received in exchange for each Emerald Bank share will be calculated according to a formula stated in the merger agreement and described in this prospectus/proxy statement. See The Merger Agreement Conversion of Emerald Bank shares and exchange ratio beginning on page 31. Shareholders elections are subject to reallocation, however, because one half of the aggregate merger consideration is payable in cash and the other half in Middlefield shares. As a result, we cannot assure you that you will receive the form of consideration you elect to receive. The exchange ratio will be determined after the date of the annual meeting. Therefore, when the annual meeting occurs you will not know the precise value of the stock merger consideration that you may receive. We estimate that Middlefield may issue up to 88,000 shares of common stock to Emerald Bank shareholders as a result of the merger.

Middlefield shares are not listed on any exchange but they are traded over the counter with the trading symbol MBCN. On February 8, 2007 the reported closing price for Middlefield shares was $39.00 per share.

Investment in Middlefield shares involves risks. **For a discussion of these risks, see Risk Factors beginning on page 9 of this prospectus/proxy statement**.

Regardless of whether you plan to attend the Emerald Bank annual meeting, please complete, sign, and return the enclosed proxy card in the enclosed postage-paid envelope. Not voting will have the same effect as voting against the merger agreement and the transactions contemplated thereby. We urge you to read this prospectus/proxy statement carefully. It contains a detailed description of the merger, the merger agreement, and related matters.

Middlefield securities are not savings accounts, deposit accounts, or other obligations of a bank or savings association. Middlefield securities are not insured by the Federal Deposit Insurance Corporation, the Deposit

Insurance Fund, or any other federal or state governmental agency. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares of Middlefield common stock to be issued in the merger or determined whether this prospectus/proxy statement is truthful or complete. A representation to the contrary is a criminal offense.

This prospectus/proxy statement is dated February 12, 2007 and it is first being mailed to Emerald Bank shareholders on or about February 12, 2007

Table of Contents

Additional Information

Middlefield is required to file business and financial information with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and Current Reports on Form 8-K. Middlefield is also required to file proxy or information statements with the SEC. You may obtain any of these documents without charge by writing or calling Middlefield at -

Middlefield Banc Corp.
15985 East High Street
P.O. Box 35
Middlefield, Ohio 44062
Attention: Mr. Donald L. Stacy
(440) 632-1666

To ensure timely delivery of these other documents, your request should be made no later than five business days before the annual meeting of Emerald Bank shareholders. **Accordingly, requests should be received by Middlefield no later than March 21, 2007**.

You may also obtain these documents through the SEC s website at *www.sec.gov*. See Where You Can Find More Information on page 90.

TABLE OF CONTENTS

Table of Contents

Table of Contents

Questions and Answers About the Merger

Q: **What am I being asked to vote on**? **What is the proposed transaction**?

A: You are being asked to approve a merger agreement providing for the acquisition of Emerald Bank by Middlefield Banc Corp. As a result of the merger, you may become a shareholder of Middlefield. The acquisition is structured as the merger of Emerald Bank into a subsidiary recently organized by Middlefield. The recently organized subsidiary will be the surviving entity in the merger, its name will be changed to Emerald Bank when the merger occurs, and it will continue to operate as a separate subsidiary of Middlefield after the merger.

Q: **Why are Emerald Bank and Middlefield entering into this transaction**?

A: Emerald Bank believes that the proposed acquisition will benefit its shareholders. Because it is a larger company, Middlefield can provide the capital and resources Emerald Bank needs to compete more effectively, including a broader array of products and services. From Middlefield s perspective, the acquisition will give Middlefield the opportunity to extend its banking franchise into one of the most prosperous portions of the state. To review the reasons for the merger in more detail, see The Proposed Merger (Proposal One) Background and reasons for the merger beginning on page 18.

Q: **What does Emerald Bank s board of directors recommend**?

A: Emerald Bank s board of directors unanimously recommends that you vote FOR approval of the merger. The board believes that the merger is in the best interests of Emerald Bank and its shareholders. To review the background and reasons for the merger in greater detail, see page 18.

Q: **What vote is required to approve the merger agreement**?

A: The merger will not be approved unless the holders of a majority of the issued and outstanding shares of Emerald Bank common stock vote in favor of it. Emerald Bank s President and Chief Executive Officer and another director of Emerald Bank have agreed to vote their shares in favor of the merger at the annual meeting. These shareholders own approximately 36.5% of Emerald Bank s outstanding shares. Middlefield s shareholders will not be voting on the merger agreement. See The Proposed Merger (Proposal One) Interests of Emerald Bank directors and officers in the merger on page 27.

Q: **Is completion of the merger subject to any conditions besides shareholder approval**?

A: Yes. Middlefield s acquisition of Emerald Bank cannot be completed unless Middlefield obtains Federal Reserve Board approval under the Bank Holding Company Act of 1956, FDIC approval under the Federal Deposit Insurance Act, and approval of the Ohio Division of Financial Institutions under Ohio banking law. There also are other closing conditions that must be satisfied, which are summarized in this prospectus/proxy statement.

Q: **When do you expect the merger to be completed**?

A: We will try to complete the merger as soon as reasonably possible. Assuming a majority of Emerald Bank s issued and outstanding shares vote in favor of the merger and assuming we obtain the necessary regulatory approvals, we expect to complete the merger by May 31, 2007.

Q: **Are there risks I should consider in my decision about the merger agreement**?

A: Yes. You should read this prospectus/proxy statement carefully, including the factors discussed in the section titled Risk Factors, which begins on page 9.

Q: **What price has Middlefield agreed to pay**?

A: Middlefield has agreed to pay a total of $7,326,890 to acquire Emerald Bank, with one half of the price payable in cash and the other half in Middlefield common stock. If any of the outstanding options to acquire Emerald Bank stock are exercised, the total purchase price will be increased by the amount of cash received by Emerald Bank from the individual who exercised his or her stock options. Conversely, if Emerald Bank s shareholders equity at the end of the month immediately before the merger occurs is not $5.3 million or more, the total price to be paid by Middlefield will be reduced by the difference between $5.3 million and Emerald Bank s actual shareholders equity at month end. On December 31, 2006 Emerald Bank s shareholders equity was approximately $5.2 million. Although this figure is less than $5.3 million, the calculation of Emerald Bank s shareholders equity at the end of the month immediately before the merger occurs will exclude the impact that expenses associated with the merger have had and will have on Emerald Bank s shareholders equity.

Q: **What will I be entitled to receive in the merger**?

A: Your per share merger consideration will consist of cash, Middlefield common stock, or a combination of cash and Middlefield stock. You have the opportunity to elect cash, Middlefield common stock, or a combination of cash and stock. If there are at completion of the merger 732,689 shares of Emerald Bank outstanding, which is the number outstanding on the date of this prospectus/proxy statement, and if Emerald Bank s adjusted shareholders equity remains at $5.3 million or more (after expenses

1

associated with the merger are added back to shareholders equity), each Emerald Bank shareholder will receive merger consideration of $10.00 for each Emerald Bank share, consisting of $10.00 in cash for each of your Emerald Bank shares if all of your shares are exchanged for cash, or Middlefield stock with a value of $10.00 if instead all of your shares are exchanged for Middlefield shares. The exact number of Middlefield shares you will receive in exchange for each of your Emerald Bank shares depends upon the average closing price of Middlefield stock over the period that ends three business days before the merger occurs and that consists of the 20 most recent trading days on which trades in Middlefield stock actually occur. Middlefield will not issue fractional shares or certificates or scrip for fractional shares. Instead, Middlefield will pay to each holder of Emerald Bank shares who would otherwise be entitled to a fractional share an amount in cash, without interest, equal to the value of the fractional share multiplied by the exchange ratio. The closing price reported for Middlefield stock on November 14, 2006, the last trading day before our public announcement of the merger, was $40.48. The closing price reported for Middlefield stock was $39.00 on February 8, 2007, the most recent trading day before we completed this prospectus/proxy statement.

Q: **How do I make an election for the merger consideration**?

A: You will be provided with an election form allowing you to choose cash, Middlefield shares, or a combination of cash and Middlefield shares. The election form is separate from the proxy form. The proxy form should be returned to Emerald Bank. Please return the election form to Middlefield. The completed election form must be received by Middlefield on or before March 29, 2007, the date of the annual meeting.

Q: **Will I actually receive the form of merger consideration that I elect**?

A: Not necessarily. One half of the aggregate merger consideration will be paid by Middlefield in cash and the other half in Middlefield shares. Depending on the results of all shareholders elections, Middlefield may have to reallocate the amount of stock or cash you receive to maintain the 50/50 allocation between cash and Middlefield shares. For example, if you elect to receive all cash consideration depending on the elections made by other Emerald Bank shareholders it is possible that you will receive a portion of the merger consideration in cash and a portion in Middlefield shares. The same possibility exists if you elect to receive all stock consideration. Please see The Merger Agreement Cash and stock elections, beginning on page 32.

Q: **What if I fail to make an election specifying how I desire to receive the merger consideration**?

A: If you do not submit a properly completed election form before 5:00 p.m., Eastern Standard Time, on March 29, 2007, or if you return an election form stating no preference between cash and Middlefield shares, your Emerald Bank shares will be considered non-election shares and the merger consideration you receive will be subject to the allocation procedures stated in Article Two of the merger agreement.

Q: **Why is my vote important**?

A: If you do not submit your proxy by mail or vote in person at the annual meeting, it will be more difficult for Emerald Bank to obtain the necessary quorum. Additionally, your failure to vote in person or by proxy has the same effect as voting against the merger. This is because the merger cannot be completed unless the agreement is approved by the holders of a majority of all issued and outstanding Emerald Bank shares.

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

A: After you carefully read and consider the information contained in this prospectus/proxy statement, please complete, sign, date, and mail your proxy form in the enclosed return envelope as soon as possible. This will allow your shares to be represented at the annual meeting. You may also vote in person at the meeting.

Q: **How will my proxy be voted**?

A: If you sign, date, and mail your proxy form, your proxy will be voted in accordance with your proxy instructions. If you sign, date, and send in your proxy form but you do not indicate how you want to vote, your proxy will be voted FOR approval of the merger agreement.

Q: **May I revoke my proxy and change my vote**?

A: Yes. You may change your vote or revoke your proxy before the annual meeting by filing with the secretary of Emerald Bank a duly executed revocation of proxy, submitting a new proxy form with a later date, or voting in person at the meeting. Mere presence at the meeting will not, however, constitute revocation of your proxy.

Q: **What if I oppose the merger**? **Do I have dissenters rights**?

A: Yes. Shareholders who do not vote in favor of the merger agreement and who also comply with all of the procedures of the Ohio General Corporation Law will be entitled to receive payment in cash of the fair value of their common shares of Emerald Bank. A copy of the relevant sections of the Ohio General Corporation Law is attached as Appendix C to this document. The value received by a dissenting shareholder could be more or less than the merger consideration.

Table of Contents

Q: **What are the tax consequences of the merger to me**?

A: In general, the exchange of your Emerald Bank shares for Middlefield shares in the merger will be tax-free for United States federal income tax purposes. However, if you receive a combination of cash and Middlefield shares in exchange for your Emerald Bank shares, you will recognize gain, but not loss, in an amount limited to the amount of cash you receive in the merger. Additionally, you will recognize gain or loss on any cash that you receive instead of fractional shares of Middlefield stock. If you exchange your Emerald Bank shares solely for cash, you will recognize gain or loss as if you had received such cash in redemption of your Emerald Bank shares, subject to the provisions and limitations of section 302 of the Internal Revenue Code of 1986, as amended. ***You should consult with your tax adviser about the specific federal, state, local, and foreign tax consequences of the merger to you***. See The Proposed Merger (Proposal One) Material federal income tax consequences beginning on page 28.

Q: **Should I send in my stock certificates now**?

A: We will provide an Election Form/Letter of Transmittal to you separately within the next two weeks. ***Please send the election form, the letter of transmittal, and your share certificates to Middlefield in the envelope that will also be provided to you***.

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

A: If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this prospectus/proxy statement or the enclosed proxy form, please call Mr. Glenn E. Aidt, Emerald Bank s President and CEO, at (614) 793-4631, or Mr. James R. Heslop II, Middlefield s Executive Vice President and Chief Operating Officer, at (440) 632-1666.

Summary

This summary does not contain all of the information that may be important to you. Page references included in this summary direct you to a more detailed discussion of the summarized topics. You should read this entire prospectus/proxy statement and appendices before you decide how to vote. To obtain more information, see Where You Can Find More Information on page 90.

The parties (page 30)

Middlefield Banc Corp.
15985 East High Street
P.O. Box 35
Middlefield, Ohio 44062
(440) 632-1666

Middlefield is a bank holding company headquartered in Middlefield, Ohio. Middlefield s sole subsidiary is The Middlefield Banking Company, an Ohio-chartered commercial bank that began operations in 1901. The bank engages in a general banking business in northeastern Ohio through seven banking offices. The Middlefield Banking Company offices are located in Geauga, Portage, and Ashtabula Counties in Ohio, with a loan production office in Trumbull County as well. Middlefield had total assets of $340.6 million at December 31, 2006. Net of unearned income, Middlefield s net loans were $246.3 million at December 31, 2006. Its total deposits were $271.1 million, and total shareholders equity on December 31, 2006 was $30.46 million. Middlefield common stock is traded over the counter with the trading symbol MBCN.

Emerald Bank
6215 Perimeter Drive
Dublin, Ohio 43017
(614) 793-4631

Established on June 1, 2004, Emerald Bank is an Ohio state-chartered savings bank headquartered in Dublin, Ohio. Emerald Bank does not have a parent company or subsidiaries. At December 31, 2006, Emerald Bank had total assets of $41.2 million and total shareholders equity of approximately $5.2 million. Emerald Bank s common shares are not publicly traded on an exchange.

The merger (page 18)

So that the surviving entity will be a commercial bank rather than a savings bank, the transaction is structured as the merger of Emerald Bank into Middlefield s recently organized interim subsidiary, which until the merger occurs will be known as EB Interim Bank. EB Interim Bank will be the surviving entity in the merger. As the surviving entity in the merger, EB Interim Bank s name will be changed to Emerald Bank when the merger occurs and it will thereafter operate as a separate subsidiary of Middlefield. Middlefield currently has no intention to merge the surviving entity into The Middlefield Banking Company. The merger agreement is attached to this prospectus/proxy statement as Appendix A and is incorporated in this prospectus/proxy statement by reference. ***We encourage you to read the merger agreement carefully. It is the legal document that governs the merger***.

What you will receive in the merger (page 31)

The aggregate purchase price to be paid by Middlefield is $7,326,890, or a per share price of $10.00 based on the 732,689 common shares of Emerald Bank that currently are outstanding. The aggregate purchase price may be adjusted, however. If any holders of options to acquire Emerald Bank shares exercise those options before the merger occurs, the aggregate purchase price will be increased by the amount of any funds Emerald Bank receives as payment of the option exercise price. Conversely, if Emerald Bank s shareholders equity is not at least $5.3 million at the end of the month immediately before the merger occurs, the aggregate purchase price will be reduced by the difference between $5.3 million and the month-end shareholders equity. Calculated by Emerald Bank s independent public accounting firm, the month-end shareholders equity will be determined in accordance with generally accepted accounting principles, except that Emerald Bank s costs associated with the merger transaction will be added to the calculation of shareholders equity. These costs include Emerald Bank s legal fees, investment banking fees, fees for the retention of accounting personnel or services, retention payments to three officers, the accounting charge associated with increasing Emerald Bank s loan loss allowance for new loans, any costs incurred by Emerald Bank at the direction of Middlefield, and compensation expenses associated with accelerated vesting of options to acquire Emerald Bank shares.

Table of Contents

When the merger occurs each outstanding Emerald Bank share excluding those for which dissenters rights are properly exercised will be converted into the right to receive either Middlefield common stock, cash, or a combination of Middlefield common stock and cash. One half of the Emerald Bank shares outstanding when the merger occurs will be exchanged for cash and the other half for Middlefield common stock. The exact number of Middlefield shares that will be received in exchange for each Emerald Bank share will depend upon the average closing price of Middlefield common stock over the period that ends three business days before the merger occurs and that consists of the 20 most recent trading days on which trades in Middlefield stock actually occur. The precise length of the period over which the average closing price of Middlefield stock will be measured cannot be determined in advance because Middlefield stock historically has not traded each and every business day. The number of Middlefield shares that will be received in exchange for each Emerald Bank share will be based on a ratio the *exchange ratio* - equal to the per share cash consideration divided by the average closing price of Middlefield stock in the 20 trading-day period.

Election procedures (page 32)

Each Emerald Bank shareholder may elect (*x*) all cash, (*y*) all Middlefield shares, or (*z*) a combination of cash and Middlefield shares in exchange for his or her Emerald Bank shares. But because one half of the Emerald Bank shares will be exchanged for cash and the other half for Middlefield shares, shareholders election rights are subject to reallocation, which means your election might not be honored in full. Subject to possible reallocation -

- a shareholder who makes the all-cash election will receive cash in an amount equal to the aggregate merger consideration divided by the number of shares outstanding when the merger occurs,

- a shareholder who makes the all-stock election will receive Middlefield shares based upon the exchange ratio,

- a shareholder who elects a combination of cash and Middlefield shares will receive (*x*) cash in an amount equal to the whole number of Emerald Bank shares the shareholder elects to exchange for cash multiplied by the per share cash consideration and (*y*) a number of Middlefield shares equal to the whole number of Emerald Bank shares the shareholder elects to exchange for Middlefield shares multiplied by the exchange ratio, and

- a shareholder who does not make an election between cash and stock and a shareholder who does not make a valid election will have made or will be deemed to have made a non-election. To ensure that one half of Emerald Bank s shares are exchanged for cash and the other half for Middlefield shares, Emerald Bank shareholders who make or who are deemed to have made a non-election will receive all cash, all Middlefield shares, or a combination of cash and Middlefield shares as determined by Middlefield.

An Election Form/Letter of Transmittal will be provided separately to you. The Election Form/Letter of Transmittal allows each Emerald Bank shareholder to make the all-cash election, the all-stock election, or a combined cash and stock election. The Election Form/Letter of Transmittal also allows a shareholder to specify that he or she has no preference for cash or stock. Emerald Bank shareholders who wish to elect the type of merger consideration they will receive should carefully review and follow the instructions in the Election Form/Letter of Transmittal. The deadline for submitting an Election Form/Letter of Transmittal is the close of business on the date of the Emerald Bank shareholders meeting.

Annual meeting of Emerald Bank shareholders (page 15)

The annual meeting of Emerald Bank shareholders will be held on March 29, 2007 at 1:00 p.m., Eastern Standard Time, at the main office of Emerald Bank, 6215 Perimeter Drive, Dublin, Ohio 43017. The meeting will be held for the purpose of considering and voting upon -

1. A proposal to adopt the November 15, 2006 Agreement and Plan of Merger, as amended, providing for the acquisition of Emerald Bank by Middlefield Banc Corp. through the merger of Emerald Bank into EB Interim Bank, a wholly owned subsidiary of Middlefield Banc Corp., and approve the transactions contemplated thereby, as described in the attached prospectus/proxy statement,
2. A proposal to elect one director for the term ending at the annual meeting in 2008,
3. A proposal to elect three directors for the term ending at the annual meeting in 2009,

4. A proposal to ratify the selection of Crowe Chizek and Company, LLC as independent auditor of Emerald Bank for the year ending December 31, 2007,

5. A proposal to adjourn the meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Agreement and Plan of Merger and approve the merger, and

Table of Contents

6. Any other business that properly comes before the meeting or any adjournment or postponement of the meeting. The Board of Directors is not aware of any other business to be transacted at the meeting.

Holders of record of Emerald Bank common stock at the close of business on February 12, 2007 may vote on each matter presented at the meeting and any adjournment or postponement. As of February 12, 2007 there were 732,689 Emerald Bank shares outstanding and eligible to vote at the annual meeting.

Required vote (page 16)

Adoption of the merger agreement and approval of the merger requires the affirmative vote of the holders of a majority of all Emerald Bank shares issued and outstanding. In other words, the merger will be approved if at least 366,345 shares vote in favor of the merger. The proposal to adjourn the meeting to allow for solicitation of additional proxies by Emerald Bank will be approved if the holders of a majority of the Emerald Bank shares represented at the meeting in person or by proxy vote in favor of adjournment. Except for an adjournment of the meeting, no action can be taken at the meeting unless a quorum of shareholders is present. A quorum will exist if the holders of a majority of the Emerald Bank shares entitled to vote at the meeting are present in person or by proxy. Not voting will have the same effect as voting against adoption of the merger agreement and approval of the merger.

Emerald Bank s President and Chief Executive Officer Glenn E. Aidt and Director George J. Kontogiannis entered into voting agreements with Middlefield, agreeing to vote their shares in favor of the merger at the annual meeting. These shareholders own approximately 36.5% of Emerald Bank s outstanding shares. As a group, Emerald Bank s directors and executive officers collectively own 334,245 shares of the Emerald Bank shares outstanding, or approximately 45.6% of the outstanding shares. None of Emerald Bank s shares are owned by Middlefield or its directors or executive officers.

Recommendation to shareholders

Emerald Bank s board of directors believes the merger is in your best interests and urges you to vote ***FOR*** adoption of the merger agreement and approval of the merger.

Reasons for the merger (page 18)

Emerald Bank s board of directors considered numerous factors in its decision to recommend approval of the merger, including the following -

- information about the businesses, earnings, operations, financial condition, prospects, capital levels, and asset quality of Emerald Bank and Middlefield, both individually and as a combined company,

- perceived risks and uncertainties associated with Emerald Bank s execution of its strategic growth plans as an independent banking organization, including the need to access additional capital and enhance its product and service offerings to support future growth,

- the belief that the market value of Middlefield common stock is attractive, offering favorable prospects for future appreciation as a result of the proposed merger and other strategic initiatives being implemented by Middlefield,

- the fact that, in contrast to Middlefield stock, Emerald Bank common stock is privately held and a public market for the stock therefore does not exist, and

- the probability that the merger will be approved by the relevant bank regulatory authorities.

Middlefield s board of directors likewise concluded that the merger is in the best interests of Middlefield and its shareholders. Middlefield s board of directors considered a number of factors, including -

- management s view that the acquisition of Emerald Bank provides an attractive opportunity to expand into the prosperous and growing communities north of Columbus, Ohio,
- Emerald Bank s community banking focus, its commitment to superior customer service, and its compatibility with Middlefield and The Middlefield Banking Company,
- the probability that regulators will approve the merger without onerous conditions or delay.

6

Conditions to the merger (page 34)

Middlefield s acquisition of Emerald Bank cannot be completed unless Emerald Bank shareholders approve the merger and unless Middlefield obtains Federal Reserve Board approval under the Bank Holding Company Act of 1956, FDIC approval under the Federal Deposit Insurance Act, and approval of the Ohio Division of Financial Institutions under Ohio banking law. Middlefield and Emerald Bank have filed the necessary applications. Although we anticipate that all required regulatory approvals will be obtained by or shortly after the annual meeting of Emerald Bank shareholders, none of the regulatory approvals had been obtained by the date of this prospectus/proxy statement.

Opinion of financial advisor (page 20)

Emerald Bank s board of directors received a fairness opinion from its financial advisor, Ryan Beck & Co., Inc. Ryan Beck & Co. s opinion states that as of the date of the opinion the merger consideration payable under the merger agreement was fair from a financial point of view to Emerald Bank shareholders. The full text of Ryan Beck s fairness opinion, stating the assumptions made, matters considered, and qualifications and limitations affecting the reviews undertaken by Ryan Beck, is attached to this prospectus/proxy statement as Appendix B. **We encourage you to read the fairness opinion in its entirety**.

For its services to Emerald Bank associated with the merger agreement and the merger - including but not limited to rendering the fairness opinion Ryan Beck will receive total fees of approximately $173,000. Additionally, Emerald Bank has agreed to indemnify Ryan Beck and its directors, officers, and employees from liability in connection with the transaction and to hold Ryan Beck harmless from any losses, actions, claims, damages, expenses, or liabilities related to any of Ryan Beck s acts or decisions made in good faith and in the best interests of Emerald Bank.

Material federal income tax consequences of the merger (page 28)

We intend that the merger will be treated as a reorganization within the meaning of section 368(a) of the Internal Revenue Code of 1986, as amended, with the result that for federal income tax purposes (*x*) no gain or loss will be recognized by Middlefield, EB Interim Bank, or Emerald Bank as a result of the merger and (*y*) Emerald Bank shareholders who receive Middlefield common stock in exchange for Emerald Bank shares in the merger will recognize no gain or loss, other than the gain or loss associated with cash paid by Middlefield as a result of shareholders elections and allocation method or cash paid by Middlefield instead of issuing fractional shares. It is not, however, a condition to completion of the merger that the merger be tax-free under the Internal Revenue Code of 1986. All Emerald Bank shareholders should consult with their own tax advisors to determine the specific tax consequences of the merger to them.

Interests of directors and officers of Emerald Bank (page 27)

In the merger agreement, Middlefield has agreed to indemnify, defend, and hold harmless and provide advancement of expenses to each person who is or who before the merger occurs becomes a director or officer of Emerald Bank against all costs or expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages or liabilities incurred in any legal proceedings that arise out of actions or omissions occurring on or before the date of the merger, including actions and omissions associated with the merger agreement and the merger itself. And for three years after the merger occurs, Middlefield must maintain directors and officers liability insurance coverage for these individuals.

Three officers of Emerald Bank will also receive cash retention bonuses promptly after the merger occurs, provided these individuals remain with Emerald Bank through the date the merger occurs.

The Emerald Bank board was aware of these interests of directors and officers when the board approved the merger agreement. Emerald Bank s board took these interests into account when the board decided to approve the merger agreement and the merger.

Resale of Middlefield Banc Corp. common stock (page 30)

Middlefield has registered with the Securities and Exchange Commission under the Securities Act of 1933 the offer and sale of Middlefield common stock to be issued to Emerald Bank shareholders in the merger. As a result there will be no federal securities law restrictions on the sale or other transfer of the Middlefield shares issued in the merger, but shares issued to any Emerald Bank shareholders who are considered affiliates as that term is used in the SEC s Rule 145 will be subject to restrictions on transfer as a result of that rule.

7

Termination of the merger agreement (page 39)

Middlefield and Emerald Bank may mutually agree to terminate the merger agreement and abandon the merger at any time before the merger occurs, whether before or after shareholder approval. Additionally, each of Middlefield and Emerald Bank has the right to terminate the merger agreement and abandon the merger before or after shareholder approval if various conditions to completion of the merger are not satisfied, as discussed at page 34.

If Emerald Bank accepts a competing acquisition proposal from an entity other than Middlefield and therefore exercises Emerald Bank s right to terminate the merger agreement, Emerald Bank will be required to pay $300,000 in cash to Middlefield when the competing acquisition occurs.

Dissenters rights (page 17)

You have the right under section 1701.85 of the Ohio General Corporation Law to dissent from the merger and to demand payment of the fair cash value of your Emerald Bank shares. These rights are known as dissenters rights. To perfect your dissenters rights, you must not vote in favor of the merger and you must follow the statutory procedures for exercising dissenters rights. The complete text of section 1701.85 is attached to this prospectus/proxy statement as Appendix C.

Risk Factors

In addition to the other information contained in this prospectus/proxy statement, including the information under the caption Caution About Forward-Looking Statements on page 12, you should consider the following risk factors carefully in your voting decision about the merger.

Risks relating to the merger

Because the market price of Middlefield common stock fluctuates, you cannot be certain of the precise value of the stock portion of the merger consideration. You may elect to receive shares of Middlefield common stock in the merger. It is also possible that you will receive Middlefield shares even if you elect to receive cash only. The number of shares you receive will depend on your election and on other shareholders elections. Changes in the market price of Middlefield common stock could result from a variety of factors, including general market and economic conditions, Middlefield s future financial condition and operating results, changes in Middlefield s business, operations, and prospects and regulatory considerations, factors that are not entirely within Middlefield s control. The price of Middlefield common stock at completion of the merger could be different from its price on the date the merger agreement was signed, from its price on the date of this prospectus/proxy statement, from its price on the date of the annual meeting, and from the average closing-price figure that is used to determine the number of Middlefield shares you receive. You will not be entitled to receive additional cash or shares in the merger if the price of Middlefield common stock when the merger occurs is less than the average closing-price figure. Because the merger will be completed after the annual meeting, you will not know at the annual meeting what the market value of Middlefield common stock will be when the merger occurs. See The Merger Agreement Conversion of Emerald Bank shares and exchange ratio.

Middlefield common stock is traded over the counter in the Pink Sheets® with the trading symbol MBCN. Pink Sheets® is a centralized quotation service provided by Pink Sheets LLC, a privately owned company, which collects and publishes market maker quotes for over-the-counter securities. The maintenance of an active public trading market depends, however, upon the existence of willing buyers and sellers, which is beyond Middlefield s control or the control of any market maker.

You may receive a form of consideration different from the form of consideration you elect. Although you are able to elect the form of consideration you wish to receive in the merger, your election is subject to possible reallocation to ensure that one half of the merger consideration is payable in cash and the other half in the form of Middlefield shares. If you elect to receive cash in exchange for all of your Emerald Bank shares but the available cash is oversubscribed, you will receive a portion of the merger consideration in the form of Middlefield shares. Likewise, if you elect to receive Middlefield shares in exchange for all of your Emerald Bank shares but the available Middlefield shares are oversubscribed, you will receive a portion of the merger consideration in cash. If you elect to receive a combination of cash and Middlefield shares and either the available Middlefield shares or the available cash is oversubscribed, you will not receive the specific combination of cash and Middlefield shares you elect.

Middlefield could experience difficulties managing growth and effectively integrating Emerald Bank. There are risks associated with assessing the values, strengths, weaknesses, and profitability of acquisition candidates, including adverse short-term effects of acquisitions on operating results, diversion of management s attention, dependence on retaining key personnel, and risks associated with unanticipated problems. An acquisition s success depends in part on the acquiror s ability to integrate the operations of the acquired institution and achieve cost savings and operating efficiencies. Middlefield might not be able to achieve its strategic objectives in the merger. The costs or difficulties relating to the integration of Emerald Bank into the Middlefield organization may be greater than expected and the revenue gains or cost savings may be less than or take longer to realize than expected. Additionally, Emerald Bank could lose customers as a result of the merger. These factors could contribute to Middlefield not fully achieving the benefits it expects from the merger. This is Middlefield s first acquisition of another institution. Without the experience integrating acquired companies that many other banking organizations have, Middlefield therefore faces a greater risk that acquisition costs will exceed projections and that the benefits will be less than projected or more difficult to attain.

The termination fee could discourage other companies from trying to acquire Emerald Bank even if another acquisition would offer greater immediate value to Emerald Bank shareholders. In the merger agreement Emerald

Bank has agreed to pay Middlefield a termination fee of $300,000 if Emerald Bank s board of directors terminates the merger agreement and authorizes a competing acquisition by an entity other than Middlefield. The termination fee could have the effect of discouraging another company from trying to acquire Emerald Bank, even though a competing acquisition proposal might provide greater immediate value to Emerald Bank shareholders.

The fairness opinion obtained by Emerald Bank from its financial advisor will not reflect changes in circumstances before the merger occurs. Emerald Bank s financial advisor, Ryan Beck & Co., Inc., delivered a fairness opinion to Emerald Bank s board of directors on November 15, 2006, which fairness opinion has been updated as of the date of this prospectus/proxy statement. The fairness opinion states that, as of the date of the opinion, the merger consideration set forth in the merger agreement was fair from a financial point of view to Emerald Bank shareholders. The fairness opinion does not reflect changes that could occur or that may have occurred after the date of this prospectus/proxy statement, including changes in the operation and prospects of Middlefield or Emerald Bank, changes in general market and economic conditions, or other factors. Any such changes or other factors on which the fairness opinion is based could alter the relative value of Middlefield and Emerald Bank.

Some directors and officers of Emerald Bank have potential conflicts of interest in the merger. Some of the directors and officers of Emerald Bank have interests in the merger that are different from or in addition to their interests as Emerald Bank shareholders. For example, Glenn E. Aidt, President and Chief Executive Officer of Emerald Bank, is entitled under the merger agreement to receive a cash retention bonus of $70,000 if he remains employed by Emerald Bank through the date the merger occurs. A retention bonus of $65,000 will be payable to Michael J. Hufford, Emerald Bank s Senior Vice President and Chief Loan Officer. Additionally, Middlefield has agreed to maintain directors and officers liability insurance for the directors and officers of Emerald Bank for three years after the merger. See The Proposed Merger (Proposal One) Interests of Emerald Bank directors and officers in the merger beginning on page 27 of this prospectus/proxy statement.

Emerald Bank shareholders will not control Middlefield s future operations. Emerald Bank shareholders in the aggregate will own approximately 6% of the approximately 1.5 million Middlefield shares that will be outstanding after the merger. As a result, former Emerald Bank shareholders will not have a significant impact on the election of directors or on whether future proposals submitted to a vote of Middlefield shareholders are approved or rejected.

Risks relating to Middlefield s business

Changes in interest rates could have a material adverse effect on Middlefield s financial condition and results of operations. Middlefield s earnings depend substantially on interest rate spread, which is the difference between (*x*) the rates Middlefield earns on loans, investment securities, and other interest-earning assets and (*y*) the interest rates Middlefield pays on deposits and borrowings. These rates are highly sensitive to many factors beyond Middlefield s control, including general economic conditions and the policies of various governmental and regulatory authorities. Although Middlefield attempts to manage the risks of operating in a changing interest rate environment, Middlefield cannot assure you that its efforts will effectively avoid undue interest-rate risk.

Middlefield s market is very competitive and Middlefield does not have the same financial and other resources that larger competitors have. This could affect Middlefield s ability to compete for large commercial loan originations and its ability to offer products and services competitors provide to customers. Middlefield faces competition making loans and competition gathering deposits. Competition is based on interest rates and other credit and service charges, the quality of services rendered, the convenience of banking facilities, the range and type of products offered and, in the case of loans to larger commercial borrowers, lending limits, among other factors. Competition for loans comes principally from commercial banks, savings banks, savings and loan associations, credit unions, mortgage banking companies, insurance companies, and other financial service companies. The most direct competition for deposits has historically come from commercial banks, savings banks, and savings and loan associations, but competition for deposits also comes from non-depository institutions such as mutual funds, securities and brokerage firms, and insurance companies. Competition among financial institutions and other financial service organizations is increasing with the continuing consolidation of the financial services industry. The northeastern Ohio market in which Middlefield currently operates and the Columbus market in which Emerald Bank operates have a high concentration of financial institutions. Many of the competing financial institutions have significantly greater financial, staff, and other resources and higher lending limits. More geographically diversified than Middlefield, many of the competitors are therefore less vulnerable to adverse changes in the local economy. And many of these competitors offer services that Middlefield does not or cannot provide. For example, larger competitors greater resources offer advantages such as the ability to price services at lower, more attractive levels, and the ability to provide larger credit facilities than Middlefield can provide. Likewise, some of the competitors are not subject to the same kind and amount of regulatory restrictions and supervision to which Middlefield is subject. Because Middlefield is a community-banking organization of relatively modest size, it is on occasion unable to make commercial loans in amounts competitors can offer.

The business of banking is changing rapidly with changes in technology, which poses financial and technological challenges to small and mid-sized institutions. With frequent introductions of new technology-driven products and services, the banking industry is undergoing rapid technological changes. In addition to enhancing customer service, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Financial institutions success is increasingly dependent upon use of technology to provide products and services that satisfy customer demands and to create additional operating efficiencies. Many of Middlefield s competitors have substantially greater resources to invest in technological improvements, which could enable them to perform various banking functions at lower costs than Middlefield, or to provide products and services that Middlefield is not able to provide economically. Middlefield cannot assure you that it will be able to develop and implement new technology-driven products or services or that it will be able to successfully market the products or services to customers.

Because of the demand for technology-driven products, banks rely increasingly on unaffiliated vendors to provide data processing services and other core banking functions. The use of technology-related products and services exposes banks to various risks, particularly transaction, strategic, reputation, and compliance risk. Middlefield cannot assure you that it will be able to successfully manage the risks associated with its dependence on technology.

The banking industry is heavily regulated; the compliance burden to the industry is considerable; the principal beneficiary of federal and state regulation is the public at large and depositors, not stockholders. Middlefield and The Middlefield Banking Company which currently is Middlefield s sole subsidiary are and will remain subject to extensive state and federal government supervision and regulation. Affecting many aspects of the banking business, including permissible activities, lending, investments, payment of dividends, the geographic locations in which services can be offered, and numerous other matters, state and federal supervision and regulation are intended principally to protect depositors, the public, and the deposit insurance fund administered by the FDIC. Protection of shareholders is not a goal of banking regulation.

Applicable statutes, regulations, agency and court interpretations, and agency enforcement policies have undergone significant changes, some retroactively applied, and could change significantly again. Changes in applicable laws and regulatory policies could adversely affect the banking industry generally or Middlefield and its subsidiaries in particular. The burdens of federal and state banking regulation could place banks in general at a competitive disadvantage compared to less regulated competitors. Middlefield gives you no assurance that it will be able to adapt successfully to industry changes caused by governmental actions.

Federal and state banking agencies require banks and bank holding companies to maintain capital. Failure to maintain adequate capital or to comply with applicable laws, regulations, and supervisory agreements could subject a bank or bank holding company to federal or state enforcement actions, including termination of deposit insurance, imposition of fines and civil penalties, and, in the most severe cases, appointment of a conservator or receiver for a depositary institution.

Success in the banking industry requires disciplined management of lending risks. There are many risks in the business of lending, including risks associated with the duration over which loans may be repaid, risks resulting from changes in economic conditions, risks inherent in dealing with individual borrowers, and risks resulting from changes in the value of loan collateral. Middlefield maintains an allowance for loan losses based on historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality, among other things. Middlefield s judgment about the adequacy of the loan loss allowance is based on assumptions that Middlefield believes are reasonable but that might nevertheless prove to be incorrect. Middlefield gives you no assurance that the allowance will be sufficient to absorb future charge-offs. Additions to the loan loss allowance could occur, which would decrease net income and capital.

An economic downturn in our market area would adversely affect our loan portfolio and our growth prospects. The lending market of The Middlefield Banking Company currently is concentrated in northeastern Ohio, particularly Geauga, Portage, Ashtabula, and Trumbull Counties. Also a community-banking institution, Emerald Bank s market is concentrated in the Columbus, Ohio area. A significant percentage of each bank s loans is secured by real estate collateral, primarily residential mortgage loans. Commercial and industrial loans to small and medium-sized businesses also represent a significant percentage of The Middlefield Banking Company s loan portfolio. The asset quality of a community-banking institution s loan portfolio is largely dependent upon the economy and real estate markets in its local area. A downturn in the local economy would adversely affect operations and limit future growth potential.

Middlefield common stock is very thinly traded, and it is therefore susceptible to wide price swings. Middlefield common stock is not traded or authorized for quotation on an exchange. However, the stock trades over the counter and bid prices for Middlefield common stock appear from time to time in the Pink Sheets®, a centralized quotation service provided by Pink Sheets LLC, a privately owned company, which collects and publishes market maker quotes for over-the-counter securities. Thinly traded, illiquid stocks such as Middlefield common stock are more susceptible to significant and sudden price changes than stocks that are widely followed by the investment community and actively traded on an exchange. The liquidity of common stock depends upon the presence in the marketplace of willing buyers and sellers. We cannot assure you that you will be able to find a buyer for your Middlefield shares.

Middlefield currently does not intend to seek listing of its common stock on a securities exchange. But even if Middlefield were to successfully list its common stock on a securities exchange, Middlefield nevertheless could not assure you that an organized public market for the securities will develop or that there will be any private demand for the stock. Middlefield could also fail subsequently to satisfy the standards for continued exchange listing, such as standards having to do with the minimum number of public shareholders or the aggregate market value of publicly held shares. A stock that is not listed on a securities exchange might not be accepted as collateral for loans. If accepted as collateral, the stock s value could nevertheless be substantially discounted. Therefore, Middlefield common stock should be considered a long-term investment and holders of Middlefield stock should be

Table of Contents

prepared to bear the economic risk of an investment in the common stock for an indefinite period. Investors who need or desire to dispose of all or a part of their investments in common stock might not be able to do so except by private, direct negotiations with third parties.

Government regulation could restrict our ability to pay cash dividends. Dividends from The Middlefield Banking Company currently are the only significant source of cash for Middlefield. Statutory and regulatory limits could prevent the bank from paying dividends or transferring funds to Middlefield. As of September 30, 2006 The Middlefield Banking Company could have declared dividends of approximately $6.5 million to Middlefield without having to obtain advance regulatory approval. Middlefield cannot assure you that subsidiaries profitability will continue to allow dividends payments to Middlefield. Although Middlefield has paid regular quarterly cash dividends, it therefore cannot assure you of regular cash dividends in the future.

Middlefield could incur liabilities under federal and state environmental laws if we foreclose on commercial properties. A large percentage of the loans of The Middlefield Banking Company are secured by real estate. Although the vast majority of these loans are residential mortgage loans with little associated environmental risk, some are commercial loans secured by property on which manufacturing and other commercial enterprises are carried on. As of September 30, 2006 Middlefield s bank subsidiary did not own any property acquired by foreclosure. However, the bank has in the past and could again acquire property by foreclosing on loans in default. Under federal and state environmental laws, the bank could face liability for some or all of the costs of removing hazardous substances, contaminants, or pollutants from properties acquired in this fashion. Although other persons might be primarily responsible for these costs, they might not be financially solvent or they might be unable to bear the full cost of clean up. Regardless of whether it forecloses on property, it is also possible that a lender exercising unusual influence over a borrower s commercial activities could be required to bear a portion of the clean-up costs under federal or state environmental laws.

Caution About Forward-Looking Statements

Some of the statements in this prospectus/proxy statement are not statements of historical fact but rather are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include but are not limited to statements specifically identified as forward-looking statements within this prospectus/proxy statement. In addition, statements in Middlefield s future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of Middlefield that are not statements of historical fact constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act. Examples of forward-looking statements include (*x*) projections of income or expense, earnings per share, the payment or non-payment of dividends, capital structure, and other financial items, (*y*) statements of the plans and objectives of Middlefield or its board of directors and management, including those relating to products or services, and (*z*) statements of future economic performance. Words such as may, will, should, could, would, plan, potential, estimate, project, believe, intend, anticipate, expect, target, and similar expressions identify forward-looking statements but are not the exclusive means to identify forward-looking statements.

The Private Securities Litigation Reform Act provides a safe harbor for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying the important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act.

Forward-looking statements are subject to significant risks, assumptions, and uncertainties and could be affected by many factors, including but not limited to the matters discussed under the caption Risk Factors beginning on page 9 as well as -

- the strength of the United States economy in general and the strength of the local economies in which we conduct our operations; general economic conditions, either nationally or regionally, may be less favorable than we expect, resulting in a deterioration in the credit quality of our loan assets, among other things

-

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

- inflation, interest rate, market, and monetary fluctuations

- the development and acceptance of new products and services of Middlefield and subsidiaries and the perceived overall value of these products and services by users, including the features, pricing, and quality compared to competitors products and services

- the willingness of users to substitute our products and services for those of competitors

Table of Contents

- the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities, and insurance)

- changes in consumer spending and saving habits

Because of these and other uncertainties, Middlefield s actual future results, performance, or achievements or industry results could be materially different from the results suggested by the forward-looking statements. Additionally, Middlefield s future results of operations will not necessarily be similar to Middlefield s historical results of operations. You should not place undue reliance on forward-looking statements, which are effective solely as of the dates on which they are made. Except as required under federal securities law, Middlefield undertakes no obligation to update its forward-looking statements to account for events and changing circumstances after the dates on which the forward-looking statements are made. Middlefield qualifies all of its forward-looking statements by these cautionary statements.

Comparative Common Stock Data

The historical per share earnings (loss), dividends, and book value of Middlefield and Emerald Bank shown in the table to follow are derived from their audited financial statements as of and for the year ended December 31, 2005 and the unaudited financial statements for the nine months ended September 30, 2006. The *pro forma* comparative per share data for Middlefield common stock and Emerald Bank common stock give effect to the merger using the purchase method of accounting. You should read this information in conjunction with the historical financial information for Middlefield and for Emerald Bank included elsewhere in this prospectus/proxy statement, including Middlefield s financial statements and related notes. The per share *pro forma* information assumes that (*x*) 366,345 shares of Emerald Bank common stock are converted into the right to receive cash consideration of $10.00 per share and (*y*) 366,344 shares are converted into Middlefield shares at the exchange ratio. Because there is no established trading market for Emerald Bank shares, there is no readily obtainable market price for Emerald Bank shares. The *pro forma* data are not necessarily indicative of actual results had the merger been completed at the beginning of the period indicated. The *pro forma* data are not necessarily indicative of future operations of the combined entity.

	As of and for the nine months ended September 30, 2006	As of and for the year ended December 31, 2005
Earnings per share: Basic		
Middlefield historical	$ 1.93	$ 2.64
Emerald Bank historical	(0.59)	(1.07)
Pro forma combined	1.53	1.96
Equivalent *pro forma* for one share of Emerald Bank common stock (1)	0.38	0.48
Earnings per share: Diluted		
Middlefield historical	$ 1.90	$ 2.60
Emerald Bank historical	(0.59)	(1.07)
Pro forma combined	1.51	1.93
Equivalent *pro forma* for one share of Emerald Bank common stock (1)	0.37	0.48
Cash dividends declared per share		
Middlefield historical	$ 0.68	$ 0.87
Emerald Bank historical	0.00	0.00
Pro forma combined (2)	0.64	0.75
Equivalent *pro forma* for one share of Emerald Bank common stock (1) (2)	0.16	0.19

Book value per share		
Middlefield historical	$ 20.74	$ 19.25
Emerald Bank historical	7.44	8.00
Pro forma combined	21.95	20.56
Equivalent *pro forma* for one share of Emerald Bank common stock (1)	5.42	5.08

(1) The Emerald Bank equivalent *pro forma* information shows the effect of the merger from the perspective of an owner of Emerald Bank common stock. We calculated the Emerald Bank equivalent by using an assumed exchange ratio of 0.2471 shares of Middlefield common stock for each share of Emerald Bank common stock the exchange that would apply if the average closing price of Middlefield stock during the averaging period is $40.48 per share and assuming that 50% of the outstanding common stock of Emerald Bank is converted into

Middlefield stock. The actual exchange ratio will depend on the average closing price of Middlefield stock over the 20-trading day period before the merger occurs. The applicable formulas and other assumptions used to calculate the relevant exchange ratios are described under the heading   The Merger Agreement Conversion of Emerald Bank shares and exchange ratio beginning on page 31 of this prospectus/proxy statement. We give you no assurance about what the market price of Middlefield common stock will be when the merger occurs or what the average closing price of Middlefield common stock will be when the exchange ratio is determined at completion of the merger.

(2)

Assumes no changes in Middlefield s cash dividends per share. Middlefield s ability to pay dividends in the future is limited by restrictions imposed by Federal and state regulatory authorities. Please refer to Note 18 Regulatory Restrictions of Notes to Consolidated Financial Statements for a discussion of those restrictions.

Neither Middlefield s nor Emerald Bank s common stock is listed on any exchange or quoted in the automated quotation system of a registered securities association. However, Middlefield shares are traded over the counter with the trading symbol MBCN. Price information for Middlefield common stock is available through the Pink Sheets®. There is no established public trading market for Emerald Bank shares. Middlefield common stock is held of record by approximately 932 shareholders. Emerald Bank common stock is held of record by approximately 100 shareholders.

The table to follow shows quarterly cash dividends paid by Middlefield in 2006, 2005, and 2004. Emerald Bank has not paid dividends, and because it has not yet realized any net income it is not able to pay cash dividends. The table to follow also shows the range of high and low closing prices for Middlefield common stock quoted through the Pink Sheets® in each quarter of 2006, 2005, and 2004. Prices shown do not include retail mark-ups, mark-downs, or commissions. The figures presented are adjusted for stock dividends.

	High	**Low**	**Cash dividends per share**
Year ended December 31, 2004			
first quarter	$28.11	$26.35	$ 0.181
second quarter	28.94	27.43	0.181
third quarter	31.10	28.51	0.190
fourth quarter	33.33	30.91	0.200
Year ended December 31, 2005			
first quarter	$37.65	$34.47	$ 0.200
second quarter	40.82	34.47	0.200
third quarter	37.19	35.60	0.213
fourth quarter	39.05	35.83	0.224

Year ended December 31, 2006			
first quarter	$40.00	$37.64	$ 0.224
second quarter	40.48	39.05	0.224
third quarter	40.95	39.05	0.229
fourth quarter	42.25	39.76	0.240

There were 1,425,217 shares of Middlefield common stock issued and outstanding on February 8, 2007. Additionally, 146,507 shares of common stock were reserved for issuance on that date under Middlefield s 1999 Stock Option Plan, which may be issued in the form of restricted stock or in the form of options to acquire common stock. The number of shares issuable under outstanding options that had not been exercised, the weighted-average exercise price of those options, and the number of shares remaining available for grant as of December 31, 2006 are -

Middlefield Equity Compensation Plan Information as of December 31, 2006

	Number of securities to be issued upon exercise of outstanding options	**Weighted-average exercise price of outstanding options**	**Number of securities remaining available for future issuance under equity compensation plans (excluding outstanding options)**
Middlefield equity compensation plans approved by security holders	73,607	$ 27.54	72,900
Middlefield equity compensation plans not approved by security holders	0	$ 0.00	0
Total	73,607		72,900

There were 732,689 shares of Emerald Bank common stock issued and outstanding on February 8, 2007. Additionally, 47,623 shares of common stock were reserved for issuance on that date under Emerald Bank s 2003 Stock Option Plan. The 2003 Stock Option Plan provides solely for the grant of options to acquire Emerald Bank common stock. The number of shares issuable under outstanding options that had not been exercised, the weighted-average exercise price of those options, and the number of shares remaining available for grant as of December 31, 2006 are -

Emerald Bank Equity Compensation Plan Information as of December 31, 2006

	Number of securities to be issued upon exercise of outstanding options	average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding outstanding options) *
Emerald Bank equity compensation plans approved by security holders	47,623	$ 10.00	0
Emerald Bank equity compensation plans not approved by security holders	0	$ 0.00	0
Total	47,623		0

* The merger agreement provides that no more options to acquire common stock will be granted by Emerald Bank

Options that remain outstanding when the merger occurs will be replaced by options to acquire Middlefield common stock at the exchange ratio, the number acquirable being multiplied by the exchange ratio and the exercise price being divided by the exchange ratio. To illustrate, if the exchange ratio is 0.2471, the 47,623 options to acquire Emerald Bank common stock at $10.00 per share outstanding at December 31, 2006 will be replaced by options to acquire 11,766 Middlefield common stock at $40.47 per share.

The Annual Meeting of Emerald Bank Shareholders

Purpose, time and place of the meeting

Emerald Bank s board of directors is soliciting your proxy for use at the annual meeting of Emerald Bank shareholders to be held on Thursday, March 29, 2007 at 1:00 p.m., Eastern Standard Time, at the main office of Emerald Bank, 6215 Perimeter Drive, Dublin, Ohio 43017, including any adjournment or postponement of that meeting. At the meeting, Emerald Bank shareholders will consider and vote upon -

1) a proposal to adopt the Agreement and Plan of Merger, as amended, by and among Emerald Bank, Middlefield Banc Corp., and EB Interim Bank and to approve the merger of Emerald Bank into EB Interim Bank,

2) A proposal to elect one director for the term ending at the annual meeting in 2008,

3) A proposal to elect three directors for the term ending at the annual meeting in 2009,

4) A proposal to ratify the selection of Crowe Chizek and Company, LLC as independent auditor of Emerald Bank for the year ending December 31, 2007,

5) if adjournment is necessary for solicitation of additional proxies by the board of directors, a proposal to adjourn the meeting if there are insufficient votes when the meeting is held to adopt the Agreement and Plan of Merger, as amended, and approve the merger, and

6) any other business properly presented at the meeting or any adjournment or postponement. Emerald Bank s board of directors knows of no other business to be presented at the meeting.

Emerald Bank s board of directors has unanimously approved the merger agreement and the merger and recommends that you vote ***FOR*** adoption of the merger agreement and approval of the merger. The board also recommends that you vote ***FOR*** election of the nominees identified herein, ***FOR*** ratification of the board s selection of Crowe Chizek and Company, LLC to serve as Emerald Bank s independent auditor, and ***FOR*** adjournment of the meeting, if action on the adjournment proposal is taken at the meeting.

Record date; Emerald Bank common shares outstanding and entitled to vote

Emerald Bank s board of directors fixed the close of business on Feburary 12, 2007 as the record date for determining the Emerald Bank shareholders entitled to vote at the annual meeting. You are entitled to vote at the meeting if you were a record holder of Emerald Bank shares at the close of business on the record date. At the close of business on Feburary 12, 2007 there were 732,689 Emerald Bank shares issued and outstanding and entitled to vote at the meeting. The Emerald Bank shares were held of record by approximately 100 shareholders.

You may vote cumulatively in the election of directors if any shareholder follows the procedures specified in the Ohio General Corporation Law for invoking cumulative voting rights. When shares are voted cumulatively, you multiply the number of shares you own by the number of directors to be elected to determine the total number of votes you may cast. You may give any one or more of the nominees any portion of the total number of your votes. To invoke the right to vote cumulatively in the election of directors, according to Ohio General Corporation Law section 1701.55(C) you must give advance written notice of your desire that voting in the election of directors be cumulative. The notice must be given to Emerald Bank s President, a Vice President, or Secretary at least 48 hours before the time fixed for holding the meeting to elect directors. If at the convening of the meeting an announcement of the cumulative voting notice is then made by the chairman of the meeting or by or on behalf of the shareholder giving the notice, every shareholder will have cumulative voting rights in the election of directors. Proxies solicited by the board of directors would also be voted cumulatively if that occurs. For all purposes other than election of directors, each share is entitled to one vote.

Votes required; quorum

Because at least two thirds of Emerald Bank s board of directors approved the merger agreement and the merger, the affirmative vote of the holders of a majority of the Emerald Bank shares outstanding and entitled to vote at the annual meeting is sufficient under Emerald Bank s articles of incorporation and the Ohio General Corporation Law for adoption of the merger agreement and approval of the merger. Directors are elected by a plurality vote. Accordingly, nominees receiving the greatest number of votes will be elected. Votes that are withheld in the election of directors will therefore have no effect. The affirmative vote of the holders of a majority of the Emerald Bank shares represented in person or by proxy at the meeting is sufficient to adjourn the meeting. The proposal to adjourn the meeting will be presented if when the meeting is held there are insufficient votes to adopt the merger agreement and approve the merger.

As of the February 12, 2007 record date, directors and executive officers of Emerald Bank and their respective affiliates beneficially owned an aggregate of 334,245 Emerald Bank shares, excluding outstanding stock options, or approximately 45.6% of the Emerald Bank shares outstanding on the record date. As of the date of this prospectus/proxy statement, neither Middlefield nor any of its directors, executive officers, or affiliates beneficially owns any Emerald Bank shares.

A quorum consisting of the holders of a majority of the outstanding Emerald Bank shares must be present in person or by proxy at the Emerald Bank annual meeting before any action other than adjournment can be taken. A properly executed proxy card marked abstain will not be voted on adoption of the merger agreement and approval of the merger but will count toward determining whether a quorum is present. Brokers who hold Emerald Bank shares in street name on behalf of beneficial owners cannot vote those Emerald Bank shares on the proposal to adopt the merger agreement and approve the merger without specific instructions from the beneficial owners. Adoption of the merger agreement and approval of the merger requires the affirmative vote of the holders of a majority of all Emerald Bank shares outstanding and entitled to vote at the meeting. Accordingly, if you abstain or if you do not instruct your broker how to vote this will have the same effect as a vote against adoption of the merger agreement and approval of the merger.

Solicitation and revocation of proxies

A proxy card for use at the annual meeting accompanies each copy of this prospectus/proxy statement mailed to Emerald Bank shareholders. Emerald Bank s board of directors is soliciting your proxy. Regardless of whether you attend the meeting, the board of directors urges you to sign, date, and return the enclosed proxy card. If you return your properly executed proxy card before the annual meeting and do not revoke it before it is used, your Emerald Bank shares represented by the proxy card will be voted at the meeting or, if appropriate, at any adjournment. Your

Emerald Bank shares will be voted as you instruct on the proxy card. If you return a properly executed proxy card without voting instructions, however, your proxy card will be voted ***FOR*** adoption of the merger agreement and approval of the merger, ***FOR*** election of the nominees identified herein, ***FOR*** ratification of the board s selection of Crowe Chizek and Company, LLC to serve as Emerald Bank s independent auditor, and, if the adjournment proposal is presented at the meeting, ***FOR*** approval of adjournment to solicit additional proxies.

If you have returned a properly executed proxy card, you may revoke it at any time before a vote is taken at the annual meeting by -

- filing a written notice of revocation with the Secretary of Emerald Bank at 6215 Perimeter Drive, Dublin, Ohio 43107,

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

- attending the meeting and giving notice of revocation in person. However, your attendance at the meeting will not constitute revocation of your proxy.

If you are an Emerald Bank shareholder whose shares are not registered in your own name, you will need additional documentation from your record holder to vote your Emerald Bank shares in person at the annual meeting.

We do not expect any matter other than adoption of the merger agreement and approval of the merger, election of directors, ratification of selection of the independent auditor, and if necessary approval of adjournment of the annual meeting, to be presented to shareholders for their consideration and vote at the Emerald Bank meeting. If any other matters are properly presented at the meeting, however, Emerald Bank shares represented by properly executed proxy cards will   to the extent permitted under applicable law   be voted in the discretion of the persons named in the proxy card in accordance with their best judgment.

Middlefield has agreed to bear the costs of printing and mailing this prospectus/proxy statement, but Emerald Bank will bear all other costs of solicitation. Proxies may be solicited by mail and may also be solicited for no additional compensation by directors, officers, and employees of Emerald Bank. Emerald Bank will also pay the standard charges and expenses of brokerage houses, voting trustees, banks, associations, and other custodians, nominees, and fiduciaries who are record holders of Emerald Bank shares not beneficially owned by them for forwarding the proxy materials to and obtaining proxies from the beneficial owners of Emerald Bank shares entitled to vote at the annual meeting.

Dissenters Rights

There are a number of steps you must take if you wish to exercise dissenters rights. For a complete description of the procedures for exercising dissenters rights, you should read the provisions of 1701.85 of the Ohio General Corporation Law, a copy of which is included as Appendix C to this prospectus/proxy statement. If you fail to abide by any one of the required procedures, you will forfeit your dissenters rights. If you are considering dissenting, you should consult your own legal advisor. To exercise dissenters rights -

1) you must be a holder of record of Emerald Bank shares on the February 12, 2007 record date for the meeting

2) you must not vote in favor of adoption of the merger agreement and approval of the merger. If you vote by proxy but you wish to exercise dissenters rights, you should mark the box Against or the box Abstain on the form of proxy

3) no later than ten days after the meeting of Emerald Bank shareholders you must deliver to Emerald Bank a written demand for payment of the fair cash value of the Emerald Bank shares for which you seek relief as a dissenter. Your written demand should be sent to Emerald Bank, 6215 Perimeter Drive, Dublin, Ohio 43017, Attention: Mr. Glenn E. Aidt. Voting against adoption of the merger agreement and approval of the merger will not satisfy this requirement for a written demand

4) your written demand for payment must state (*x*) your name and address, (*y*) the number of shares of Emerald Bank common stock you hold, and (*z*) the amount you consider to be the fair cash value of your shares

If you and Emerald Bank do not reach an agreement about the fair cash value of your Emerald Bank shares, you must file a complaint in the Court of Common Pleas of Franklin County, Ohio for a determination of the fair cash value of the shares within three months after you make your written demand for payment. The procedures specified in section 1701.85 of the Ohio General Corporation Law will be used to determine the fair cash value of your Emerald Bank shares. That section states that the term fair cash value means the amount that a willing seller under no compulsion to sell would be willing to accept and that a willing buyer under no compulsion to purchase would be willing to pay, or if less the amount demanded by the dissenting shareholder. Fair cash value is determined as of the day before the annual meeting, excluding any appreciation or depreciation in market value of your Emerald Bank common shares resulting from the merger. The fair cash value of your Emerald Bank shares may be greater than, the same as, or less than the estimated $10.00 per share consideration payable in the merger. The costs of the court proceeding, including reasonable compensation to appraisers, will be assessed as the court considers equitable in accordance with section 1701.85 of the Ohio General Corporation Law.

If Emerald Bank sends you a request for the certificate or certificates representing your dissenting shares, you must deliver the certificate or certificates within 15 days after Emerald Bank sends the request to you. Emerald Bank may endorse the certificate or certificates with a legend stating that the shareholder has demanded the fair cash value of the shares represented by the certificate or certificates, promptly returning the endorsed certificate or certificates to you. If you fail to deliver the certificate or certificates within 15 days after Emerald Bank sends you the request, your rights as a dissenting shareholder will terminate if Emerald Bank notifies you within 20 days after the 15-day period that Emerald Bank elects to terminate your rights as a dissenting shareholder.

Your right to receive the fair cash value of your dissenting shares will terminate in any of the following cases -

1) if the merger does not occur

2) if your shares are voted in favor of adoption of the merger agreement and approval of the merger at the annual meeting of Emerald Bank shareholders

3) if you fail to deliver to Emerald Bank a written demand for payment of the fair cash value of your share within ten days after the meeting of Emerald Bank shareholders

4) if you and Emerald Bank do not reach agreement about the fair cash value of your dissenting shares, and you fail to file a complaint with the Franklin County, Ohio Court of Common Pleas for a determination of the fair cash value of your dissenting shares

Because a proxy that does not contain voting instructions will be voted for adoption of the merger agreement and approval of the merger, if you wish to exercise dissenters rights you must either (*x*) not sign and return the proxy or (*y*) if you sign and return the proxy, vote against or abstain from voting on the proposal to adopt the merger agreement and approve the merger.

The Proposed Merger (Proposal One)

The merger

After entering into the merger agreement, Middlefield organized a new subsidiary under Ohio commercial bank law. The new subsidiary s purpose is to complete the merger with Emerald Bank. So that the surviving entity will be a commercial bank rather than a savings bank, the transaction is structured as the merger of Emerald Bank into Middlefield s new subsidiary, which until the merger occurs will be known as EB Interim Bank. EB Interim Bank will be the surviving entity in the merger. Until the merger occurs the new interim subsidiary will conduct no business whatsoever and its activities will be confined to those necessary for completion of the merger. As the surviving entity in the merger, EB Interim Bank s name will be changed to Emerald Bank when the merger occurs and it will thereafter operate as a separate subsidiary of Middlefield. Middlefield currently has no intention to merge the surviving entity into Middlefield s existing subsidiary bank, The Middlefield Banking Company.

Background and reasons for the merger

***Background of the Merger; Emerald s Reasons for the Merger; and Recommendation of the Emerald Board*.** In October 2003, Emerald Bank incorporated under Ohio law as a newly-formed state-chartered savings bank. Initially capitalized with $7.3 million in proceeds from a private placement of Emerald Bank common shares at $10.00 per share, Emerald Bank assembled a management team that worked diligently to accomplish the bank s goals. A combination of an increase in competition in the Dublin market, a challenging interest rate environment and the increased cost of regulation made the accomplishment of Emerald Bank s goals increasingly difficult. As a result, the board of directors and management became progressively concerned over their struggles in reaching their goals and objectives.

In April 2006, the outside members of the Emerald Bank board of directors informally met with representatives of Ryan Beck and Co., Inc. (Ryan Beck), an investment banking firm, to discuss strategic alternatives for Emerald Bank, including a possible merger with another financial institution or a capital infusion. Although the directors decided at the time not to pursue a formal process to investigate potential merger partners or other options, they authorized Ryan Beck to canvas selected potential candidates on an informal basis with the idea that Emerald Bank would consider a possible merger with another financial institution or a capital infusion if the terms of the transaction would provide the Emerald Bank shareholders with a fair value for their shares.

As the Emerald Bank management team continued working to meet the objectives and goals of the Emerald Bank business plan, Ryan Beck conducted informal conversations with multiple financial institutions to gauge the interest of possible acquirors. Institutions expressing a possible interest were required to sign a confidentiality agreement, upon the receipt of which Ryan Beck forwarded certain financial information on Emerald Bank.

In early September 2006, Ryan Beck and the Emerald Bank board of directors received non-binding indications of interest from two financial institutions and one investor group. Middlefield proposed a transaction at $9.00 to $10.00 value per share, depending upon the results of a due diligence review of Emerald Bank. The other financial institution proposed a merger of equals on the basis of an exchange of Emerald Bank s shares for the institution s shares at an amount equal to Emerald Bank s book value, then approximately $7.44. The investor group proposed a transaction in which the investor group would obtain control of Emerald Bank through the purchase of 300,000 newly issued Emerald Bank shares at $10.00 per share.

On September 21, 2006, the Emerald Bank board met with Ryan Beck to discuss each of these indications of interests, and then on September 22, 2006 management of Emerald Bank made a presentation to the board of directors at a separate meeting regarding the possibility of remaining independent. While independence was a viable option, the board of directors initially decided not to focus on the indication of the other financial institution because the $7.44 per share value of the indication was substantially less than the value of the $9.00 to $10.00 per share value of the Middlefield indication. In addition, the board of directors rejected the investor group s change of control indication on the basis of the execution risks inherent with a change of control involving a new investor group, and the lack of liquidity and lack of a dividend that would result from that transaction.

The directors reviewed certain financial and other information about Middlefield, discussed the business and operating prospects for Middlefield over the next several years and compared such information to the operating prospects for Emerald Bank on a stand-alone basis. The directors agreed to invite Middlefield to conduct a due diligence review of the books and records of Emerald Bank but made it clear that Emerald Bank s board would only be interested in an offer at $10.00 per share or higher. On September 26 and 27, 2006, Middlefield performed due diligence. On October 12, 2006, Middlefield submitted a final proposal to acquire Emerald Bank for $10.00 per share, the high end of its range, in accordance with the terms and subject to the conditions eventually set forth in the Agreement.

The Emerald Bank board of directors met on October 13, 2006, to discuss the final proposal of Middlefield. Representatives of Ryan Beck discussed an overview of the transaction and the per share consideration, as well as analyses of Middlefield s historical financial results, ability to finance the transaction, stock performance and peer group comparisons. Based on the Ryan Beck analyses and the directors continued assessment of opportunities to increase shareholder value, the board of directors of Emerald Bank concluded that the Middlefield proposal deserved further consideration and requested that Ryan Beck continue to negotiate additional terms with Middlefield Banc Corp.

On October 16, 2006, representatives of Ryan Beck met with the Emerald Bank board of directors to discuss the results of their negotiations. After lengthy discussion of whether to proceed with negotiations with Middlefield, the directors concluded that Emerald Bank would proceed with the negotiation of a merger agreement with Middlefield because Middlefield s proposal would immediately increase shareholder value to their initial investment and fill the start-up deficit. The directors also noted that Middlefield s financial performance was far superior to Emerald Bank s, and that the proposed transaction with Middlefield would result in far greater liquidity for Emerald Bank shares as well as the potential for dividend income.

Subsequently, the directors each received a draft of the merger agreement and related documents. At a meeting on November 6, 2006, the directors reviewed in detail the terms and conditions of the draft with Emerald Bank s counsel. Among the terms and conditions discussed were the stock/cash split in the Middlefield consideration, the structure of the merger, the representations, warranties and covenants of each of Middlefield and Emerald Bank and related matters.

The directors further considered Middlefield s requirement that shareholders equity be at least $5.3 million at closing and the dollar for dollar reduction in the aggregate consideration in the event the shareholders equity fell below $5.3 million. Representatives of Ryan Beck then discussed the potential financial effect on the value shareholders would receive as consideration if the shareholders equity was below $5.3 million and if the closing date occurred in the second half of 2007. After lengthy discussion of whether to proceed with the proposed transaction, the directors concluded that Emerald Bank would proceed with the negotiation of the merger agreement with Middlefield since the likely effect of any shortfall in shareholders equity on the consideration received per share by the shareholders would be very small.

Between November 6 and November 14, 2006, Emerald Bank and Middlefield worked through final issues and completed the final draft of the merger agreement. At the same time, Ryan Beck and Emerald Bank management finished their due diligence review of Middlefield. On November 14, 2006, the Emerald Bank board of directors convened to consider the merger agreement, the due diligence and related matters. Counsel to the Emerald Bank board of directors summarized the terms of the merger agreement and the negotiation thereof since the last meeting of the board of directors, highlighting any provisions that had changed since the directors last reviewed the merger agreement.

On November 15, 2006, the Emerald Bank board of directors met to consider the merger. Ryan Beck presented its opinion that the merger was fair to Emerald Bank shareholders as of such date from a financial point of view. The directors then concluded that the terms and conditions of the merger agreement were fair to, and in the best interests of, Emerald Bank shareholders and authorized the execution of the merger agreement by Emerald Bank.

Middlefield s reasons for the merger. Middlefield believes the merger will benefit Middlefield s shareholders because it will enable Middlefield to establish a presence in Emerald Bank s market and strengthen Middlefield s competitive position. Emerald Bank s market immediately northwest of Columbus, Ohio is one of the most prosperous in the state and is experiencing very rapid growth. Middlefield believes the acquisition of an existing banking franchise is preferable to more gradual expansion into that market by other methods, such as by establishment of branches or formation of a local bank subsidiary. Building upon

Emerald Bank s community banking focus, Middlefield believes that it can improve upon Emerald Bank s existing franchise because the surviving bank in the merger will be a commercial bank rather than a savings bank, without the restrictions imposed under Ohio savings bank law on loans not secured by real estate and with the resources and commitment to pursue commercial, commercial real estate, residential, consumer, and other lending opportunities more aggressively within Emerald Bank s market.

Opinion of Emerald Bank s financial advisor

Ryan Beck acted as financial advisor to Emerald Bank in connection with its potential acquisition by Middlefield Banc Corp., pursuant to the merger agreement. Ryan Beck, as a customary part of its business, is continually engaged in the valuation of financial institutions in connection with mergers, acquisitions and other securities-related transactions. Emerald Bank selected Ryan Beck as its financial advisor based on Ryan Beck s qualifications, expertise and reputation as a nationally recognized specialist in the financial services industry with extensive experience in advising banks and thrifts.

On November 15, 2006, the Emerald Bank board held a meeting to evaluate the proposed merger with Middlefield. In its capacity as Emerald Bank s financial advisor, Ryan Beck participated in the negotiations with respect to the pricing and other terms and conditions of the merger, but the decision as to whether to accept the Middlefield proposal and the pricing of the merger was made by the board of directors of Emerald Bank. At the November 15 meeting, Ryan Beck rendered an oral opinion to Emerald Bank s board (the written opinion was delivered separately and dated as of November 15, 2006) and reconfirmed the opinion in writing as of the date of this prospectus/proxy statement, (a copy of which is attached as Appendix B), that based on and subject to the assumptions, factors, and limitations as set forth in the attached opinion and as described below, the consideration offered to Emerald Bank shareholders was fair as of the respective dates from a financial point of view. No limitations were imposed by the Emerald Bank board of directors upon Ryan Beck with respect to the investigations made or procedures followed by it in arriving at its opinion.

The full text of Ryan Beck s opinion, which sets forth assumptions made and matters considered, is attached as Appendix B to this prospectus/proxy statement. Shareholders of Emerald Bank are urged to read the attached Ryan Beck opinion in its entirety. The Ryan Beck opinion is directed only to the financial fairness of the consideration offered to Emerald Bank shareholders and does not constitute a recommendation to any shareholder as to how such shareholder should vote at the annual meeting. Ryan Beck has not considered, nor is it expressing any opinion herein with respect to, the price at which Middlefield s common stock will trade following consummation of the merger. The summary of the Ryan Beck opinion set forth in this prospectus/proxy statement is qualified in its entirety by reference to the full text of the Ryan Beck opinion. In rendering its opinion, Ryan Beck does not admit that it is an expert within the meaning of the term expert as used within the Securities Act of 1933 and the rules and regulations promulgated thereunder, or that its opinion constitutes a report or valuation within the meaning of Section 11 of the Securities Act of 1933 and the rules and regulations promulgated thereunder.

Material and Information Considered with Respect to the Proposed Merger. In connection with its opinion, Ryan Beck reviewed the following information:

- The merger agreement and related documents;
- Middlefield s annual reports on Form 10-K, including audited financial statements, for the years ended December 31, 2005, 2004 and 2003;
- Middlefield s quarterly reports on Form 10-Q for the quarters ended September 30, 2006, June 30, 2006 and March 31, 2006;
- Emerald Bank s annual reports, including audited financial statements, for the years ended December 31, 2005 and 2004;

Emerald Bank s quarterly call reports for the periods ended September 30, 2006, June 30, 2006 and March 31, 2006;

Certain other public and non-public information, primarily financial in nature, related to the respective businesses, earnings, assets and prospects of Emerald Bank and Middlefield provided to Ryan Beck by management of the respective companies or obtained by Ryan Beck from other sources;

The publicly available financial data of commercial banking organizations which Ryan Beck deemed generally comparable to Emerald Bank and Middlefield;

The historical stock prices and trading volumes of Middlefield s common stock; and

The terms of acquisitions of banking organizations which Ryan Beck deemed generally comparable in whole or in part to Emerald Bank.

Additionally, Ryan Beck:

Conducted or reviewed such other studies, analyses, inquiries and examinations as it deemed appropriate;

Analyzed the impact of the merger on Middlefield;

Considered the future prospects of Emerald Bank in the event it remained independent; and

Participated in meetings and telephone conferences with certain members of Emerald Bank s and Middlefield s senior management to discuss Emerald Bank s and Middlefield s past and current business operations, regulatory standing, financial condition, strategic plan and future prospects, including any potential operating efficiencies and synergies that may arise from the Merger.

In connection with its review, Ryan Beck relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information regarding Emerald Bank and Middlefield that was publicly available or provided to Ryan Beck by Emerald Bank and Middlefield. Ryan Beck is not an expert in the evaluation of loan portfolios or the allowance for loan losses. Therefore, Ryan Beck has not assumed any responsibility for making an independent evaluation of the adequacy of the allowance for loan losses set forth in the consolidated balance sheets of Emerald Bank and Middlefield as of September 30, 2006, and Ryan Beck has assumed such allowances were adequate and complied fully with applicable law, regulatory policy, sound banking practice and policies of the Securities and Exchange Commission as of the date of such financial statements. Ryan Beck discussed certain operating forecasts and financial projections (and the assumptions and bases therefore) with the management of Emerald Bank and Middlefield. Ryan Beck assumed that such forecasts and projections reflected the best currently available estimates and judgments of management. Ryan Beck was not retained to nor did it make any independent evaluation or appraisal of the assets or liabilities of Emerald Bank or Middlefield nor did Ryan Beck review any loan files of Emerald Bank or Middlefield. Ryan Beck also assumed that the merger in all respects is, and will be, undertaken and consummated in compliance with all laws and regulations that are applicable to Emerald Bank and Middlefield.

The preparation of a fairness opinion for a transaction such as the merger involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, Ryan Beck s opinion is not readily conducive to summary description. In arriving at its opinion, Ryan Beck performed a variety of financial analyses. Ryan Beck believes that its analyses must be considered as a whole and that the consideration of portions of such analyses and the factors considered therein, or any one method of analysis, without considering all factors and analyses, could create an incomplete view of the analyses and the process underlying Ryan Beck s opinion. No one method of analysis was assigned a greater significance than any other.

The forecasts and projections utilized in the analysis were based on information provided by Emerald Bank and Middlefield management. Emerald Bank and Middlefield do not publicly disclose internal management projections of the type discussed with Ryan Beck in connection with the review of the merger. Such projections were not prepared with a view towards public disclosure. The public disclosure of such projections could be misleading since the projections were based on numerous variables and assumptions which are inherently uncertain, including without limitation, factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in such projections.

In its analyses, Ryan Beck made numerous assumptions with respect to industry performance, general business and economic conditions, and other matters, many of which are beyond the control of Emerald Bank or Middlefield. Any estimates contained in Ryan Beck s analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates. Estimates of values of companies do not purport to be appraisals nor do they necessarily reflect the prices at which companies or their securities may actually be sold.

Ryan Beck s opinion was based solely upon the information available to it and the economic, market and other circumstances as they existed as of the date of the opinion. Events occurring after such date could materially affect the assumptions and conclusions contained in Ryan Beck s opinion. Ryan Beck has not undertaken to reaffirm or revise its opinion or otherwise comment upon any events occurring after the date of its reconfirmed opinion. Ryan Beck did not and does not express any opinion as to the price or range of prices at which Middlefield s common stock might trade subsequent to the merger.

The following is a brief summary of the analyses and procedures performed by Ryan Beck in the course of arriving at its opinion. The summary does not purport to be a complete description, but is a brief summary of the material analyses and procedures performed by Ryan Beck in the course of arriving at its opinion.

Analysis of Selected Publicly Traded Companies. Ryan Beck compared Emerald Bank s financial data as of September 30, 2006, to a peer group of nine banking organizations in the Midwest with assets less than $200 million that had sustained losses for the last twelve months and for which public trading and pricing information was available. Ryan Beck deemed this group to be generally comparable to Emerald Bank.

The results of the comparisons are reflected in the following table. The financial data and ratios shown in the table are as of or for the twelve months ended September 30, 2006 for Emerald Bank and as of the most recent twelve month period available for the peer group companies. The market valuation multiples are based on market prices as of November 10, 2006.

Table of Contents

Capitalization	Emerald Bank	(1)	Peer Average	(1)	Peer Median	(1)
Total Assets (000s)	$ 37,935		$ 89,115		$ 74,490	
Total Deposits (000s)	28,752		64,357		56,174	
Total Shareholders Equity (000s)	5,452		7,274		7,138	
Total Equity / Assets	14.37	%	6.02	%	9.03	%
Tangible Equity / Tangible Assets	14.37		6.01		9.03	
Tier 1 Capital / Risk-Adjusted Assets	23.08		11.75		11.01	
Total Capital / Risk-Adjusted Assets	24.08		13.36		11.98	
Total Borrowings / Total Assets	8.57		15.87		16.28	
Asset Quality						
Non-Performing Loans / Loans	1.28		2.45		0.32	
Loan Loss Reserves / NPAs	68.56		195.58		179.82	
Loan Loss Reserves / Loans	0.88		1.15		1.17	
Non-Performing Assets / Assets	0.93		2.58		0.27	
Non-Performing Assets + 90 Days Past Due / Assets	0.93		2.61		0.31	
Non-Performing Assets / Equity	4.72		6.28		1.87	
Loan & Deposit Composition						
Total Loans / Toal Assets	72.87		76.54		79.88	
Total Loans / Deposits	96.14		103.98		103.59	
1-4 Family Loans / Total Loans	59.13		48.18		46.79	
5+ Family Loans / Total Loans	7.04		2.60		1.11	
Construction & Development Loans / Total Loans	10.37		8.54		4.58	
Other Real Estate Loans / Total Loans	18.42		17.25		17.63	
Real Estate Loans / Total Loans	94.96		76.57		77.39	
Consumer Loans / Total Loans	2.19		10.88		5.44	
Commercial Loans / Total Loans	2.02		11.94		11.21	
Non-Interest Bearing Deposits / Total Deposits	1.14		9.79		7.49	
Transaction Accounts / Total Deposits	52.82		42.83		42.83	
Total CD s / Total Deposits	47.18		57.17		57.17	
Time Deposits > $100,000 / Total Deposits	19.30		20.44		20.44	
Performance						
Return on Average Assets	(2.37)		(1.06)		(0.56)	
Return on Average Equity	(10.55)		(23.28)		(4.62)	
Net Interest Margin	2.69		2.86		2.74	
Yield / Cost Spread	1.72		2.47		2.17	
Yield on Interest Earning Assets	6.04		6.38		6.47	
Cost of Interest Bearing Liabilities	4.32		3.73		3.53	
Non Interest Income / Average Assets	0.12		0.70		0.79	
Non Interest Expense / average Assets	4.65		4.21		3.74	
Salary Expense / Total Revenue	82.99		61.83		49.62	
Occupancy & Equipment Expense / Average Assets	0.86		0.64		0.55	

Efficiency Ratio	172.09			118.58			118.51	
Growth Rates								
Asset Growth	109.24			9.19			5.50	
Loan Growth Rate	83.17			22.22			15.80	
Deposit Growth Rate	164.82			16.48			10.21	
EPS Growth Rate	NM			NM			NM	
Market Statistics								
Stock Price at November 10, 2006	NM							
Price / LTM EPS	NA	x		NM	x		NM	x
Price / Book Value	NA	%		115.30	%		93.86	%
Price / Tangible Book Value	NA			115.31			93.86	
Market Capitalization ($M)	NA		$	10.52		$	6.59	
Dividend Yield	NA	%		0.44	%		0.00	%

(1) As of or for the most recent twelve-month period available for the peer group. Emerald Bank data as of September 30, 2006.

22

Table of Contents

Ryan Beck noted that 94.96% of Emerald Bank s loan portfolio is real estate oriented, significantly higher than the peer group median of 77.39%. Approximately 59.13% of Emerald Bank s loans are 1-4 family loans, higher than the peer group median of 46.79%. Emerald Bank s portfolio of construction & development loans at 10.37% was higher than the peer median of 4.58%. Emerald Bank s commercial loans at 2.02% of total loans were significantly lower than the peer group median of 11.21%. Emerald Bank s transaction account deposits equaled 52.82% of total deposits, higher than the peer group median of 42.83% but Emerald Bank s non-interest bearing demand deposits were only 1.14% of total deposits, significantly lower than the peer group median of 7.49%. Emerald Bank s jumbo deposits, or time deposits with balances greater than $100,000, represented 19.30% of total deposits, slightly lower than the peer median of 20.44%.

Emerald Bank s return on average assets of -2.37% was significantly less than the peer group median of -0.56% and Emerald Bank s return on average equity of -10.55% was also less than the peer group median of -4.62%. Contributing to Emerald Bank s performance was its net interest margin of 2.69%, which was lower than the peer group median of 2.74%. Emerald Bank s efficiency ratio of 172.09% was significantly higher than the peer group median of 118.51%. Ryan Beck also noted that Emerald Bank s non-interest income as a percentage of average assets at 0.12% was significantly lower than the peer group median of 0.79%.

Additionally, Ryan Beck noted that Emerald Bank had non-performing loans as a percentage of total loans of 1.28%, which was significantly higher than the peer median of 0.32%. At 0.88%, Emerald Bank maintained a level of loan loss reserves as a percentage of total loans below the peer median of 1.17%. Emerald Bank s capital ratios were significantly higher than the peer group medians as evidenced by its tangible equity to tangible assets ratio of 14.37% compared to 9.03% for the peer group.

There was no recent trading activity in Emerald Bank s stock. The peer group median was at 93.86% of book value and tangible book value. Price-to-earnings ratios were not meaningful for either Emerald Bank or for the peer group median. Emerald Bank does not pay a dividend, and the peer group median dividend yield was also zero.

Ryan Beck also compared Middlefield s financial data as of September 30, 2006, to a peer group of 16 banking organizations with assets between $150 million and $450 million, and with latest twelve months return on average assets greater than 1.00% and less than 1.50% located nationwide for which public trading and pricing information was available. Ryan Beck deemed this group to be generally comparable to Middlefield.

The results of the comparisons are reflected in the following table. The financial data and ratios shown in the table are as of or for the twelve months ended September 30, 2006 for Middlefield and as of the most recent twelve month period available for the peer group companies. The market valuation multiples are based on market prices as of October 30, 2006.

Capitalization	**Middlefield Banc Corp.**	**(1)**	**Peer Average**	**(1)**	**Peer Median**	**(1)**
Total Assets (000s)	$ 325,675		$ 375,989		$ 395,306	
Total Deposits (000s)	264,706		302,656		307,069	
Total Shareholders Equity (000s)	29,567		35,201		33,676	
Total Equity / Assets	9.08	%	9.44	%	9.21	%
Tangible Equity / Tangible Assets	9.08		8.87		8.70	
Tier 1 Capital / Risk-Adjusted Assets	12.84		13.72		15.23	
Total Capital / Risk-Adjusted Assets	14.09		15.07		16.36	
Total Borrowings / Total Assets	9.21		8.64		9.04	
Asset Quality						
Non-Performing Loans / Loans	0.69		0.39		0.27	
Loan Loss Reserves / NPAs	179.99		358.42		271.29	
Loan Loss Reserves / Loans	1.25		1.31		1.24	

Non-Performing Assets / Assets	0.52	0.35	0.21
Non-Performing Assets + 90 Days Past Due / Assets	0.54	0.36	0.27
Loan & Deposit Composition			
Total Loans / Toal Assets	75.18	71.06	74.79
Total Loans / Deposits	92.50	88.20	92.15
1-4 Family Loans / Total Loans	65.17	28.44	25.67
5+ Family Loans / Total Loans	0.00	1.56	1.30
Construction & Development Loans / Total Loans	1.48	20.62	19.16
Other Real Estate Loans / Total Loans	3.68	29.87	29.43
Real Estate Loans / Total Loans	70.33	80.48	81.53
Consumer Loans / Total Loans	2.27	3.41	3.33
Commercial Loans / Total Loans	27.11	14.75	13.96
Non-Interest Bearing Deposits / Total Deposits	15.68	16.20	15.53
Transaction Accounts / Total Deposits	47.73	54.75	56.23

Capitalization	Middlefield Banc Corp.	(1)	Peer Average	(1)	Peer Median	(1)
Total CD s / Total Deposits	52.27		45.25		43.77	
Time Deposits > $100,000 / Total Deposits	11.61		17.86		14.24	
Performance						
Return on Average Assets	1.22		1.18		1.12	
Return on Average Equity	13.71		12.78		11.83	
Net Interest Margin	3.75		4.31		4.25	
Non Interest Income / Average Assets	0.75		0.99		0.86	
Non Interest Expense / average Assets	2.44		3.10		3.06	
Efficiency Ratio	57.62		60.84		63.08	
Growth Rates						
Asset Growth	6.67		14.92		9.81	
Loan Growth Rate	8.41		17.25		14.73	
Deposit Growth Rate	6.66		14.36		9.59	
Revenue Growth Rate	5.44		18.85		15.58	
EPS Growth Rate	10.24		22.58		17.84	
Market Statistics						
Stock Price at November 10, 2006	$ 42.50					
Price / LTM EPS	15.18	x	16.48	x	15.51	x
Price / 2006E EPS	NA		17.48		15.84	
Price / 2007E EPS	NA		16.07		15.08	
Price / Book Value	194.51	%	193.66	%	183.09	%
Price / Tangible Book Value	194.51		205.13		189.03	
Market Capitalization ($M)	$ 57.52		$ 66.84		$ 66.50	
Dividend Yield	2.26	%	1.61	%	1.86	%

(1) As of or for the most recent twelve-month period available for the peer group. Middlefield data as of September 30, 2006.

Ryan Beck noted that 70.33% of Middlefield s loan portfolio is real estate oriented, lower than the peer group median of 81.53%. Approximately 3.68% of Middlefield s loans are commercial real estate loans, significantly lower than the peer group median of 29.43%. Middlefield s portfolio of construction & development loans at 1.48% was significantly lower than the peer median of 19.16%. At 27.11% of total loans, Middlefield s commercial loans were significantly higher than the peer median of 13.96%. Middlefield s transaction account deposits equaled 47.73% of total deposits, lower than the peer group median of 56.23% while Middlefield s non-interest bearing demand deposits were 15.68% of total deposits, versus the peer group median of 15.53%. Middlefield s jumbo deposits, or time deposits with balances greater than $100,000, represented 11.61% of total deposits, less than the peer median of 14.24%.

Middlefield s return on average assets of 1.22% was greater than the peer group median of 1.12% and Middlefield s return on average equity of 13.71% was higher than the peer group median of 11.83%. Middlefield s net interest margin of 3.75% was lower than the peer group median of 4.25%, but Middlefield s efficiency ratio of 57.62% was lower than the peer group median of 63.08%. Ryan Beck also noted that Middlefield s non-interest income as a percentage of average assets at 0.75% was lower than the peer group median of 0.86%.

Additionally, Ryan Beck noted that Middlefield had non-performing loans as a percentage of total loans of 0.69%, which was higher than the peer median of 0.27%. At 1.25%, Middlefield maintained a level of loan loss reserves as a percentage of total loans similar to the peer median of 1.24%. Middlefield s capital ratios were similar to the peer group medians as evidenced by its tangible equity to tangible assets ratio of 9.08%, compared to a median of 8.70% for the peer group. Middlefield s asset, loan and deposit growth rates over the past twelve months of 6.67%, 8.41 and 6.66%, respectively, were lower than the peer median growth rates of 9.81%, 14.73% and 9.59%, respectively. Over the same period, Middlefield s revenue and earnings per share growth rates of 5.44% and 10.24%, respectively, were lower than the peer medians of 15.58% and 17.84, respectively.

Based on its November 10, 2006 stock price, Middlefield s stock traded at 15.18 times last twelve months earnings per share, slightly below the peer group median of 15.51 times. Middlefield s price-to-book and price-to-tangible book value ratio of 194.51% was slightly higher than the respective peer group medians of 183.09% and 189.03%. Middlefield s dividend yield of 2.26% was higher than the peer group median of 1.86%.

Analysis of Selected Transactions. Ryan Beck compared the financial terms of the Merger with those of a group of 11 bank acquisitions announced since January 1, 2004, for which pricing data pertaining to the transactions was publicly available. The

Table of Contents

criteria for this group were: seller is a commercial bank or thrift; seller has assets less than $200 million; seller had ROAA less than 0.00%; and seller was located in Ohio and contiguous states.

The following table compares selected ratios of Emerald Bank with the average and median ratios of the sellers in the above peer group of announced transactions.

	Emerald Bank	Peer Group Average	Peer Group Median
Total Assets (000s)	$37,935	$98,390	$91,044
Tangible Equity / Tangible Assets	14.37%	9.00%	8.99%
YTD Return on Average Assets	-2.08%	-1.00%	-1.09%
YTD Return on Average Equity	-10.14%	-13.26%	-11.62%
Non-Performing Assets / Assets	0.93%	2.49%	2.12%
Efficiency Ratio	166.05%	111.64%	99.14%

Ryan Beck noted that Emerald Bank s tangible equity as a percentage of tangible assets of 14.37% was significantly higher than the peer group median of 8.99%. Ryan Beck also noted that Emerald Bank s return on average assets of -2.08% was significantly lower than the peer group median -1.09%, but Emerald Bank s return on average equity of -10.14% was not significantly different than the peer median of -11.62%. Emerald Bank s non-performing assets as a percentage of assets of 0.93% compared favorably to the peer median ratio of 2.12%.

The median pricing ratios for the comparable transactions are illustrated in the following table:

	Price / Book Value	**Price / Tangible Book Value**	**Price / LTM Earnings**	**Core Deposit Premium**
Peer Group Median	134.36%	134.36%	NM	4.09%

The imputed value of Emerald Bank based upon the median ratios of the comparable transactions can be seen in the table below:

	Price / Book Value	**Price / Tangible Book Value**	**Price / LTM Earnings**	**Core Deposit Premium**	**Average**	**Median**
Imputed Value	$10.00	$ 10.00	NM	$ 8.72	$9.57	$9.36

The median pricing ratios for the comparable transactions adjusted for the change in the Nasdaq Bank Index between the date of announcement of the transaction and the date of the analysis are illustrated in the following table:

	Price / Book Value	**Price / Tangible Book Value**	**Price / LTM Earnings**	**Core Deposit Premium**
Peer Group Median	145.91%	145.91%	NM	4.24%

The imputed value of Emerald Bank based upon the adjusted median ratios of the comparable transactions can be seen in the table below:

	Price / Book Value	**Price / Tangible Book Value**	**Price / LTM Earnings**	**Core Deposit Premium**	**Average**	**Median**

Imputed Value	$10.86	$ 10.86	NM	$ 8.77	$10.16	$9.81

Assuming a transaction value of $10.00 per share based on the terms of the merger, Ryan Beck calculated the transaction value as a multiple of Emerald Bank s September 30, 2006 stated book value per share ($7.44), tangible book value per share ($7.44), and tangible book premium over core deposits as follows:

Price to stated book value	134.39%
Price to tangible book value	134.39%
Multiple of last-twelve-months earnings per share	NM
Tangible book premium over core deposits	8.08%

Ryan Beck noted that the value of the consideration being offered to Emerald Bank s shareholders of $10.00 per share was higher than the median imputed value of the comparable transactions prior to the market adjustment of $9.36 and higher than the median imputed value of the comparable transactions after the market adjustment of $9.81.

No company used as a comparison in the above analyses is identical to Emerald Bank, Middlefield or the combined resulting company, and no other transaction is identical to the merger. Accordingly, an analysis of the results of the foregoing is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved, market areas in which the companies operate and other factors that could affect the trading values of the securities of the company or companies to which they are being compared.

Table of Contents

Discounted Dividend Analysis. Using a discounted dividend analysis, Ryan Beck estimated the present value of the future dividend stream that Emerald Bank could produce in perpetuity. As a basis for performing this analysis, Ryan Beck utilized 2007 to 2011 earnings per share estimates for Emerald Bank which were based on information provided by Emerald Bank management. These projections are based upon various factors and assumptions, many of which are beyond the control of Emerald Bank. These projections are, by their nature, forward-looking and may differ materially from the actual future values or actual future results for the reasons discussed above. Actual future values or results may be significantly more or less favorable than suggested by such projections. In producing a range of per share Emerald Bank values, Ryan Beck utilized the following assumptions: discount rates ranging from 13% to 15%, terminal price/earnings multiples ranging from 13x to 15x (which, when applied to terminal year estimated earnings, produces a value which approximates the net present value of the dividends in perpetuity, given certain assumptions regarding growth rates and discount rates) and earnings that include estimated savings in Emerald Bank s non-interest expense equal to Emerald Bank management s estimates of 40.0% in the first year following the merger with 40.0% thereafter. The discounted dividend analysis produced the range of net present values per share of Emerald Bank common stock illustrated in the chart below:

		Discount Rates		
		13%	14%	15%
Terminal Year	13x	$ 9.86	$ 9.56	$ 9.27
Multiple of	14x	$ 10.28	$ 9.97	$ 9.67
Earnings	15x	$ 10.69	$ 10.37	$ 10.06

Ryan Beck noted that the transaction value of $10.00 per share was near the midpoint of the estimated values derived from the discounted dividend analysis.

These analyses do not purport to be indicative of actual values or expected values or an appraisal range of the shares of Emerald Bank common stock. The discounted dividend analysis is a widely used valuation methodology, but Ryan Beck noted that it relies on numerous assumptions, including expense savings levels, dividend payout rates, terminal values and discount rates, the future values of which may be significantly more or less than such assumptions. Any variation from these assumptions would likely produce different results.

Financial Impact Analysis: In order to measure the impact of the merger on the combined company s operating results and financial position after the merger, Ryan Beck analyzed the pro forma effects of the merger for 2007. In performing this analysis, Ryan Beck utilized a pro forma summary balance sheet and income statement for Middlefield. For its analysis, Ryan Beck used Middlefield management s estimates of earnings for 2006 and 2007, and used an 8.00% projected growth rate to estimate 2008 through 2011 earnings for Middlefield. Ryan Beck used Emerald Bank management s estimates of Emerald Bank s earnings for 2006, 2007 and 2008, and used a projected growth rate of 10% to estimate 2009 to 2011 earnings for Emerald Bank. In its analysis, Ryan Beck utilized after-tax cost savings assumptions of approximately 40.0% of Emerald Bank s non-interest expense base for 2007 and 40.0% for 2008 through 2011. No assumptions were made regarding revenue enhancements following the completion of the transaction and no assumptions were made regarding mark-to-market purchase accounting adjustments.

This analysis indicated that the merger would be slightly dilutive to Middlefield s earnings in 2007 by approximately 0.50% and would be accretive to Middlefield s 2008 estimated earnings per share by approximately 3.67%, before the effect of any stock repurchases. Ryan Beck also estimated that the transaction would be 4.97% accretive to Middlefield s stated book value per share and would be 2.29% dilutive to Middlefield s tangible book value per share. The transaction analysis indicated that, at closing, Middlefield s tangible equity to tangible assets would be 9.09%, lower than the 9.65% projected in our analysis before the merger.

Contribution Analysis: As a means to gauge the impact of Emerald Bank s and Middlefield s potential financial impact on the combined organization, Ryan Beck prepared a contribution analysis which analyzed the relative contributions each entity would make toward total assets, loans, deposits, common equity, tangible common equity and earnings. Ryan Beck analyzed the contribution of the last-twelve-months net income as well as the 2007 projected net income for each company as estimated by their respective management teams. For this analysis, Ryan Beck assumed a 100% stock transaction and a price of $10.00 per share for Emerald Bank stock and estimated that Emerald Bank shareholders would own 11.12% of the combined company on a pro forma basis. This figure is below Emerald Bank s contribution of total equity and tangible equity of 15.57% but above the relative contributions of Emerald Bank for total assets at 10.43%, total loans at 10.14% and total deposits at 9.81%. The estimated Emerald Bank s stock ownership also exceeds Emerald Bank s projected 2007 net income contribution of 2.64% without accounting for synergies and 9.32% after accounting for synergies.

In connection with Ryan Beck s updated opinion dated as of the date of this prospectus/proxy statement and contained in Appendix B, Ryan Beck reviewed this prospectus/proxy statement and confirmed the appropriateness of its reliance on the analyses used to render its November 15, 2006 written opinion by performing procedures to update certain of such analyses and by reviewing the assumptions and conclusions upon which the November 15, 2006 opinion was based.

As of the date of this document, for its financial advisory services provided to Emerald Bank, Ryan Beck has been paid a fee of $50,000. Ryan Beck will be paid an additional fee at the time of closing of the merger such that the total fees paid to Ryan Beck will equal approximately $173,000. In addition, Emerald Bank has agreed to reimburse Ryan Beck for its reasonable out-of-pocket expenses, including the fees and disbursements of Ryan Beck s legal counsel, which shall not exceed $10,000 without the prior consent of Emerald Bank. Emerald Bank has also agreed to indemnify Ryan Beck and certain related persons against certain liabilities, including liabilities under federal securities law, incurred in connection with its services.

Prior to this transaction, Ryan Beck did not have an investment banking relationship with Emerald Bank. Ryan Beck has had no prior investment banking relationship with Middlefield. Ryan Beck has in the past solicited investment banking business from Middlefield and may solicit investment banking business from Middlefield in the future. Middlefield authorized Ryan Beck to solicit term sheets for a trust preferred securities offering, in part to fund this transaction, for which Ryan Beck received customary fees.

Ryan Beck is not a market maker in the stock or other securities of Emerald Bank or Middlefield. In the ordinary course of its business as a broker dealer, however, Ryan Beck may actively trade securities of Emerald Bank or Middlefield for its own account and the account of its customers and, accordingly, may at any time hold long or short positions in such securities.

Regulatory approvals required

Middlefield s application to the Board of Governors of the Federal Reserve System seeks approval under the Bank Holding Company Act of 1956 of Middlefield s acquisition of Emerald Bank. Middlefield, its subsidiary EB Interim Bank, and Emerald Bank have also submitted an application to the FDIC under the Federal Deposit Insurance Act and to the Ohio Division of Financial Institutions under Ohio banking law for approval of the merger of Emerald Bank into EB Interim Bank. None of these approvals had been obtained by the date of this prospectus/proxy statement. Nevertheless, Middlefield and Emerald Bank expect that all three required regulatory approvals will be obtained by the date of the Emerald Bank shareholders meeting or shortly thereafter. Assuming the necessary approvals are obtained, they will be subject to compliance by Middlefield, EB Interim Bank, and Emerald Bank with customary representations, commitments, and covenants. Additionally, the merger may not occur sooner than 15 days after the date of each approval, the minimum period required by statute to allow the United States Department of Justice to challenge the merger on antitrust grounds.

Interests of Emerald Bank directors and officers in the merger

Some of the directors and officers of Emerald Bank have interests in the merger that are different from or in addition to their interests as shareholders of Emerald Bank.

Retention Bonus. Provided they remain with Emerald Bank through the date the merger occurs, two officers of Emerald Bank and a member of the bank s accounting staff will receive cash retention bonuses promptly after the merger occurs. The cash retention bonus payable to Mr. Glenn E. Aidt, President and Chief Executive Officer of Emerald Bank, is $70,000. Mr. Michael J. Hufford s cash retention bonus is $65,000. Mr. Hufford is Emerald Bank s Senior Vice President and Chief Loan Officer. Ms. Barbara Howard s retention bonus is $10,000. Ms. Howard is a member of Emerald Bank s accounting staff. Middlefield and Emerald Bank agreed that she should be entitled to a cash retention bonus because of the expanded responsibilities she assumed when Emerald Bank s Chief Financial Officer Mr. Bart Cera resigned after the merger agreement was entered into.

Accelerated vesting of outstanding stock options. Under Emerald Bank s 2003 Stock Option Plan there are outstanding options to acquire 47,623 shares of Emerald Bank s common stock, each exercisable at the price of $10.00 per share. Each of those options has a June 1, 2004 effective date and becomes exercisable in equal thirds on the first three anniversaries of the effective date. Accordingly, the final third becomes exercisable on June 1, 2007, which could be slightly after the merger occurs. Middlefield and Emerald Bank have agreed that Emerald Bank may amend the 2003 Stock Option Plan so that vesting of the final third of the stock options is accelerated to the date the merger occurs.

Indemnification and Insurance. To the fullest extent that Emerald Bank is permitted to indemnify and advance expenses of its directors and officers under Ohio law and Emerald Bank s articles of incorporation and constitution, Middlefield has agreed in section 6.10 of the merger agreement to indemnify and advance the legal expenses of the directors and officers of Emerald Bank for actions or omissions occurring on or before the date the merger occurs, including acts or omissions associated with approval of the merger agreement and completion of the merger. Additionally, for three years after the merger occurs Middlefield must maintain directors and officers liability insurance reimbursing the current and former officers and directors of Emerald Bank for claims against them arising from facts or events occurring before the merger is completed. However, Middlefield is not required to expend more than 150% of the amount expended by Emerald Bank to maintain or procure its current directors and officers liability policy.

Directors, officers, and employees of Emerald Bank after the merger

The merger will have no effect on the composition of Middlefield s board of directors, which will continue to consist of the individuals identified elsewhere in this prospectus/proxy statement. The executive officers of Middlefield will continue their service in those capacities as well. The board of directors of the surviving bank after the merger will consist of all six of the current directors of Emerald Bank along with two Middlefield designees. The Middlefield designees are currently expected to be Mr. Thomas G. Caldwell, Middlefield s President and Chief Executive Officer, and Mr. Richard T. Coyne, who serves as a director both of Middlefield and The Middlefield Banking Company. We expect that Mr. Glenn E. Aidt currently Emerald Bank s President and Chief Executive Officer will continue after the merger to serve in that role with the surviving bank and that Mr. Michael J. Hufford, Senior Vice President and Chief Loan Officer of Emerald Bank, will likewise continue in that role after the merger. The surviving bank s Chief Financial Officer will be Mr. Donald L. Stacy, who after the merger will continue to serve in his current role as Middlefield s Senior Vice President and Chief Financial Officer. Employees of Emerald Bank will continue to be employed by the surviving bank. See The Merger Agreement Emerald Bank employees and employee benefits for a discussion of severance and other benefits payable or potentially payable to officers and employees of Emerald Bank after the merger.

Material federal income tax consequences

O Neill & O Neill, Attorneys at Law, counsel to Middlefield, has rendered an opinion to the effect that the merger will constitute a reorganization within the meaning of sections 368(a)(1)(A) and 368(a)(2)(D) of the Internal Revenue Code of 1986, as amended, which we refer to hereinafter as the Code. The opinion is based on the Code, applicable Treasury Department regulations, judicial authorities, and current administrative rulings and practices as in effect on the date of the opinion, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. Opinions of counsel are not binding upon the Internal Revenue Service or the courts, either of which could take a contrary position. No rulings have been or will be sought from the IRS in connection with the merger. The opinion of O Neill & O Neill relied on certain assumptions that customarily are made with respect to transactions of this kind and on certain representations and covenants, including those contained in officers certificates of Middlefield and Emerald Bank, which representations and covenants O Neill & O Neill assumed to be true, correct, and complete. If any such assumption, representation, or covenant is inaccurate, the opinion could be adversely affected. In addition, the opinion assumes that any Emerald Bank shareholder that, as of the effective time of the merger, asserts dissenters rights will receive pursuant to statutory procedures an amount per such dissenting Emerald Bank common share that does not exceed the value of the consideration per Emerald Bank common share to be received pursuant to the merger. The opinion of O Neill & O Neill set forth as an exhibit to the registration statement of which this prospectus/proxy statement is a part, as well as the assumptions, representations, and covenants described above, support the following discussion of the anticipated Federal income tax consequences of the merger to the Emerald Bank shareholders.

This description of anticipated Federal income tax consequences of the merger assumes that the merger will be consummated in accordance with the terms and provisions of the merger agreement. This description does not address, among other matters, the tax consequences to an Emerald Bank shareholder who holds Emerald Bank common shares other than as a capital asset for federal income tax purposes. The description also does not address all of the tax consequences that may be relevant to Emerald Bank shareholders in light of their particular tax circumstances, including without limitation shareholders that are: (1) persons who hold Emerald Bank common shares as part of a straddle, hedge, conversion, or other risk-reduction transaction, (2) broker-dealers, (3) shareholders who have a functional currency other than the U.S. dollar, (4) tax-exempt shareholders, (5) foreign persons, (6) insurance companies, (7) financial institutions, (8) persons that acquired Emerald Bank common shares pursuant to the exercise of compensatory stock options or otherwise as compensation, (9) tax-exempt entities, (10) retirement plans, (11) persons who receive Middlefield common shares other than in exchange for Emerald Bank common shares, or (12) pass-through entities and investors in those entities. In addition, this description does not address the tax consequences to the holders of options to acquire Emerald Bank common shares. Emerald Bank shareholders with special particular tax circumstances or who are subject to special tax treatment are strongly urged to consult with their tax advisors regarding their individual tax consequences. Furthermore, the discussion does not address any alternative minimum tax or any foreign, state, or local tax consequences of the merger.

Reorganization Treatment. The merger will be a reorganization within the meaning of sections 368(a)(1)(A) and 368(a)(2)(D) of the Code, and Middlefield, EB Interim Bank, and Emerald Bank each will be a party to the reorganization within the meaning of section 368(b) of the Code.

No Gain or Loss. No gain or loss will be recognized by Middlefield, EB Interim Bank, or Emerald Bank as a result of the merger.

Tax Basis. The tax basis of the assets of Emerald Bank in the hands of EB Interim Bank will be the same as the tax basis of such assets in the hands of Emerald Bank immediately prior to the merger.

Holding Period. The holding period of the assets of Emerald Bank to be received by EB Interim Bank will include the period during which such assets were held by Emerald Bank.

Tax Consequences to Emerald Bank Shareholders Who Receive Only Cash. An Emerald Bank shareholder who receives only cash in exchange for such shareholder s Emerald Bank shares (as a result of such shareholder s dissent to the merger or election to receive the cash consideration for all of such shareholder s Emerald Bank shares) will recognize gain or loss as if such shareholder had received such cash as a distribution in redemption of such shareholder s Emerald Bank shares, subject to the provisions and limitations of section 302 of the Code. The gain or loss will be long-term capital gain or loss if the Emerald Bank shares surrendered in the merger were held as capital assets for a period exceeding one year as of the time of the exchange.

Tax Consequences to Emerald Bank Shareholders Who Receive Only Middlefield Shares, Except for Cash in Lieu of Fractional Shares. An Emerald Bank shareholder who receives only Middlefield shares in exchange for such shareholder s Emerald Bank shares (not including any cash received in lieu of fractional Middlefield shares) will not recognize any gain or loss on the receipt of such Middlefield shares.

Tax Consequences to Emerald Bank Shareholders Who Receive Cash (Other than Cash in Lieu of Fractional Shares) and Middlefield Shares. An Emerald Bank shareholder who receives cash (other than cash in lieu of fractional shares) and Middlefield shares in exchange for Emerald Bank shares will recognize gain, but not loss, in an amount not to exceed the amount of cash received (excluding cash received in lieu of fractional Middlefield shares). For this purpose, an Emerald Bank shareholder generally must calculate gain or loss separately for each identifiable block of Emerald Bank shares exchanged by the shareholder in the merger, and a loss realized on one block of Emerald Bank shares may not be used by the shareholder to offset a gain realized on another block of its Emerald Bank shares. An Emerald Bank shareholder will be permitted to elect which of the shareholder s Emerald Bank shares are converted into and become Middlefield shares and which of the shareholder s Emerald Bank shares are exchanged for cash (subject to reallocation pursuant to procedures specified in section 2.05 of the merger agreement). Shareholders should consult their tax advisors regarding the manner in which cash and Middlefield shares should be allocated among their Emerald Bank shares and the specific federal income tax consequences thereof.

For purposes of determining the character of the gain recognized on account of the cash received by an Emerald Bank shareholder, such Emerald Bank shareholder will be treated as having received only Middlefield shares in exchange for such shareholder s Emerald Bank shares, and as having immediately redeemed a portion of such Middlefield shares for the cash received (excluding cash received in lieu of fractional Middlefield shares). Unless the redemption is treated as a dividend under the principles of section 302(d) of the Code (to the extent of such shareholder s ratable share of the undistributed earnings and profits of Emerald Bank), the gain will be capital gain if the Emerald Bank shares are held by such shareholder as a capital asset at the time of the merger.

Cash in Lieu of Fractional Shares. An Emerald Bank shareholder who receives cash in lieu of fractional Middlefield shares will recognize gain or loss as if such fractional Middlefield shares were distributed as part of the merger and then redeemed by Middlefield, subject to the provisions and limitations of section 302 of the Code.

Tax Basis. The aggregate tax basis of the Middlefield shares received by an Emerald Bank shareholder in the merger (including fractional shares, if any, deemed to be issued and redeemed by Middlefield) generally will be equal to the aggregate tax basis of the Emerald Bank shares surrendered in the merger, reduced by the amount of cash received by the shareholder in the merger (other than cash in lieu of fractional shares), and increased by the amount of gain recognized by the shareholder in the merger (including any portion of the gain that is treated as a dividend, but excluding any gain or loss resulting from the deemed issuance and redemption of fractional shares).

Holding Period. The holding period of the Middlefield shares received by an Emerald Bank shareholder will include the holding period of the Emerald Bank shares surrendered in exchange therefor in the merger, provided that the Emerald Bank shares were held as a capital asset at the time of the merger.

Reporting Requirements. Emerald Bank shareholders owning at least one percent (by vote or value) of the total outstanding Emerald Bank shares immediately before the merger are required to file a statement with their U.S. federal income tax returns setting forth their tax basis in the Emerald Bank shares exchanged in the merger, as well as the fair market value of the Middlefield shares and the amount of any cash received in the merger. In addition, all Emerald Bank shareholders will be required to retain permanent records relating to the amount, basis, and fair market value of all property transferred in the merger, and relevant facts regarding any liabilities assumed or extinguished as part of the merger.

Backup Withholding. Under certain circumstances, cash payments made to an Emerald Bank shareholder pursuant to the merger may be subject to backup withholding at a rate of 28%. There is no withholding for a shareholder who provides the exchange agent with such shareholder s correct U.S. federal taxpayer identification number and who certifies that no loss of exemption from backup withholding has occurred on IRS Form W-9 or its substitute. Certain categories of Emerald Bank shareholders, such as corporations and some foreign individuals, are not subject to backup withholding. In order for a foreign individual to qualify as an exempt recipient, such individual must generally provide the exchange agent with a completed IRS Form W-8BEN or its substitute. Any amounts withheld from an Emerald Bank shareholder under the backup withholding rules are not an additional tax. Rather, any such amounts will be allowed as a credit or refund against such shareholder s U.S. federal income tax liability provided that the shareholder furnishes to the IRS all required information.

The discussion of federal income taxes is included in this prospectus/proxy statement for general information only. Each Emerald Bank shareholder should consult his, her, or its own tax advisor regarding the specific tax consequences to the shareholder of the merger, including the application and effect of state, local, and foreign income and other tax laws.

Accounting treatment

Middlefield will account for the merger using the purchase method of accounting. Accordingly, Middlefield will record at fair value the acquired assets and assumed liabilities, including deposit liabilities, of Emerald Bank. If the total purchase price exceeds the fair value of tangible and identifiable intangible assets acquired over the liabilities assumed, Middlefield will record goodwill for the excess.

Resale of Middlefield shares

No restrictions on the sale or other transfer of the Middlefield shares issued in the merger will be imposed solely as a result of the merger, except for restrictions on the transfer of Middlefield shares issued to any Emerald Bank shareholder who is considered to be an affiliate of Emerald Bank for purposes of Rule 145 under the Securities Act of 1933.

As defined in Rule 144 under the Securities Act of 1933, the term affiliate generally includes directors, executive officers, and shareholders beneficially owning 10% or more of a company s outstanding shares. The Securities and Exchange Commission s Rule 145 restricts the manner in which affiliates and others with whom they might act in concert may resell shares and also restricts the number of shares that affiliates may sell within any three-month period. Emerald Bank affiliates may resell the Middlefield shares they receive in the merger solely (*x*) in compliance with Rule 145 or another applicable exemption from the registration requirements of the Securities Act of 1933 or (*y*) by an effective registration statement under the Securities Act of 1933 covering the offer and sale of their Middlefield shares. The merger agreement requires Emerald Bank to cause persons who could be considered affiliates to enter into an agreement with Middlefield stating that these affiliates will not sell, transfer, or otherwise dispose of any Middlefield shares they acquire in the merger except in compliance with the Securities Act of 1933 and the rules and regulations under the Securities Act of 1933. Sales of Middlefield shares by Middlefield affiliates are subject to similar transfer restrictions.

The Merger Agreement

This summary of the merger agreement is qualified in its entirety by reference to the complete copy of the merger agreement included as Appendix A, which is incorporated herein by reference. ***We encourage you to read the merger agreement carefully. The merger agreement not this prospectus/proxy statement is the legal document governing the merger***.

The merger agreement contains representations and warranties made by Emerald Bank and representations and warranties made by Middlefield. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules the parties delivered to each other when they signed the merger agreement. Additionally, some of the representations and warranties were made as of a specific date, may be subject to a contractual standard of materiality different from those generally applicable to shareholders, or may have been used for purposes of allocating risk between the respective parties rather than establishing matters as fact. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise and you should not rely on the representations and warranties for

***any other purpose*.**

Parties to the merger agreement

Middlefield and Emerald Bank entered into the merger agreement on November 15, 2006. The agreement was amended on January 3, 2007 to make EB Interim Bank the subsidiary formed by Middlefield in December 2006 for the purpose of completing the merger with Emerald Bank a party to the agreement. As a result, references in this summary of the merger agreement to obligations of Middlefield and representations and warranties made by Middlefield apply also to the new interim subsidiary. As the surviving entity in the merger, EB Interim Bank s name will be changed to Emerald Bank when the merger occurs and it will thereafter operate as a separate subsidiary of Middlefield.

Effective time

The merger will become effective when our certificate of merger is submitted by the Ohio Division of Financial Institutions to the Ohio Secretary of State for filing. This will not occur until we obtain all necessary Federal and state regulatory approvals, specifically (*x*) approval by the Federal Reserve Board under the Bank Holding Company Act of Middlefield s acquisition and ownership of another subsidiary bank, (*y*) approval by the FDIC under the Federal Deposit Insurance Act of the merger between Emerald Bank and EB Interim Bank, and (*z*) approval by the Ohio Division of Financial Institutions of the bank merger. We had submitted applications for all three of those regulatory approvals by January 5, 2007. We must also obtain approval of Emerald Bank shareholders. We currently anticipate that all three regulatory approvals will be obtained by the date of the Emerald Bank shareholders meeting or shortly thereafter. Lastly, all of the conditions to completion of the merger that are stated in Article Seven of the merger agreement must be satisfied or waived. Assuming Emerald Bank shareholders approve the merger, we currently anticipate that the certificate of merger will be filed and that the merger transaction will therefore be completed by May 31, 2007.

Conversion of Emerald Bank shares and exchange ratio

The aggregate purchase price to be paid by Middlefield is $7,326,890, or a per share price of $10.00. The aggregate purchase price may be adjusted, however. If any holders of options to acquire Emerald Bank shares exercise those options before the merger occurs, the aggregate purchase price will be increased by the amount of any funds Emerald Bank receives as payment of the option exercise price. Conversely, if Emerald Bank s shareholders equity is not at least $5.3 million at the end of the month immediately before the merger occurs, the aggregate purchase price will be reduced by the difference between $5.3 million and the month-end shareholders equity. Calculated by Emerald Bank s independent public accounting firm, the month-end shareholders equity will be determined in accordance with generally accepted accounting principles, except that Emerald Bank s costs associated with the merger transaction will be added to the calculation of shareholders equity. Specified in merger agreement section 2.02(c)(i) through (vii), these costs associated with the merger include Emerald Bank s legal fees (up to $180,000), investment banking fees (up to $175,000), fees for the retention of accounting personnel or services (up to $23,000), retention payments to three officers ($145,000 in total), the accounting charge associated with increasing Emerald Bank s loan loss allowance for new loans, any costs incurred by Emerald Bank at the direction of Middlefield, and compensation expenses associated with accelerated vesting of options to acquire Emerald Bank shares.

When the merger occurs, each outstanding Emerald Bank share excluding those for which dissenters rights are properly exercised will be converted into the right to receive either Middlefield common stock, cash, or a combination of Middlefield common stock and cash. One half of the Emerald Bank shares outstanding when the merger occurs will be exchanged for cash and the other half for Middlefield common stock. Assuming the aggregate purchase price is not adjusted because of stock option exercises or because Emerald Bank s shareholders equity is less than $5.3 million at the end of the month immediately before the merger occurs, Emerald Bank shareholders will receive (*x*) approximately 90,000 Middlefield common shares in exchange for one half of Emerald Bank s 732,689 shares outstanding, or one Middlefield share in exchange for approximately four Emerald Bank shares, and (*y*) cash in the amount of $3,663,445 for the other 366,345 shares outstanding, or $10.00 for each Emerald Bank share. If Emerald Bank s shareholders equity at the end of the month immediately before the merger occurs is less than $5.3 million, the $7,326,890 aggregate merger consideration will be reduced dollar-for-dollar by the difference between the month-end shareholders equity figure and $5.3 million. If that occurs the per share cash consideration will be less than $10.00.

The exact number of Middlefield common shares that will be received in exchange for each Emerald Bank share will depend upon the average closing price of Middlefield stock over the period that ends three business days before the merger occurs and that consists of the 20 most recent trading days on which trades in Middlefield stock actually occur. The precise length of the period over which the average closing price of Middlefield stock will be measured cannot be determined in advance because Middlefield stock historically has not traded each and every business day. The number of Middlefield shares that will be received in exchange for each Emerald Bank share will be based on a ratio the *exchange ratio* equal to the $10.00 per share cash consideration divided by the average closing price of Middlefield stock in the 20 trading-day period. If Emerald Bank s shareholders equity at the end of the month immediately before the merger occurs is less than $5.3 million, the per share cash consideration will be less than $10.00, which would also yield a reduced exchange ratio.

Middlefield will not issue fractional shares or certificates or scrip for fractional shares. Instead, Middlefield will pay to each holder of Emerald Bank shares who would otherwise be entitled to a fractional share an amount in cash, without interest, equal to the value of the fractional share multiplied by the exchange ratio. If options to acquire Emerald Bank shares remain outstanding when the merger occurs, those options will be exchanged for options to acquire Middlefield shares, the number of shares acquirable being multiplied by the exchange ratio and the exercise price being divided by the exchange ratio. On the date of this prospectus/proxy statement there were outstanding options to acquire 47,623 Emerald Bank shares. The exercise price of all of these options is $10.00 per share.

The following table illustrates the per share value of the consideration you will receive in the merger in exchange for each of your Emerald Bank shares, based on whether you elect to receive cash or Middlefield shares and based on various possible 20-day average closing prices for Middlefield shares. For purposes of this table, we assume that none of the options to acquire Emerald Bank shares will be exercised and that there will therefore be 732,689 Emerald Bank shares outstanding when the merger occurs, and we assume that none of the Emerald Bank shareholders will exercise dissenters rights.

	Cash Election		**Stock Election**	
20 trading-day average closing price for Middlefield stock	**Per share cash consideration**	**OR**	**Per share stock consideration exchange ratio**	**Market value based upon the exchange ratio**
$35.00	$ 10.00		0.2857	$ 10.00
$36.00	$ 10.00		0.2778	$ 10.00
$37.00	$ 10.00		0.2703	$ 10.00
$38.00	$ 10.00		0.2632	$ 10.00
$39.00	$ 10.00		0.2564	$ 10.00
$40.00	$ 10.00		0.2500	$ 10.00
$41.00	$ 10.00		0.2439	$ 10.00
$42.00	$ 10.00		0.2381	$ 10.00
$43.00	$ 10.00		0.2326	$ 10.00
$44.00	$ 10.00		0.2273	$ 10.00
$45.00	$ 10.00		0.2222	$ 10.00

The closing price reported for Middlefield stock on November 14, 2006, the last trading day before we announced the merger, was $40.48. If $40.48 were the 20-day average closing price, the exchange ratio would be 0.2471 Middlefield shares for each Emerald Bank share. The closing price reported for Middlefield stock on February 8, 2007, the most recent trading day when we completed this prospectus/proxy statement, was $39.00. If that price were the 20-day average closing price, the exchange ratio would be 0.2564 Middlefield shares for each Emerald Bank share.

When the merger occurs you will no longer have any rights as a holder of Emerald Bank shares. If you receive Middlefield shares in the merger you will upon proper surrender of your Emerald Bank share certificates have rights as a holder of Middlefield shares. For a comparison of the rights you have as a holder of Emerald Bank shares and the rights you would have as a holder of Middlefield shares, see Description of Middlefield Common Stock and Comparison of Rights of Middlefield and Emerald Bank Shareholders, beginning on page 39.

Cash and stock elections

In exchange for his or her Emerald Bank shares each shareholder may elect (*x*) all cash, (*y*) all Middlefield shares, or (*z*) a combination of cash and Middlefield common shares. But because one half of the Emerald Bank shares will be exchanged for cash and the other half for Middlefield shares, shareholders election rights are subject to reallocation procedures, which are described below.

All-cash election. For each Emerald Bank common share owned but subject to the reallocation procedures described below a shareholder who makes the all-cash election will receive cash in an amount equal to the aggregate merger consideration divided by the number of shares outstanding when the merger occurs.

All-stock election. For each Emerald Bank common share owned, a shareholder who makes the all-stock election will receive Middlefield shares based upon the exchange ratio, subject to the reallocation procedures described below and subject to the payment of cash instead of fractional Middlefield shares. Again, the precise exchange ratio will be determined when the merger occurs based upon the 20 trading-day average closing price of Middlefield stock in the period ending three days before the merger occurs.

Combined cash and stock election. A shareholder who elects a combination of cash and Middlefield shares will receive (*x*) cash in an amount equal to the whole number of Emerald Bank shares the shareholder elects to exchange for cash multiplied by the per share cash consideration and (*y*) a number of Middlefield shares equal to the whole number of Emerald Bank shares the shareholder elects to exchange for Middlefield shares multiplied by the exchange ratio, subject in each case to the reallocation procedures described below and subject in the case of the stock consideration to payment of cash instead of fractional Middlefield shares.

Non-electing shares. Emerald Bank shareholders who do not make an election between cash and stock and shareholders who do not make a valid election will have made or will be deemed to have made a non-election. To ensure that one half of Emerald Bank s shares are exchanged for cash and the other half for Middlefield shares, Emerald Bank shareholders who make or who are deemed to have made a non-election will receive all cash, all Middlefield shares, or a combination of cash and Middlefield shares as determined by Middlefield, subject again to the payment of cash instead of fractional Middlefield shares.

Election Form. An Election Form/Letter of Transmittal will be provided separately to you within the next two weeks. The Election Form/Letter of Transmittal allows each Emerald Bank shareholder to make the all-cash election, the all-stock election, or a combined cash and stock election. The Election Form/Letter of Transmittal also allows a shareholder to specify that he or she has no preference for cash or stock. Emerald Bank shareholders who wish to elect the type of merger consideration they will receive should carefully review and follow the instructions in the Election Form/Letter of Transmittal.

The deadline for submitting an Election Form/Letter of Transmittal is the close of business on the date of the Emerald Bank shareholders meeting. An election will be considered to have been validly made by an Emerald Bank shareholder if Middlefield receives the shareholder s Election Form/Letter of Transmittal properly completed and executed, accompanied by a certificate or certificates for the shareholder s Emerald Bank shares duly endorsed in blank or otherwise in form acceptable for transfer on the books of Emerald Bank, or containing an appropriate guaranty of delivery from a member of a national securities exchange, a member of the National Association of Securities Dealers, or a commercial bank or trust company in the United States. The Election Form/Letter of Transmittal will specify that delivery of certificates will be effected and risk of loss and title to the certificates will not pass before proper delivery of the certificates to Middlefield.

At any time before the election deadline a holder of Emerald Bank shares may withdraw his or her election and either (*x*) submit a new Election Form/Letter of Transmittal in accordance with the procedures described above or (*y*) withdraw the certificate or certificates representing the holder s Emerald Bank shares by providing written notice to Middlefield by 5:00 p.m., Eastern Standard Time, on the business day before the election deadline. Elections will also be revoked if the merger agreement is terminated.

Reallocations. The merger agreement requires that one half of Emerald Bank s shares be exchanged for cash and the other half for Middlefield shares. If the elections by Emerald Bank shareholders result in an over-subscription for cash or for Middlefield shares, it will be necessary to reallocate the available cash and Middlefield shares among Emerald Bank shareholders to preserve the 50/50 allocation between cash and stock consideration. Accordingly, the amount of cash and the number of Middlefield shares you actually receive as merger consideration may be different from your election.

If the total number of Emerald Bank shares for which valid cash elections are made plus all Emerald Bank shares for which dissenters rights are properly exercised exceeds one half of Emerald Bank s outstanding shares when the merger occurs, the cash consideration will be considered to be oversubscribed. In that case all non-electing shares will converted into Middlefield shares and Middlefield will reallocate a sufficient number of Emerald Bank shares deposited for cash to Emerald Bank shares deposited for Middlefield shares. If a reallocation is necessary it will be carried out *pro rata* among all shareholders electing cash. Likewise, if the total number of Emerald Bank shares for which the stock election is made exceeds one half of Emerald Bank s outstanding shares when the merger occurs, the Middlefield shares will be considered to be oversubscribed. In that case all non-electing shares will converted into the cash consideration and Middlefield will reallocate a sufficient number of Emerald Bank shares deposited for Middlefield shares to Emerald Bank shares deposited for cash shares. If a reallocation is necessary it will be carried out *pro rata* among all shareholders electing Middlefield shares. If neither cash consideration nor Middlefield shares are oversubscribed, non-electing shares will be allocated between cash consideration and Middlefield shares in Middlefield s discretion.

Because the federal income tax consequences of receiving Middlefield shares only, cash only, or a combination of cash and Middlefield shares will differ, Emerald Bank shareholders should read carefully the information under the heading The Proposed Merger (Proposal One) Material federal income tax consequences and should consult their own tax advisors before making the cash and stock elections for a full

understanding of the merger s tax consequences to them.

Surrender of certificates

Emerald Bank shareholders who submit a properly completed and executed Election Form/Letter of Transmittal to Middlefield, accompanied by their stock certificate(s) as provided in the instructions to the Election Form/Letter of Transmittal, will receive the cash and stock consideration promptly after the merger occurs. Middlefield is required by section 2.05(b) of the merger agreement to complete the allocation procedures for cash and stock elections and distribute the cash and stock consideration within five business days after the merger occurs.

When the merger occurs each Emerald Bank share certificate will represent merely the right to receive a certificate for Middlefield shares, or a check in an amount equal to the sum of the cash to be paid to the holder as part of the merger consideration,

Table of Contents

or both, plus (*x*) any cash to be paid instead of fractional Middlefield shares to which the holder might otherwise be entitled and (*y*) any cash dividends or distributions to which the holder might be entitled for the Middlefield shares issuable to him or to her.

If your Emerald Bank share certificate(s) is lost, stolen, or destroyed, Middlefield will deliver the consideration properly payable under the merger agreement if you deliver to Middlefield an appropriate affidavit claiming that the certificate is lost, stolen, or destroyed and, if required by Middlefield, if you post a bond in an amount reasonably determined by Middlefield as indemnity against any claim that may be made against Middlefield for the missing certificate. If you own Emerald Bank shares but your ownership is not registered in the transfer records of Emerald Bank, you may nevertheless exchange your Emerald Bank shares for Middlefield shares if you provide Middlefield with the certificate representing your Emerald Bank shares along with all documents required by Middlefield to evidence and effect the transfer and to evidence that any applicable stock transfer taxes have been paid.

For any Middlefield shares issuable to you as merger consideration you will also be entitled to receive any dividends or other distributions with a record date occurring on or after the date the merger occurs. But you will not be entitled to receive the dividends or other distributions payable on the Middlefield shares unless you follow the procedures specified in the Election Form/Letter of Transmittal for surrendering your Emerald Bank share certificate(s). You will not be entitled to any interest on Middlefield s dividends or distributions if payment is delayed while Middlefield awaits proper surrender of your Emerald Bank share certificate(s).

Conditions to completion of the merger

Mutual conditions. Under section 7.01 of the merger agreement it is a condition to each of Middlefield s and Emerald Bank s obligations to complete the merger that the agreement be adopted by the affirmative vote of Emerald Bank shareholders entitled to exercise a majority of the voting power of all Emerald Bank shares outstanding. We must also receive all required regulatory approvals and all applicable statutory waiting periods must have expired or been terminated, and no regulatory approval or statute, rule, or order may contain any condition, restriction, or requirement that Middlefield reasonably determines would have a material adverse effect on Middlefield. There must be no order or decision of a court preventing or delaying the merger and there must be no stop order issued or threatened by the Securities and Exchange Commission suspending effectiveness of the Form S-4 Registration Statement of which this prospectus/proxy statement forms a part. Additionally, Emerald Bank must receive an opinion from Ryan Beck stating that the merger consideration to be received by Emerald Bank shareholders in the merger is fair from a financial point of view. The opinion of Ryan Beck included as Appendix B to this prospectus/proxy statement satisfies this mutual closing condition. In addition to these mutual closing conditions stated in section 7.01, each of Emerald Bank on one hand and Middlefield on the other is also entitled to insist at completion of the merger upon satisfaction of individual other conditions specifically applicable to it, as described below.

	Conditions for the benefit of Emerald Bank		*Conditions for the benefit of Middlefield*
	Emerald Bank is not required to complete the merger unless		Middlefield is not required to complete the merger unless
1)	the representations and warranties of Middlefield contained in the merger agreement were true and correct in all material respects when the agreement was entered into on November 15, 2006 and remain true when the merger occurs	1)	the representations and warranties of Emerald Bank contained in the merger agreement were true and correct in all material respects when the agreement was entered into on November 15, 2006 and remain true when the merger occurs
2)	each of Middlefield and EB Interim Bank performs in all material respects all of the covenants and obligations under the merger agreement required to be performed by them before the merger occurs	2)	Emerald Bank performs in all material respects all of the covenants and obligations under the merger agreement required to be performed by it before the merger occurs
3)		3)	

there shall not have occurred any circumstance or event having a material adverse effect on Middlefield s financial position, results of operations, or business or Middlefield s ability to complete the merger between the November 15, 2006 date of the merger agreement and the date the merger occurs	there shall not have occurred any circumstance or event having a material adverse effect on Emerald Bank s financial position, results of operations, or business or Emerald Bank s ability to complete the merger between the November 15, 2006 date of the merger agreement and the date the merger occurs
4) Middlefield shall have suffered no damage, destruction, or loss materially affecting its business or properties that is not covered by insurance	4) Emerald Bank shall have suffered no damage, destruction, or loss materially affecting its business or properties that is not covered by insurance
5) there shall be no litigation or governmental proceeding instituted or threatened that would challenge, prevent, or delay the merger	5) there shall be no litigation or governmental proceeding instituted or threatened that would challenge, prevent, or delay the merger or that would impair Middlefield s ability to exercise full rights of ownership of Emerald Bank

Conditions for the benefit of Emerald Bank	*Conditions for the benefit of Middlefield*
6) Middlefield obtains all necessary regulatory approvals and consents	6) there shall be no proposed or effective Federal or state law, rule, regulatory order, or regulatory policy that would prevent or delay the merger, interfere with operation of Emerald Bank s business, adversely affect Middlefield s ability to realize the benefits of the merger, or impose a materially adverse condition, limitation, or requirement on Middlefield
	7) Emerald Bank s independent certified public accountants provide to Middlefield a letter of tax advice stating that any amounts paid to Emerald Bank s board and management as a result of the merger such as the retention payments to Messrs. Aidt and Hufford and Ms. Howard under section 6.11(c) of the merger agreement should be deductible, rather than being subject to denial of the ordinary compensation deduction under the excess parachute payment provisions of section 280G of the Internal Revenue Code of 1986
	8) Emerald Bank delivers to Middlefield affiliate agreements executed by each of Emerald Bank s directors and executive officers. A form of the affiliate agreement is included as Exhibit 5.05 to the merger agreement attached as Appendix A to this prospectus/proxy statement
	9) Emerald Bank delivers to Middlefield a list of all Emerald Bank shareholders on the date the merger occurs

Middlefield and Emerald Bank expect that all of these conditions have been or will by the time the merger occurs be satisfied. Each of Middlefield and Emerald Bank is entitled to waive satisfaction of the mutual conditions or the individual conditions specifically for its benefit, other than conditions having to do with regulatory approval and shareholder approval.

Representations and warranties

Similar representations and warranties. In Article Three of the merger agreement Emerald Bank has made representations and warranties to	corporate organization, qualification and good standing corporate power and authority to execute, deliver, and perform the merger agreement, and (*x*) in Emerald Bank s case the shareholder vote necessary to approve the merger (the affirmative vote of the holders of a majority of the Emerald Bank shares outstanding) (*y*) in Middlefield s case that approval

Middlefield, and in Article Four Middlefield has made representations and warranties to Emerald Bank, relating to:	by its shareholders is not necessary
	enforceability of the merger agreement
	absence of conflicts on the part of the merger agreement or the merger itself with organizational documents, laws and material agreements
	identification of regulatory approvals that must be obtained by the party to the agreement (specifically none in Emerald Bank s case, but in Middlefield s case approval of the Federal Reserve Board, FDIC, and the Ohio Division of Financial Institutions)
	the number of shares of common stock outstanding, the legality of their issuance, and the number acquirable by exercise of stock options
	accuracy of the company s audited year-end financial statements as well as the interim financial statements for the nine months ended September 30, 2006, and in Middlefield s case only the accuracy of reports filed with the Securities and Exchange Commission
	absence of changes in the company s business or occurrence of material adverse events affecting the company s business, prospects, assets, liabilities, or properties since September 30, 2006
	accuracy of the company s books and records
	absence of material legal proceedings
	existence of permits and licenses necessary to conduct business
	accuracy of the information provided for use in the Form S-4 Registration Statement of which this prospectus/proxy statement forms a part
	identification of all brokers and finders involved in the merger
	ownership by each company of the other company s shares
	compliance with Ohio law governing business combinations
	payment of all taxes owing

Emerald Bank s *unique representations and warranties*. Emerald Bank s representations and warranties in Article Three also include representations and warranties about:	ownership and condition of its properties, as well as the legal sufficiency of documentation relating to Emerald Bank s loan assets absence of loans 90 days or more delinquent or that are classified as substandard, doubtful, or loss identification of its investments and the absence of subsidiaries identification of material contracts and commitments and the absence of defaults on Emerald Bank s part existence of adequate insurance identification of employee benefit plans and their compliance with applicable tax and other laws compliance with environmental laws compliance with laws governing employment practices and employment discrimination inapplicability of provisions of the Internal Revenue Code of 1986 governing payments made to directors and executive officers in change-in-control transactions, specifically sections 280G and 4999 of the Internal Revenue Code absence of formal or informal bank regulatory enforcement actions

Middlefield has also represented and warranted that it has the financial capacity to complete the merger and remain well capitalized for bank regulatory purposes when the merger is completed. The representations and warranties in the merger agreement will not survive the merger.

Conduct of business pending the merger

Affirmative covenants on Emerald Bank s part. In section 5.01(a) of the merger agreement Emerald Bank has	conduct its business in the ordinary course use commercially reasonable efforts to preserve its business organization intact use commercially reasonable efforts to preserve its relationships with customers, suppliers, officers

agreed that from November 15, 2006 until the merger occurs Emerald Bank will:	and employees maintain its books and records in compliance with applicable laws use commercially reasonable efforts to maintain the safety and soundness and compliance ratings assigned by bank examiners use commercially reasonable efforts to maintain a performance rating of satisfactory under the Community Reinvestment Act of 1977 take no action that would cause a breach or default under contracts to which Emerald Bank is a party

Table of Contents

Negative covenants on Emerald Bank s part. And in section 5.01(b) Emerald Bank has agreed not to do any of the following without Middlefield s advance written consent:	issue any shares or any options to acquire Emerald Bank shares
	declare or pay a dividend or make a distribution on common shares, or redeem, purchase or otherwise acquire any shares
	effect a stock split, recapitalization, combination, exchange of shares, readjustment or other reclassification
	amend its Articles of Incorporation or Constitution
	purchase, sell, assign or transfer any material patent, trademark, trade name, copyright, license, franchise, design, or other intangible assets or property
	acquire or dispose of any real or personal property or fixed asset constituting a capital investment exceeding $10,000 individually or $25,000 in the aggregate, except for an acquisition or disposition in the ordinary course of business of other real estate owned
	mortgage, pledge, or grant a lien or other encumbrance or charge on any assets or properties, tangible or intangible, except for liens for taxes not yet delinquent, assets pledged as collateral to secure borrowings from the FHLB of Cincinnati, or other liens, encumbrances, or charges that would not have a material adverse effect on Emerald Bank s financial position
	waive any rights of material value or cancel any material debts or claims
	incur any obligation or liability requiring payments by Emerald Bank exceeding $10,000, whether individually or in the aggregate, or pay any material liability or obligation other than liabilities and obligations incurred in the ordinary course of business and borrowings from the FHLB of Cincinnati
	cause any material adverse change in the amount or general composition of Emerald Bank s deposit

liabilities or loan portfolio

enter into or amend any employment contract with any of its officers, hire any new employees except to replace employees whose employment terminates, increase the compensation payable to any officer or director, adopt or amend any employee benefit plans, make awards or distributions under any employee benefit plans not consistent with the terms of the employee benefit plan, past practice or custom or as required by law

acquire shares or other equity interest in a corporation, partnership, trust, joint venture, or other entity

make an investment of more than $25,000 outside of the ordinary course of business or make a capital expenditure of more than $25,000

fail to maintain Emerald Bank s reserve for loan losses after December 1, 2006 at the greater of $242,000 or 1% of the total gross loans outstanding (unless required by generally accepted accounting principles)

fail to accrue, pay, discharge and satisfy all debts, liabilities, obligations and expenses incurred in the regular and ordinary course of business as the debts, liabilities, obligations and expenses become due

open, close, move or in any material respect expand, diminish, renovate, alter, or change an office or branch

pay or commit to pay a management or consulting fee or other similar type of fee

No solicitation of competing acquisition proposals. Emerald Bank has made other individual covenants in Article Five of the merger agreement as well. Section 5.02 prohibits Emerald Bank from soliciting or negotiating a proposal or offer from any entity for acquisition of Emerald Bank s assets or securities, a merger, or other business combination. However, Emerald Bank is permitted to furnish information to and enter into discussions and negotiations with an entity making a competing acquisition proposal if (*x*) Emerald Bank s board of directors determines after consultation with counsel that those actions are necessary for the board to fulfill its fiduciary duties to Emerald Bank shareholders and if (*y*) before furnishing the information to the competing acquiror Emerald Bank gives immediate written notice to Middlefield. So long as Middlefield is not in breach of the merger agreement, Emerald Bank has agreed in section 6.03 that its board of directors will recommend approval of the merger and the merger agreement to Emerald Bank shareholders. However, the board would not be required to recommend approval if the board of directors determines after consultation with counsel that doing so is contrary to the board s fiduciary duties to

Emerald Bank shareholders.

Conforming accounting policies. Emerald Bank has agreed in section 5.03 that, at Middlefield s request, Emerald Bank will (*x*) establish and take reserves and accruals to conform its loan, accrual, and reserve policies to those of Middlefield, (*y*) establish and take accruals, reserves, and charges to implement relating to excess facilities and equipment capacity, severance costs, litigation, write-off or write-down of various assets and other appropriate accounting adjustments consistent with Middlefield s policies, and (*z*) recognize for financial accounting purposes expenses of the merger and restructuring charges related to or to be incurred in the merger, in each case to the extent permitted by law and consistent with generally accepted accounting principles. However, Emerald Bank is not required to take these actions earlier than 30 days before the date the merger occurs, nor is Emerald Bank required to take these actions unless Middlefield acknowledges that all conditions to Middlefield s obligation to complete the merger are satisfied. If any of these actions is requested by Middlefield, any adverse impact on Emerald Bank s shareholders equity would be disregarded for purposes of calculating Emerald Bank s shareholders equity at the end of the month before the merger occurs and for purposes of calculating the aggregate merger consideration to be paid by Middlefield.

Maintaining insurance coverage. Emerald Bank has agreed in section 5.04 to maintain in full force and effect insurance on its assets, properties, and operations, as well as fidelity coverage and directors and officers liability insurance.

Deliver affiliate agreements. Emerald Bank has agreed in section 5.05 to use its best efforts to deliver to Middlefield affiliate agreements executed by each director, executive officer, and other person who may be considered an affiliate of Emerald Bank. A form of the affiliate agreement is included as exhibit 5.05 to the copy of the merger agreement attached to this prospectus/proxy statement as Appendix A.

Middlefield s covenant to conduct its business in the ordinary course. Middlefield has agreed in section 5.08 that, except with Emerald Bank s advance written consent, Middlefield will conduct its businesses only in the ordinary course, in accordance with past practices and policies, and in compliance with all applicable statutes, rules, and regulations.

Delivery of subsequent financial statements and access. Each of Emerald Bank and Middlefield has promised to deliver to the other its audited financial statements for the year ended December 31, 2006 and quarterly financial statements. Emerald Bank has also agreed to provide Middlefield with Emerald Bank s monthly consolidated unaudited balance sheets and profit and loss statements prepared for its internal use, call reports for each quarterly period completed before the merger occurs, and all other financial reports or statements submitted to regulatory authorities after November 15, 2006, to the extent permitted by law. Each of Emerald Bank and Middlefield has agreed to grant the other access to its properties, facilities, books, and records, subject to mutual confidentiality obligations, and each party must promptly notify the other in writing of any adverse business conditions threatening its normal business operations or of the occurrence of any event that might result in a breach of or a failure to comply with any representation, warranty, covenant, condition or agreement contained in the merger agreement. Lastly, section 6.04(c) provides that a representative of Middlefield is entitled to attend meetings of Emerald Bank s board of directors and committees solely as an observer, unless prohibited by regulations of the Ohio Division of Financial Institutions or the FDIC. The Middlefield representative would not, however, be entitled to observe the portion of a meeting involving discussions of (*x*) confidential information of borrowers, depositors, employees or others, (*y*) the merger transaction or (*z*) a subject that should be kept confidential in the proper exercise of directors and officers fiduciary duties to shareholders. Since November 15, 2006 when the merger agreement was entered into, a Middlefield representative has been an observer at three meetings of Emerald Bank s board of directors but no committee meetings.

Emerald Bank employees and employee benefits

Middlefield s covenants include assurance that Middlefield will continue the employment of Emerald Bank s employees. Emerald Bank employees who are terminated without cause within six months after the merger occurs will be entitled to a cash severance payment in an amount equal to the product of three weeks of the terminated employee s salary multiplied by the number of years the employee was employed by Emerald Bank, plus accrued benefits such as vacation and sick pay through the date of separation. Emerald Bank employees will continue to be covered by Emerald Bank employee benefit plans or equivalent plans after the merger occurs.

Emerald Bank is entitled by section 6.11(c) of the merger agreement to make cash retention bonus payments to each of Messrs. Glenn E. Aidt and Michael Hufford and Ms. Barbara Howard if they remain with Emerald Bank through completion of the merger. The retention bonus amounts are $70,000 for Mr. Aidt, $65,000 for Mr. Hufford, and $10,000 for Ms. Howard. Emerald Bank has also undertaken to amend its 2003 Stock Option Plan so that vesting and exercisability of outstanding options to acquire Emerald Bank shares are accelerated to the date the merger occurs, subject to approval of the Ohio Division of Financial Institutions and the FDIC if regulatory approvals are necessary. The outstanding options to acquire Emerald Bank common stock were granted in June 2004 and become vested and exercisable in three equal annual installments on June 1 of each of 2005, 2006, and 2007. For its part Middlefield has agreed to register with the SEC the offer and sale of Middlefield shares issuable upon exercise of options that replace the existing options to acquire Emerald Bank shares, which would allow the holder of the replacement stock option to freely exercise the option and thereafter sell the Middlefield shares.

Indemnification of Emerald Bank directors and officers and insurance

The merger agreement provides in section 6.10 that Middlefield and Emerald Bank will to the fullest extent permitted by applicable law and the governing documents of Emerald Bank indemnify, defend, and hold harmless and provide advancement of expenses to each person who is or who before the merger occurs becomes a director or officer of Emerald Bank against all costs or expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages or liabilities incurred in any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of actions or omissions occurring on or before the date of the merger. And for three years after the merger occurs Middlefield must maintain directors and officers liability insurance coverage for these individuals.

Table of Contents

Expenses of the merger

Middlefield and Emerald Bank will each bear its own expenses associated with the merger, including without limitation fees and disbursements of legal counsel, financial advisors, and accountants. However, the costs of printing and mailing this prospectus/proxy statement will be borne by Middlefield.

Termination of the merger agreement

The parties may mutually agree to terminate the merger agreement and abandon the merger at any time before the merger occurs, whether before or after shareholder approval. Additionally, either party may terminate the merger agreement and abandon the merger if the merger does not occur by the end of the day on May 31, 2007 or if it appears that the mutual closing conditions stated in section 7.01 cannot be satisfied, such as approval by Emerald Bank shareholders or receipt of regulatory approvals. Acting alone, Emerald Bank may terminate the merger agreement and abandon the merger at any before shareholder approval if Emerald Bank s board of directors decides to pursue a competing acquisition proposal. However, Emerald Bank would owe a termination fee of $300,000 to Middlefield when the competing acquisition is completed.

Description of Middlefield Common Stock and Comparison of Rights of Middlefield and Emerald Bank Shareholders

Middlefield is an Ohio corporation and a bank holding company registered under the Bank Holding Company Act of 1956. Emerald Bank is an Ohio state-chartered savings bank. Although the rights of Middlefield shareholders are similar in many respects to the rights of Emerald Bank shareholders, there are some differences. These differences arise out of differences between the provisions of Ohio law governing state-chartered savings banks, which apply to Emerald Bank only, and the provisions of the Ohio General Corporation Law, Chapter 1701 of the Ohio Revised Code, which applies both to Middlefield and, unless inconsistent with Ohio savings bank law, to Emerald Bank. Differences between the rights of Emerald Bank and Middlefield shareholders also arise out of the governing documents of Middlefield, which consist of articles of incorporation and regulations, and the governing documents of Emerald Bank, consisting of articles of incorporation, a constitution, and bylaws. The discussion to follow is not a complete statement of the rights of Emerald Bank shareholders, the rights of Middlefield shareholders, and the differences between them. This discussion is qualified in its entirety by reference to the governing documents of Emerald Bank and Middlefield and the relevant provisions of Ohio law, including Ohio savings bank law and the Ohio General Corporation Law.

Authorized shares

Middlefield s authorized capital stock consists of ten million common shares, without par value. There were 1,425,217 Middlefield shares outstanding on February 8, 2007, with an additional 73,607 shares reserved for issuance upon exercise of outstanding options to acquire Middlefield common stock. Middlefield common stock is not listed on an exchange but it is traded over the counter under the symbol MBCN. Emerald Bank s authorized capital stock likewise consists of ten million common shares, also without par value. There are 732,689 Emerald Bank shares outstanding, with an additional 47,623 shares reserved for issuance upon exercise of outstanding options to acquire Emerald Bank stock. There is no public trading market for Emerald Bank shares.

Preemptive rights

If a corporation s shareholders have preemptive rights, this means the corporation must first give the shareholders the opportunity to purchase shares in proportion to their current holdings at a fixed price before the corporation may offer the shares for sale to the public. The governing documents of each of Middlefield and Emerald Bank explicitly provide that shareholders do not have preemptive rights.

Liquidation rights

If a liquidation, dissolution, or winding up of either Middlefield or Emerald Bank occurs, each shareholder would be entitled to share ratably in proportion to the number of shares held in the net assets legally available for distribution to shareholders after payment in full or provision for payment of all amounts required to be paid to creditors.

Dividends

Shareholders of an Ohio corporation are entitled to dividends when, as, and if declared by the corporation s board of directors. This principle of Ohio General Corporation Law applies both to Middlefield and to Emerald Bank.

Middlefield has paid a regular quarterly cash dividend for some time. As a recently organized institution, Emerald Bank has not had sufficient net income and retained earnings to allow the bank to pay dividends to its shareholders. Therefore, advance approval of the Ohio Division of

Financial Institutions would be necessary for payment of a dividend by Emerald Bank. Payment of dividends by Emerald Bank could also be restricted at any time at the discretion of the ODFI and the FDIC if they determine that payment of dividends would be an unsafe or unsound banking practice or if they determine that funds must be retained by Emerald Bank to maintain its capital.

The ability of Middlefield to obtain funds for the payment of dividends and for other cash requirements largely depends on the amount of dividends paid to Middlefield by its subsidiaries. Currently, The Middlefield Banking Company is Middlefield s sole subsidiary. Federal Reserve Board regulation also provides that Middlefield must serve as a source of strength to its subsidiary banks, which could mean capital must be retained for further investments in subsidiary banks rather than being paid as dividends to shareholders.

Number and election of directors; voting power

The articles of incorporation or regulations of an Ohio corporation determine the authorized number of the corporation s directors, but there generally must be at least three directors. Under regulations of the Ohio Division of Financial Institutions, the board of directors of an Ohio-chartered savings bank must consist of at least five directors. Shareholders of an Ohio corporation fix or change the number of directors at a shareholders meeting called for the purpose of electing directors, fixing or changing the number by the affirmative vote of a majority of the shares represented at the meeting and entitled to vote. However, the corporation s articles of incorporation or regulations may provide for an alternative method for fixing or changing the number of directors, including allowing the board to change the number of directors.

Under Middlefield s regulations, the authorized number of directors may be fixed or changed within a range of five to 25 either by the board or at an annual meeting by the affirmative vote of holders of a majority of the voting power of Middlefield shares represented at the meeting. The number of Middlefield directors is currently fixed at nine. Under Emerald Bank s constitution, the authorized number of directors may be fixed or changed within a range of six to 12 by shareholders at a meeting called for that purpose. In addition, Emerald Bank s board of directors may fix or change the number of directors within the range of six to 12 by the affirmative vote of two thirds of the directors, but the directors may not change by more than two the director number last fixed by shareholders. With the director appointed by the board after the May 3, 2006 annual meeting of Emerald Bank shareholders, the board of Emerald Bank currently consists of six directors. The term of the director appointed by the board after the 2006 annual meeting is scheduled to expire at the 2007 annual meeting.

Each Middlefield share is entitled to one vote on all matters submitted to shareholders for consideration. Likewise, each Emerald Bank share is entitled to one vote on each matter submitted to Emerald Bank shareholders for consideration, with the exception that cumulative voting in the election or removal of directors is permitted in Emerald Bank s case only. Directors of each of Middlefield and Emerald Bank are elected by plurality vote, meaning the director nominees receiving the greatest number of votes are elected. In contrast to Emerald Bank, Middlefield directors may be elected by shareholders at annual meetings only. And in contrast to Middlefield, Emerald Bank s governing documents do not eliminate cumulative voting rights. Emerald Bank shareholders therefore are entitled to vote cumulatively in the election or removal of directors, provided the cumulative voting right is properly invoked by a shareholder or shareholders according to procedures stated in the Ohio General Corporation Law. Rather than casting one vote for each share held, cumulative voting allows a shareholder to cast a number of votes in the election of directors equal to the number of shares held multiplied by the number of directors to be elected. The number of votes the shareholder is entitled to cast may be distributed among director candidates as the shareholder sees fit.

Classification of the board and director terms

An Ohio corporation s articles of incorporation or regulations may provide for the classification of directors into either two or three classes, but each class must consist of at least three directors and none of the classes may have a term exceeding three years. If there are two classes only, the maximum term of each class is two years rather than three so that a class of directors stands for election each year. Middlefield s board is divided into three classes of three directors serving three-year terms, whereas Emerald Bank s board is divided into two classes of three directors serving two-year terms.

Nomination of directors

Middlefield s regulations and Emerald Bank s constitution each impose restrictions on shareholders power to nominate individuals for election as director. Nominations that are not made in accordance with these provisions may be disregarded. In each company s case a shareholder s director nomination must be in writing and it must include -

- the name and address of each proposed nominee,
- the principal occupation of the nominee,
- the name and residence address of the shareholder making the nomination, and
- the number of shares beneficially owned by the shareholder.

Middlefield s regulations also require the shareholder making the director nomination to affirm that he or she will appear in person or by proxy at the annual meeting to nominate his or her director candidate. Additionally, the shareholder must provide the nominee s signed consent to serving as a Middlefield director, along with any other information about the nominee required by the proxy statement disclosure rules of the Securities and Exchange Commission. If the shareholder s director nomination is made as the result of an arrangement or understanding between or among the shareholder making the director nomination, the director nominee, and any other person, the arrangement or understanding must also be disclosed to Middlefield by the shareholder. Shareholder nominations must be received by Middlefield s Secretary at least 60 but no more than 120 days before the date in the current year corresponding to the mailing date of Middlefield s proxy statement in the preceding year. But if the current year s annual meeting date is changed by more than 30 days from the preceding year s annual meeting date, the shareholder s director nomination will be considered timely if it is received by the Secretary a reasonable time no fewer than 30 days before Middlefield mails its proxy statement for the current year s annual meeting. Middlefield s 2007 annual meeting of shareholders is scheduled to be held on May 9, 2007. Middlefield s proxy statement for that meeting is expected to be mailed to shareholders on or about April 2, 2007.

Director nominations by Emerald Bank shareholders must be delivered or mailed to Emerald Bank s President at least 14 days but no more than 50 days before the shareholder meeting at which directors are to be elected. If notice of the meeting is mailed or disclosed to shareholders fewer than 21 days before the meeting date however, shareholder nominations must be received by the close of business on the 7^{th} day after notice is mailed.

Board vacancies

Consistent with the Ohio General Corporation Law, Middlefield s regulations provide that the remaining directors may fill any board vacancy by majority vote, including a vacancy created by a director s death, resignation, or removal or by expansion of the board s size or a vacancy that exists because shareholders fail to elect the whole authorized number of directors. Emerald Bank s constitution grants to its board a similar power to fill vacancies.

Removal of directors

In contrast to Emerald Bank, Middlefield s shareholders may remove a director solely for cause, both because (*x*) Middlefield s regulations explicitly require that cause be established and because (*y*) a provision of the Ohio Control Share Acquisition Statute discussed below provides that directors of a so-called issuing public corporation may be removed by shareholders solely for cause if the board of directors is classified. Middlefield s board is classified into three classes serving three-year terms and Middlefield is an issuing public corporation, as that term is defined in the Ohio Control Share Acquisition Statute.

Emerald Bank shareholders, on the other hand, may remove a director without assigning cause. Emerald Bank shareholders may remove any director by the affirmative vote of the holders of shares entitled to exercise at least 66% of the voting power for election of a director or directors in place of the director or directors to be removed. But to prevent shareholders right to vote cumulatively in the election of directors from being undermined by a vote to remove a director or directors, the Ohio General Corporation Law provides that a proposal to remove a director of a corporation whose shareholders have cumulative voting rights is defeated if the votes cast against removal would if cumulatively voted at an election of all directors or all of the directors of a particular class be sufficient to elect at least one director. This special protection of shareholders cumulative voting rights would not apply, however, if the proposal is to remove all of the directors or all of the directors of a particular class.

Shareholder meetings

Under Middlefield s regulations, a special meeting may be called by the Chairman of the Board, by the President, by the board acting at a meeting, by a majority of directors acting without a meeting, or by shareholders holding at least 25% of Middlefield s shares. The request for a special meeting must be in writing delivered to the President or the corporate Secretary and it must state the purpose for which the meeting is to be held. Similarly, Emerald Bank s constitution provides that a special meeting may be called by the Chairman of the Board, by a Vice Chairman, by the President, by the board acting at a meeting, by a majority of directors acting without a meeting, or by shareholders holding at least 25% of Emerald Bank s shares.

In contrast to Emerald Bank, Middlefield s regulations contain in Article I, section 8 detailed rules governing the conduct of business at a meeting, whether the meeting is an annual or special meeting. Among other things, these rules affirm the presiding officer s authority to determine who, other than shareholders, may attend the meeting and the presiding officer s authority to control the conduct of the meeting, including the authority to remove a disruptive shareholder. Article I, section 8 also outlines the procedure to be followed by a shareholder who wishes to propose business for consideration and vote at a meeting.

If a shareholder fails to adhere to the Article I, section 8 procedures for presenting business for shareholders consideration and vote, the shareholder s proposed action will not be considered. Specifically, the shareholder must give timely notice, meaning the shareholder s notice must be received by Middlefield s Secretary at least 60 but no more than 120 days before the date in the current year corresponding to the date of mailing of Middlefield s proxy statement in the preceding year. But if the current year s annual meeting date is changed by more than 30 days from the preceding year s annual meeting date, the shareholder s notice will be considered timely if it is received by the Secretary a reasonable time no fewer than 30 days before Middlefield mails its proxy statement for the current year s annual meeting. Identical deadlines apply to shareholders director nominations. The shareholder s notice also must include -

- a description in reasonable detail of the business being proposed by the shareholder and the reasons for conducting that business at the meeting,
- the name and address of the shareholder making the proposal (and of the beneficial owner, if any, on whose behalf the proposal is made),
- the number of Middlefield shares owned beneficially and of record by the shareholder (and by the beneficial owner, if any, on whose behalf the proposal is made), and
- any material interest of the shareholder (and the beneficial owner, if any, on whose behalf the proposal is made) in the business being proposed.

Article I, section 8 prevents business being proposed for shareholders consideration without advance disclosure and sufficient opportunity to consider the matter, for example business proposed for the first time during a meeting. The procedures of Article I, section 8 have no impact on a shareholder s ability to submit proposals for consideration and vote in reliance on Securities and Exchange Commission Rule 14a-8, a rule outlining (*x*) the procedures a shareholder of a public company such as Middlefield must adhere to if the shareholder seeks to force the company to include the shareholder s proposal in the company s proxy statement and (*y*) the circumstances in which the company may refuse to include the shareholder s proposal in the company s proxy statement.

Special voting requirements

The articles of incorporation of each of Middlefield and Emerald Bank contain special voting provisions that could have the effect of preventing, delaying, or making more costly a change in control not first approved by the board. Similar to the Ohio Merger Moratorium Act discussed below, Article Sixth of Middlefield s articles of incorporation applies to two-step acquisition transactions involving acquisition of a significant ownership interest in a first step at one price, followed by use of that ownership position to acquire the remaining ownership interest at a lower price in a second step. Article Sixth imposes a special voting requirement for approval of a business combination involving Middlefield and any person or entity that owns 10% or more of Middlefield s shares, referred to in Article Sixth as an interested party. Specifically, the special voting requirement is approval of (*x*) two thirds of the Middlefield shares outstanding and entitled to vote and (*y*) a majority of shares other than those held by the interested party. A business combination is any of the following transactions -

- a merger or consolidation involving Middlefield,
- a sale, lease, mortgage, pledge, transfer or other disposition of all or substantially all of Middlefield s assets,
- a reclassification of securities (including a reverse stock split) or recapitalization of Middlefield,
- issuance or transfer by Middlefield of 5% or more of the Middlefield s outstanding shares to a corporation, person or other entity, or
- adoption of a plan for liquidation or dissolution of Middlefield.

Article Sixth exists to prevent a person or entity that has accumulated a significant percentage interest in Middlefield (10% or more) from using that ownership interest to its advantage at the expense of other shareholders. The special voting requirements of Article Sixth do not apply if (*x*) the transaction is approved by the board before or at the same time the person or entity becomes the owner of 10% or more of Middlefield s shares, or (*y*) if the board approves the transaction by a vote of two thirds of its members and a majority of the so-called continuing directors, and if the per share price to be paid in the transaction by the interested party is an amount in cash equal to or greater than the highest price paid by the interested party for its shares. A continuing director is one who was a director before the interested party had become the owner of 4% of Middlefield s shares. A person recommended by a majority of continuing directors to succeed a continuing director would also be considered a continuing director. Article Sixth creates incentive for an acquiror to negotiate the terms of an acquisition directly with the board before the acquiror becomes a significant shareholder. Bypassing board approval can have adverse consequences, such as a higher shareholder approval threshold, a requirement to pay a higher price than the acquiror might otherwise be willing to pay, potential resistance by the board, greater potential for delays, and potentially higher transaction costs.

The special voting requirements of Article Sixth would not apply to a merger or similar transaction with a party that is not a so-called interested party. Instead, the only shareholder vote required for a merger or similar transaction with someone other than an interested party is the shareholder vote if any required by the Ohio General Corporation Law. In some cases the required vote is two thirds of all issued and outstanding shares, for example in the case of a proposed merger. Approval of a majority of shares not held by the party to the transaction could also be required in other cases if the Ohio Control Share Acquisition Act discussed below applies. And in other cases no shareholder vote is necessary under the Ohio General Corporation Law. For example, the Ohio General Corporation Law generally does not require a shareholder vote for issuance of a small percentage of shares (5%, for example) or for a merger in which the corporation is the surviving entity (provided the surviving corporation does not issue or transfer to the other party in the merger shares representing one-sixth or more of the voting power in the election of the surviving corporation s directors).

Emerald Bank s articles of incorporation provide that, unless at least two-thirds of the authorized number of directors recommends approval, the affirmative vote of the holders of Emerald Bank shares entitling them to exercise at least 66% of the voting power of Emerald Bank is required to approve -

- an amendment of the articles of incorporation, - a proposal to fix or change the number of directors by action of the shareholders,
- an agreement of merger or consolidation providing for the merger or consolidation of Emerald Bank with another corporation,
- a proposed combination or majority share acquisition involving the issuance of Emerald Bank shares and requiring shareholder approval, or
- a proposal to sell, lease, or exchange all or substantially all of Emerald Bank s property and assets.

If at least two-thirds of the authorized number of Emerald Bank directors recommends approval of these actions, however, the shareholder vote required for approval is instead the affirmative vote of holders of Emerald Bank shares entitling them to exercise a majority of the voting power of Emerald Bank. The merger of Emerald Bank into Middlefield s new interim bank subsidiary EB Interim Bank was approved and recommended by at least two-thirds of the authorized number of Emerald Bank directors. Therefore, approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the voting power of Emerald Bank under Emerald Bank s articles of incorporation.

Amendment of articles of incorporation

An Ohio corporation s articles of incorporation may be amended by the affirmative vote of two thirds of the shares entitled to vote on the proposal. However, the corporation s articles of incorporation may instead impose a different approval threshold, but never less than a majority of the shares entitled to vote. Middlefield s articles of incorporation permit amendment by a majority of the voting power, except that Article Sixth alone may be amended solely by adherence to the special voting requirements discussed above. And as discussed above, the Emerald Bank articles of incorporation may be amended solely by the affirmative vote of at least 66% of the voting power, but if at least two thirds of the authorized number of directors recommends the amendment the articles of incorporation may be amended by the affirmative vote of a mere majority of the voting power.

Amendment of regulations

By the affirmative vote of a majority of shares entitled to vote, shareholders of an Ohio corporation may amend the regulations or adopt revised regulations (or constitution in the case of a savings bank). Shareholders may amend the regulations without a meeting by the affirmative vote of the holders of two thirds of the shares entitled to vote on the proposal. An Ohio corporation s articles of incorporation or regulations may change the required shareholder vote but may not allow approval by less than a majority of the voting power. Emerald Bank s constitution provides for amendment consistent with these provisions of the Ohio General Corporation Law: by the affirmative vote of shareholders entitled to exercise a majority of the voting power for amendments considered at a meeting or by written consent of two thirds of the shareholders without a meeting. In contrast, Middlefield s articles of incorporation provide that Middlefield s regulations may be amended by the affirmative vote of shareholders entitled to exercise a majority of the voting power if and only if the board first approves the amendment. Otherwise, the affirmative vote of shareholders entitled to exercise two thirds of the voting power is necessary.

Corporate action without a shareholder meeting

The Ohio General Corporation Law allows a corporation s shareholders to act by written consent without a meeting unless the corporation s articles of incorporation or regulations prohibit action by shareholders without a meeting. In most cases action by written consent without a meeting is not valid unless it is unanimous written consent of all shareholders, but in the case of amendment of a corporation s regulations (or constitution in the case of a savings bank), written consent of two thirds of the shareholders is sufficient. Neither Middlefield s nor Emerald Bank s governing documents alter this right, and Emerald Bank s constitution explicitly allows action by written consent without a meeting. As a publicly owned corporation, it is impractical for Middlefield s shareholders to act by written consent without a meeting. Actions requiring approval by Middlefield s shareholders are submitted to shareholders for their consideration and vote at annual and special meetings.

43

Indemnification of directors and officers

Middlefield s regulations provide that Middlefield must to the full extent allowed by law indemnify its directors, officers, employees, and agents for liabilities arising out of their service to Middlefield. The indemnification provided by Middlefield s regulations is not exclusive of any other rights to which a person seeking indemnification may be entitled. Middlefield has also entered into Middlefield indemnification agreements with its directors and executive officers. The indemnification agreements allow the directors and officers to select the most favorable indemnification rights provided under (1) Middlefield s articles of incorporation and regulations in effect on the date of the indemnification agreement or on the date expenses are incurred, (2) state law in effect on the date of the indemnification agreement or on the date expenses are incurred, (3) any liability insurance policy in effect when a claim is made or on the date expenses are incurred, and (4) any other indemnification arrangement otherwise available. The agreements cover all fees, expenses, judgments, fines, penalties, and settlement amounts paid in any matter relating to the director s or officer s role as Middlefield s director, officer, employee, agent or when serving as Middlefield s representative with another entity. Each indemnification agreement provides for the prompt advancement of all expenses incurred, subject to the obligation to repay those advances if the director or officer is later determined to be not entitled to indemnification. Finally, Middlefield has purchased and maintains liability coverage for the benefit of its directors and officers as well. The directors and officers liability insurance covers liabilities arising out of their service to Middlefield, potentially including liabilities for which indemnification would not be allowed.

Emerald Bank s constitution provides that Emerald Bank will indemnify any present or former director or officer against expenses (including attorneys fees, filing fees, court reporters fees and transcript costs), judgments, fines and amounts paid in settlement by reason of the fact that the individual is or was a director, officer, employee or agent of Emerald Bank or was serving at the request of Emerald Bank in a similar capacity with another entity. Emerald Bank will also pay expenses incurred in defending any action, suit, or proceeding in advance if the individual first agrees in writing to repay the amounts advanced if the individual ultimately is not entitled to indemnification by Emerald Bank. To receive indemnification, the individual must have acted in good faith and in a manner he or she reasonably believed to be in Emerald Bank s best interests. For criminal matters, the individual must have had no reasonable cause to believe his or her conduct was unlawful. Although a person claiming indemnification is presumed to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to Emerald Bank s best interests and, for criminal matters, is presumed to have had no reasonable cause to believe his or her conduct was unlawful, Emerald Bank will make any indemnification only upon a determination that the individual has satisfied the applicable standard of conduct. The determination may be made -

- by a majority vote of a quorum of disinterested directors,
- if a quorum is not obtainable or if a majority of a quorum of disinterested directors so directs, in a written opinion by independent legal counsel,
- by the shareholders, or
- by the Court of Common Pleas of Franklin County, Ohio or the court, if any, in which the action is brought.

Emerald Bank will not indemnify a present or former director or officer of Emerald Bank who was a party to any completed action or suit instituted by or in the right of Emerald Bank for any matter asserted in the action as to which the individual is adjudged to be liable for acting with reckless disregard for the best interests of Emerald Bank or misconduct, other than negligence, in the performance of the individual s duty to Emerald Bank. If, however, the Court of Common Pleas of Franklin County, Ohio or the court in which the action is brought determines that the individual is fairly and reasonably entitled to indemnity, Emerald Bank must indemnify the individual to the extent permitted by the court.

The indemnification provided by Emerald Bank s constitution is not exclusive of any other rights to which a person seeking indemnification may be entitled. Additionally, Emerald Bank has purchased and maintains liability coverage for the benefit of its directors and officers. The directors and officers liability insurance covers liabilities arising out of their service to Emerald Bank, potentially including liabilities for which indemnification would not be allowed.

Middlefield has agreed in section 6.10 of the merger agreement to indemnify and advance the legal expenses of the directors and officers of Emerald Bank for actions or omissions occurring on or before the date the merger occurs, including acts or omissions associated with approval of the merger agreement and completion of the merger, to the fullest extent that Emerald Bank is permitted to indemnify and advance expenses of its directors and officers under Ohio law and Emerald Bank s articles of incorporation and constitution. Additionally, for three years after the merger occurs Middlefield must maintain directors and officers liability insurance reimbursing the current and former officers and directors of Emerald Bank for claims against them arising from facts or events occurring before the merger is completed. However, Middlefield is not required to expend more than 150% of the amount expended by Emerald Bank to maintain or procure its current directors and officers liability policy.

44

Table of Contents

Personal liability of directors

A director will not be considered to have violated his or her fiduciary duties to the corporation or its shareholders under the Ohio General Corporation Law unless it is proved by clear and convincing evidence that the director did not act (*x*) in good faith, (*y*) in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, or (*z*) with the care that an ordinarily prudent person in a like position would have used under similar circumstances. Additionally, a director is personally liable if and only if it is proved by clear and convincing evidence that the director s act or omission occurred with deliberate intent to cause injury to the corporation or with reckless disregard for the corporation s best interests. A corporation s articles of incorporation or regulations may make this limited liability provision inapplicable by reference to the relevant provision of the Ohio General Corporation Law, specifically section 1701.59(D), but neither Middlefield s articles of incorporation or regulations nor Emerald Bank s articles of incorporation or constitution make this provision inapplicable. Under limited circumstances stated in section 1701.95 of the Ohio General Corporation Law however, a director of an Ohio corporation can be absolutely liable to the corporation, for example if the director votes in favor of an illegal dividend.

Changes in control

A number of provisions within the governing documents of each of Middlefield and Emerald Bank could have the effect of preventing, delaying, or making more costly a change in control, whether the change in control is undertaken by a tender offer, a proxy contest, open-market purchases, or otherwise in a transaction not first approved by the board of directors. The provisions of Middlefield s governing documents having an anti-takeover impact could discourage altogether a takeover attempt that is not first approved by Middlefield s board of directors, even though individual shareholders might consider a takeover to be in shareholders best interests and even though a takeover might involve payment of a substantial premium to shareholders over the prevailing stock price. Accordingly, shareholders who wish to benefit from a takeover or takeover attempt might not have the opportunity to do so. These provisions of Middlefield s governing document will also make removal of Middlefield s directors and management more difficult. Provisions in Middlefield s articles of incorporation and regulations that are intended to reduce Middlefield s vulnerability to takeover attempts that are not first negotiated with and approved by the board of directors, and that could have an anti-takeover impact include these -

- Middlefield s board of directors may issue additional authorized shares of Middlefield s common stock to deter future attempts to gain control of Middlefield,

- the classification of Middlefield s board into three classes serving staggered terms of three years each is intended to provide for board continuity and to make it more difficult and time consuming for a shareholder group to fully use its voting power to gain control of the board without the consent of Middlefield s incumbent board of directors,

- Middlefield s articles of incorporation do not allow for cumulative voting. Multiplying a shareholder s voting power in the election of directors and allowing the shareholder to distribute votes among candidates as the shareholder chooses, cumulative voting can be used by minority shareholders to gain representation on a board,

- Middlefield s regulations provide that shareholders may elect directors at annual meetings only,

- the regulations also impose procedural requirements shareholders must adhere to for the purpose of proposing business for shareholders consideration and vote at a meeting or nominating director candidates,

- Middlefield s regulations cannot be amended unless two thirds of Middlefield s shares are voted in favor of amendment, but a mere majority may approve an amendment that is first approved by Middlefield s board of directors,

- special voting requirements apply under Article Sixth of Middlefield s articles of incorporation to business combinations involving holders of 10% or more of Middlefield s shares.

Provisions of Ohio law could also impede attempts to gain control of Middlefield. Enacted as the result of numerous changes in corporate control accomplished in the 1980s by tender offer and other means, such as hostile tender offers not first approved by the acquired company s board of directors and contested director elections, the Ohio Control Share Acquisition Statute and the Ohio Merger Moratorium Statute could make a change in control of an Ohio corporation difficult even if the change in control is desired by the holders of a majority of the corporation s shares. These statutes give shareholders of Ohio corporations voting power over change-in-control transactions that historically were not required to be submitted to shareholders for approval, create incentives for acquirors to negotiate changes in control in advance with an Ohio corporation s board of directors, and impede a hostile acquiror s ability to exercise its voting power without regard to the interests of other shareholders.

Ohio Control Share Acquisition Statute. Known as the Ohio Control Share Acquisition Statute, section 1701.831 of the Ohio Revised Code requires specified notice and informational filings and special shareholder meetings and voting procedures before a proposed control share acquisition may occur. The term control share acquisition means an acquisition of shares of a so-called issuing public corporation that would entitle the acquirer, directly or indirectly, alone or with others, to exercise or direct the voting power of the issuing public corporation in the election of directors within any of the following ranges

- one-fifth or more but less than one-third of the voting power,
- one-third or more but less than a majority of the voting power, or
- a mere majority or more of the voting power.

The term issuing public corporation is defined in the statute as an Ohio corporation with 50 or more shareholders that has its principal place of business, principal executive offices, or substantial assets within the State of Ohio. Assuming the party proposing a control share acquisition complies with the notice and information filing requirements of the statute, the proposed control share acquisition may occur if at a duly convened special meeting of shareholders the acquisition is approved by both

- a majority of the voting power of the corporation represented in person or by proxy at the meeting, and
- a majority of the voting power of shareholders other than -
  - the acquiring shareholder,
  - officers of the corporation elected or appointed by the directors of the corporation,
  - employees of the corporation who are also directors of the corporation, and
  - persons who acquire specified amounts of shares after the first public disclosure of the proposed control share acquisition.

The Ohio Control Share Acquisition Statute does not apply to a corporation whose articles of incorporation or regulations declare that the statute shall not apply. Neither Middlefield s nor Emerald Bank s governing documents provide that the statute shall not apply. In other words, the statute could apply to Middlefield and to Emerald Bank because both corporations are issuing public corporations as defined by the statute. The proposed merger of Emerald Bank into EB Interim Bank is not a control share acquisition and the statute therefore does not apply to this proposed merger transaction.

Ohio Merger Moratorium Statute. Known as the Ohio Merger Moratorium Statute, Chapter 1704 of the Ohio Revised Code prohibits specified business combinations and transactions between an issuing public corporation and a beneficial owner of shares representing 10% or more of the voting power of the corporation in the election of directors. The specified business combination transactions are prohibited for at least three years after the person becomes a 10% owner, unless the issuing public corporation s board of directors approves either the business combination transaction itself or the acquisition resulting in the person becoming a 10% owner. Board approval must, however, occur before the person becomes a 10% owner. For three years after the person becomes a 10% owner the following transactions between the corporation and the 10% owner are prohibited -

- mergers and similar transactions,
- the purchase, lease, sale, or other transaction involving corporate assets with a fair market value exceeding thresholds specified in the statute,
- the issuance or transfer of shares or any rights to acquire shares having a fair market value at least equal to 5% of the aggregate fair market value of the corporation s outstanding shares,
- a voluntary dissolution,
- a transaction increasing the 10% owner s proportionate ownership of the corporation, and
- other transactions providing to the 10% owner a benefit that is not shared proportionately by all shareholders.

After the three-year period, transactions between the corporation and the 10% owner are permitted if (*x*) the transaction is approved by the holders of shares with at least two-thirds of the voting power of the corporation in the election of directors and by a majority of the outstanding shares other than those of the 10% owner or (*y*) the business combination results in shareholders other than the interested shareholder receiving the fair market value for their shares, with fair market value being determined according to the method specified in the statute.

The Ohio Merger Moratorium Statute does not apply to Emerald Bank because the statute applies solely to issuing public corporations that have equity securities registered and that are required to file reports under the Securities Exchange Act of 1934. The statute also would not apply in the case of an issuing public corporation that does have securities registered under the Securities Exchange Act of 1934 if the corporation s articles of incorporation provide that the statute shall not apply. However, Middlefield s articles of incorporation do not provide that the statute shall not apply. In other words, the statute could apply to a business combination transaction involving Middlefield because Middlefield is an issuing public corporation and it is required to file reports under the Securities Exchange Act of 1934.

Other provisions of Ohio law. Section 1701.59(E) of the Ohio General Corporation Law explicitly allows an Ohio corporation s board to consider constituencies other than shareholders, for example in the board s deliberations about a potential change in control. The board may consider the social, legal, and economic consequences of a change in control on employees and customers and on the communities served by the corporation, in addition to considering the long-term and short-term interests of shareholders.

Table of Contents

Under the anti-greenmail provision of Ohio securities law section 1707.043, a public corporation formed in Ohio may recover profits a shareholder makes from sale of the corporation s securities within 18 months after making a proposal to acquire control or publicly disclosing the possibility of a proposal to acquire control. The corporation may not, however, recover from a person who proves either -

- that his sole purpose in making the proposal was to succeed in acquiring control of the corporation and there were reasonable grounds to believe that he would acquire control of the corporation, or

- that his purpose was not to increase any profit or decrease any loss in the stock.

Also, the corporation may not obtain any recovery unless the aggregate amount of the profit realized by the shareholder exceeds $250,000. Any other shareholder may bring an action on behalf of the corporation if the corporation refuses to bring an action to recover these profits. The party bringing an action may recover attorneys fees if the court having jurisdiction over the action orders recovery of profits. An Ohio corporation may elect not to be covered by the anti-greenmail statute with an appropriate amendment of its articles of incorporation or regulations. Middlefield has taken and intends to take no action to opt out of the anti-greenmail statute s coverage.

Change in Control of Ohio Savings Banks and Holding Companies. Section 1161.78 of the Ohio Revised Code and regulations of the Ohio Division of Financial Institutions prohibit a person from acquiring 25% or more of an Ohio savings bank s or savings bank holding company s voting power unless (*x*) the person gives notice of the acquisition at least 60 days in advance to the Ohio Division of Financial Institutions and (*y*) the Division of Financial Institutions does not disapprove the acquisition. Advance notice to and non-objection of the Ohio Division of Financial Institutions is also required if a person s voting power constitutes presumed control. That is, a person is presumed to control an Ohio savings bank or holding company if the person owns or has the power to vote 10% or more of any class of voting securities and either the savings bank or holding company has a class of securities registered under section 12 of the Securities Exchange Act of 1934 or no other person owns or has the power to vote a greater percentage of that class of voting securities. Similar requirements for advance notice to and non-objection from regulatory authorities apply under the Federal Deposit Insurance Act and FDIC regulations to acquisitions of control of Ohio-chartered savings banks.

Information about Emerald Bank

Emerald Bank s business

Established on June 1, 2004, Emerald Bank is an Ohio state-chartered savings bank headquartered in Dublin, Ohio. Emerald Bank does not have a parent company or subsidiaries. At December 31, 2006, Emerald Bank had total assets of $41.2 million and total shareholders equity of approximately $5.2 million. For the year ended December 31, 2006 Emerald Bank s return on average assets was (2.2)% and return on average equity was (12.1)%. Emerald Bank s common shares are not publicly traded on an exchange.

Selected financial data of Emerald Bank

The following table sets forth selected financial data of Emerald Bank.

	As of and for the year ended December 31, 2006	As of and for the year ended December 31, 2005	For the Seven Months Ended December 31, 2004 *
	In thousands (000 s), except for per share data and ratios		
Balance Sheet Data ($):			
Total assets	$ 41,175	$ 21,398	$ 9,313
Loans, net of unearned income	34,073	18,606	2,525
Allowance for credit losses	341	183	25

Deposits	32,837	12,052	2,625
Debt and FHLB advances	3,250	3,250	0
Total shareholders equity	5,213	5,861	6,644
Income Statement Data ($):			
Interest income	1,811	660	125
Interest expense	1,119	273	10
Net interest income	692	387	115

47

	As of and for the year ended December 31, 2006	2005	For the Seven Months Ended December 31, 2004 *
	In thousands (000 s), except for per share data and ratios		
Provision for credit losses	173	157	25
Net interest income after provision for credit losses	519	230	90
Non-interest income	87	51	0
Non-interest expense	1,282	1,063	773
Income (loss) before income taxes	(676)	(782)	(683)
Income taxes	0	0	0
Net income (loss)	(676)	(782)	(683)
Per Share Data:			
Basic net income	$ (0.92)	$ (1.07)	$ (0.93)
Cash dividends declared	0.00	0.00	0.00
Book value at period end	7.12	8.00	9.07
Weighted average number of shares outstanding Basic	732,689	732,689	732,689
Significant Financial Ratios:			
Return on average assets	-2.20%	-5.26%	-14.02%
Return on average shareholders equity	-12.05%	-12.50%	-17.62%
Net interest margin	2.25%	2.61%	2.36%
Total loans to total deposits	104.00%	154.00%	96.41%
Allowance for credit losses to period ending loans	1.00%	0.98%	1.00%
Allowance for credit losses to total non-performing loans	227.00%	2033.00%	N/A
Net charge-offs to period ending loans	0.04%	0.00%	0.00%
Tier 1 Leverage Capital	12.50%	27.39%	71.34%

* The bank s operations began on June 1, 2004. Operating results displayed represent only seven months of operations. Return on average assets, return on average shareholders equity, and net interest margin for the period ended December 31, 2004 have been annualized for comparative purposes. The remainder of the data for the period have not been annualized.

Information about Middlefield Banc Corp.

Middlefield s business

Incorporated in 1988 under the Ohio General Corporation Law, Middlefield is a one-bank holding company registered under the Bank Holding Company Act of 1956. Its sole subsidiary is The Middlefield Banking Company. Middlefield s business currently is limited to acting as holding company for the bank and Middlefield s principal source of income and funds is earnings of and dividends paid by The Middlefield Banking Company. Middlefield s principal executive offices are located at 15985 East High Street, Middlefield, Ohio 44062-0035, telephone number is (440) 632-1666.

The Middlefield Banking Company was chartered under Ohio law in 1901. Engaged in a general commercial banking business in northeastern Ohio, the bank offers commercial banking services principally to small and medium-sized businesses, professionals and small business owners, and retail customers. The bank offers a broad range of banking services, including checking, savings, and negotiable order of withdrawal (NOW) accounts, money market accounts, time certificates of deposit, safe deposit facilities, and travelers checks. The bank offers online banking and bill payment services to individuals and online cash management services to business customers through its website at *www.middlefieldbank.com*. The bank s 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 mortgage and commercial mortgage loans, and consumer installment loans to purchase automobiles, boats, and for home improvement and other personal expenditures. The Middlefield Banking Company s market area consists principally of Geauga, Portage, Trumbull, and Ashtabula Counties.

Loan portfolio composition. The Middlefield Banking Company s loan policy aspires to a loan composition mix consisting of approximately 60% to 70% residential real estate loans, 35% to 40% commercial loans, consumer loans of 5% to 15%, and credit card accounts of up to 5%. Although Ohio bank law imposes no material restrictions on the kinds of loans The Middlefield Banking Company may make, real estate-based lending has historically been the bank s primary focus. For prudential reasons, the bank avoids lending on the security of real estate located in regions with which the bank is not familiar, and as a consequence almost all of the bank s real-estate secured loans are secured by real property in northeastern Ohio. Ohio bank law does restrict the amount of loans an Ohio-chartered bank such as The Middlefield Banking Company may make, however, providing generally that loans and extensions of credit to any one borrower may not exceed 15% of capital. An additional margin of 10% of capital is allowed for loans fully secured by readily marketable collateral. This 15% legal lending limit has not been a material restriction on The Middlefield Banking Company s lending. The Middlefield Banking Company can accommodate loan volumes exceeding the legal lending limit by selling loan participations to other banks. The Middlefield Banking Company s internal policy is to maintain its credit exposure to any one borrower at less than $3.0 million, which is comfortably within the range of the bank s legal lending limit. As of September 30, 2006 the bank s 15%-of-capital limit on loans to a single borrower was approximately $4.67 million.

The bank offers specialized loans for business and commercial customers, including equipment and inventory financing, real estate construction loans, and Small Business Administration loans for qualified businesses. A substantial portion of the bank s commercial loans are designated as real estate loans for regulatory reporting purposes because they are secured by mortgages on real property. Loans of that type may be made for purpose of financing commercial activities, such as accounts receivable, equipment purchases and leasing, but they are secured by real estate to provide the bank with an extra measure of security. Although these loans might be secured in whole or in part by real estate, they are treated in the discussions to follow as commercial and industrial loans. The bank s consumer installment loans include secured and unsecured loans to individual borrowers for a variety of purposes, including personal, home improvements, revolving credit lines, autos, boats, and recreational vehicles.

Table of Contents

The following table shows the composition of the loan portfolio in dollar amounts and in percentages, along with a reconciliation to loans receivable, net.

	At September 30,		At December 31,								
	2006		2005		2004		2003		2002		20
ousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
:											
and	$ 66,841	27.30%	$ 65,252	27.88%	$ 52,148	24.18%	$ 42,063	21.81%	$ 32,916	18.82%	$ 28,313
	3,687	1.51%	2,725	1.16%	3,144	1.46%	3,434	1.78%	3,207	1.83%	3,200
	159,933	65.32%	151,866	64.88%	147,425	68.36%	134,007	69.48%	123,844	70.79%	113,049
	8,759	3.58%	8,208	3.51%	7,027	3.26%	7,866	4.08%	9,521	5.44%	3,388
stallment	5,632	2.30%	6,004	2.57%	5,909	2.74%	5,510	2.85%	5,455	3.12%	4,878
	244,852	100.00%	234,055	100%	215,653	100%	192,880	100%	174,943	100%	152,828
or loan	3,049		2,841		2,623		2,521		2,300		2,062
	$ 241,803		$ 231,214		$ 213,030		$ 190,359		$ 172,643		$ 150,766
a percent s	74.25%		74.29%		73.15%		72.55%		76.31%		76.20

50

Table of Contents

The following table presents maturity information for the loan portfolio at December 31, 2005. The table does not include prepayments or scheduled principal repayments. All loans are shown as maturing based on contractual maturities.

	Loan portfolio maturity at December 31, 2005					
(dollars in thousands)	Commercial and industrial	Real estate construction	Mortgage Residential	Mortgage Commercial	Consumer installment	Total
Amount due:						
In one year or less *	$ 16,581	$ 1,299	$ 46,564	$ 1,325	$ 2,181	$ 67,950
After one year through five years	32,363	534	77,950	2,583	3,288	116,718
After five years	16,308	892	27,352	4,300	535	49,387
Total amount due	$ 65,252	$ 2,725	$ 151,866	$ 8,208	$ 6,004	$ 234,055

* Loans due on demand and overdrafts are included in the amount due in one year or less. The Middlefield Banking Company has no loans without a stated schedule of repayment or a stated maturity.

The following table shows the dollar amount of all loans due after December 31, 2005 that have pre-determined interest rates and the dollar amount of all loans due after December 31, 2005 that have floating or adjustable rates.

(dollars in thousands)	Fixed rates	Adjustable rates	Total
Commercial and industrial	$ 23,104	$ 25,567	$ 48,671
Real estate construction	595	831	1,426
Mortgage:			
Residential	26,707	78,595	105,302
Commercial	5,446	1,437	6,883
Consumer installment	3,823	0	3,823
Total	$ 59,675	$ 106,430	$ 166,105

Residential mortgage loans. A significant portion of the bank s lending consists of origination of conventional loans secured by 1-4 family real estate located in Geauga, Portage, Trumbull, and Ashtabula Counties, accounting for approximately $159.93 million or 65.32% of the bank s total loan portfolio at September 30, 2006. The bank makes loans of up to 80% of the value of the real estate and improvements securing a loan (the loan-to-value or LTV ratio) on 1-4 family real estate. The bank generally does not lend in excess of 80% of the appraised value or sales price (whichever is less) of the property unless additional collateral is obtained, thereby lowering the total LTV. The bank offers residential real estate loans with terms of up to 30 years. Before 1996, nearly all residential mortgage loans originated by the bank were written on a balloon-note basis. During 1996, the bank began to originate fixed-rate mortgage loans for maturities up to 20 years. In late 1998, the bank began originating adjustable-rate mortgage loans and de-emphasized balloon-note mortgages. Approximately 66.85% of the portfolio of conventional mortgage loans secured by 1-4 family real estate at September 30, 2006 was adjustable rate. The bank s mortgage loans are ordinarily retained in the loan portfolio. The bank s residential mortgage loans have not been originated with loan documentation that would permit their sale to Fannie Mae and Freddie Mac. The bank s home equity loan policy generally allows for a loan of up to 85% of a property s appraised value, less the principal balance of the outstanding first mortgage loan. The bank s home equity loans generally have terms of ten years. At September 30, 2006, residential mortgage loans of approximately $710,000 were over 90 days delinquent or nonaccruing on that date, representing 0.44% of the residential mortgage loan portfolio.

Commercial and commercial real estate loans. The bank s commercial loan services include -

-	accounts receivable, inventory and	-	short-term notes
-	working capital loans	-	selected guaranteed or subsidized loan programs for small businesses
-	renewable operating lines of credit	-	loans to professionals
-	loans to finance capital equipment	-	commercial real estate loans
-	term business loans		

Commercial real estate loans include commercial properties occupied by the proprietor of the business conducted on the premises, and income-producing or farm properties. Although the bank makes agricultural loans, it currently does not have a significant amount of agricultural loans. One of the primary risks of commercial real estate loans is loss of income of the owner or occupier of the property and the inability of the market to sustain rent levels. Although commercial and commercial real estate loans generally bear somewhat more risk than single-family residential mortgage loans, commercial and commercial real estate loans tend to be higher yielding, tend to have shorter terms, and commonly provide for interest-rate adjustments as prevailing rates change.

Accordingly, commercial and commercial real estate loans enhance a lender s interest rate risk management and, in management s opinion, promote more rapid asset and income growth than a loan portfolio comprised strictly of residential real estate mortgage loans.

One of the primary risks associated with commercial loans is the possibility that the commercial borrower will not generate income sufficient to repay the loan. The bank s loan policy provides that commercial loan applications must be supported by documentation indicating that there will be cash flow sufficient for the borrower to service the proposed loan. Financial statements or tax returns for at least three years must be submitted, and annual reviews are undertaken for loans of $200,000 or more. The fair market value of collateral for collateralized commercial loans must exceed the bank s loan exposure. For this purpose fair market value is determined by independent appraisal or by the loan officer s estimate employing guidelines established by the loan policy. Term loans not secured by real estate generally have terms of five years or less, unless guaranteed by the U.S. Small Business Administration or other governmental agency, and terms loans secured by collateral having a useful life exceeding five years may have longer terms. The bank s loan policy allows for terms of up to 15 years for loans secured by commercial real estate, and one year for business lines of credit. The maximum loan-to-value ratio for commercial real estate loans is 75% of the appraised value or cost, whichever is less.

Real estate is commonly a material component of collateral for the bank s loans, including commercial loans. Although the expected source of repayment of these loans is generally the operations of the borrower s business or personal income, real estate collateral provides an additional measure of security. Risks associated with loans secured by real estate include fluctuating land values, changing local economic conditions, changes in tax policies, and a concentration of loans within a limited geographic area.

Commercial and commercial real estate loans totaled $75.60 million at September 30, 2006, or 30.88% of the bank s total loan portfolio. At September 30, 2006 commercial and commercial real estate loans of approximately $947,000 were over 90 days delinquent or non-accruing on that date, representing 1.25% of the commercial and commercial real estate loan portfolios.

Real estate construction. The Middlefield Banking Company originates several different types of loans that it categorizes as construction loans, including

- residential construction loans to borrowers who will occupy the premises upon completion of construction,
- residential construction loans to builders,
- commercial construction loans, and
- real estate acquisition and development loans.

Because of the complex nature of construction lending, these loans are generally recognized as having a higher degree of risk than other forms of real estate lending. The bank s fixed-rate and adjustable-rate construction loans do not provide for the same interest rate terms on the construction loan and on the permanent mortgage loan that follows completion of the construction phase of the loan. It is the norm for the bank to make residential construction loans without an existing written commitment for permanent financing. The bank s loan policy provides that the bank may make construction loans with terms of up to one year, with a maximum loan-to-value ratio for residential construction of 80%.

At September 30, 2006, real estate construction loans totaled $3.69 million, or 1.50% of the bank s total loan portfolio. There were no real estate construction loans with outstanding balances more than 90 days delinquent or nonaccruing.

Consumer installment loans. The bank s consumer installment loans include secured and unsecured loans to individual borrowers for a variety of purposes, including personal, home improvement, revolving credit lines, autos, boats, and recreational vehicles. The bank does not currently engage in indirect lending. Unsecured consumer loans have significantly higher interest rates than secured loans. The bank maintains a higher loan loss allowance for consumer loans, while maintaining strict credit guidelines when considering consumer loan applications. According to the bank s loan policy, consumer loans secured by collateral other than real estate generally may have terms of up to five years, and unsecured consumer loans may have terms up to two and one-half years. Real estate security generally is required for consumer loans having terms exceeding five years. The bank had approximately $5.63 million in its consumer installment loan portfolio at September 30, 2006, representing 2.30% of total loans. Consumer installment loans of approximately $20,000 were over 90 days delinquent or nonaccruing on that date, representing 0.35% of the installment loan portfolio.

Loan solicitation and processing. Loan originations are developed from a number of sources, including continuing business with depositors, other borrowers and real estate builders, solicitations by bank personnel and walk-in customers. When a loan request is made, the bank reviews the application, credit bureau reports, property appraisals or evaluations, financial information, verifications of income, and other documentation concerning the creditworthiness of the borrower, as applicable to each loan type. The bank s underwriting guidelines are set by senior management and approved by the board. The loan policy specifies each individual officer s loan approval authority. Loans exceeding an individual officer s approval authority are submitted to a committee consisting of loan officers, which has authority to approve loans up to $250,000. The full board acts as a loan committee for loans exceeding that amount.

Income from lending activities. The bank earns interest and fee income from its lending activities. Net of origination costs, loan origination fees are amortized over the life of a loan. The bank also receives loan fees related to existing loans, including late charges. Income from loan origination and commitment fees and discounts varies with the volume and type of loans and commitments made and with competitive and economic conditions.

Nonperforming loans. Late charges on residential mortgages and consumer loans are assessed if a payment is not received by the due date plus a grace period. When an advanced stage of delinquency exists on a single-family loan and if repayment cannot be expected within a reasonable time or a repayment agreement is not entered into, a required notice of foreclosure or repossession proceedings may be prepared by the bank s attorney and delivered to the borrower so that foreclosure proceedings may be initiated promptly, if necessary. The bank also collects late charges on commercial loans. When the bank acquires real estate through foreclosure, voluntary deed, or similar means, it is classified as other real estate owned until it is sold. When property is acquired in this manner, it is recorded at the lower of cost (the unpaid principal balance at the date of acquisition) or fair value. Any subsequent write-down is charged to expense. All costs incurred from the date of acquisition to maintain the property are expensed. Other real estate owned is appraised during the foreclosure process, before acquisition. Losses are recognized for the amount by which the book value of the related mortgage loan exceeds the estimated net realizable value of the property.

The bank undertakes regular review of the loan portfolio to assess its risks, particularly the risks associated with the commercial loan portfolio. This includes annual review of every commercial loan representing credit exposure of $150,000 or more. An independent firm performs semi-annual loan reviews for the bank.

Classified Assets. FDIC regulations governing classification of assets require nonmember commercial banks to classify their own assets and to establish appropriate general and specific allowances for losses, subject to FDIC review. The regulations are designed to encourage management to evaluate assets on a case-by-case basis, discouraging automatic classifications. Under this classification system, problem assets of insured institutions are classified as substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses make collection of principal in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the bank to risk sufficient to warrant classification in one of the above categories, but that possess some weakness, are required to be designated special mention by management.

When an insured institution classifies assets as either substandard or doubtful, it may establish allowances for loan losses in an amount deemed prudent by management. When an insured institution classifies assets as loss, it is required either to establish an allowance for losses equal to 100% of that portion of the assets so classified or to charge off that amount. An FDIC-insured institution s determination about classification of its assets and the amount of its allowances is subject to review by the FDIC, which may order the establishment of additional loss allowances. Management also employs an independent third party to semi-annually review and validate the internal loan review process and loan classifications. The bank s classified assets are as follows.

	Classified assets at December 31,									
	2005		**2004**		**2003**		**2002**		**2001**	
(dollars in thousands)	**Amount**	**Percent of total loans**	**Amount**	**Percent of total loans**	**Amount**	**Percent of total loans**	**Amount**	**Percent of total loans**	**Amount**	**Percent of total loans**
Classified loans:										
Special mention	$ 6,567	2.81%	$ 4,094	1.90%	$ 2,876	1.49%	$ 4,713	2.69%	$ 4,254	2.78%

Substandard	2,020	0.86%	3,097	1.44%	1,920	1.00%	1,285	0.74%	2,067	1.35%
Doubtful	0	0.00%	163	0.08%	199	0.10%	280	0.16%	290	0.19%
Loss	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total	$ 8,587	3.67%	$ 7,354	3.42%	$ 4,995	2.59%	$ 6,278	3.59%	$ 6,611	4.32%

Table of Contents

	Classified assets at September 30,			
	2006		2005	
(dollars in thousands)	Amount	Percent of total loans	Amount	Percent of total loans
Classified loans:				
Special mention	$ 7,075	2.89%	$ 5,711	2.53%
Substandard	2,052	0.84%	2,248	1.00%
Doubtful	0	0.00%	0	0.00%
Loss	0	0.00%	0	0.00%
Total	$ 9,127	3.73%	$ 7,959	3.41%

Investments. Investment securities provide a return on residual funds after lending activities. Investments may be in federal funds sold, corporate securities, U.S. Government and agency obligations, state and local government obligations and government-guaranteed, mortgage-backed securities. The bank generally does not invest in securities that are rated less than investment grade by a nationally recognized statistical rating organization. Ohio bank law prescribes the kinds of investments an Ohio-chartered bank may make. Permitted investments include local, state, and federal government securities, mortgage-backed securities, and securities of federal government agencies. An Ohio-chartered bank also may invest up to 10% of its assets in corporate debt and equity securities, or a higher percentage in certain circumstances. Similar to the legal lending limit on loans to any one borrower, Ohio bank law also limits to 15% of capital the amount an Ohio-chartered bank may invest in the securities of any one issuer, other than local, state, and federal government and federal government agency issuers and mortgage-backed securities issuers. These Ohio bank law provisions have not been a material constraint upon the bank s investment activities.

All securities-related activity is reported to the bank s board of directors. General changes in investment strategy are required to be reviewed and approved by the board. Senior management can purchase and sell securities in accordance with the bank s stated investment policy. Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the bank has the ability at the time of purchase to hold a security until maturity or on a long-term basis, the security is classified as held-to-maturity and is reflected on the balance sheet at historical cost. Securities to be held for indefinite periods and not intended to be held to maturity or on a long-term basis are classified as available-for-sale. Available-for-sale securities are reflected on the balance sheet at their market value. The following tables set forth the amortized cost and estimated market value of the bank s investment portfolio at the dates indicated.

	Investment portfolio amortized cost and estimated value at September 30, 2006			
(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available for Sale:				
U.S. Government agency securities	$ 7,255	$ 3	$ (118)	$ 7,140
Obligations of states and political subdivisions:				
Taxable	749	0	(22)	727
Tax-exempt	29,217	232	(190)	29,259
Corporate securities	0	0	0	0
Mortgage-backed securities	17,805	0	(557)	17,248

Equity securities		694		1		(44)		651
Total	$	55,720	$	236	$	(931)	$	55,025
Held to Maturity:								
U.S. Government agency securities	$	0	$	0	$	0	$	0
Obligations of states and political subdivisions:								
Taxable		0		0		0		0
Tax-exempt		216		10		0		226
Corporate securities		0		0		0		0
Mortgage-backed securities		0		0		0		0
Total	$	216	$	10	$	0	$	226
Total Investment Securities	$	55,936	$	246	$	(931)	$	55,251

Table of Contents

	Investment portfolio amortized cost and estimated value at December 31,											
	2005				2004				2003			
(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available for Sale:												
U.S. Government agency securities	$ 7,261	$ 10	$ (112)	$ 7,159	$ 5,273	$ 71	$ (18)	$ 5,326	$ 6,062	$ 133	$ (18)	$ 6,177
Obligations of states and political subdivisions:												
Taxable	748	0	(23)	725	748	0	(11)	737	210	6	0	216
Tax-exempt	28,231	98	(331)	27,998	21,239	303	(66)	21,477	14,564	325	(48)	14,841
Corporate securities	0	0	0	0	0	0	0	0	350	9	0	359
Mortgage-backed securities	22,229	16	(640)	21,605	29,625	81	(403)	29,302	28,591	112	(329)	28,374
Equity securities	444	1	(45)	400	399	0	0	399	0	0	0	0
Total	$ 58,913	$ 125	$ (1,151)	$ 57,887	$ 57,284	$ 455	$ (498)	$ 57,241	$ 49,777	$ 585	$ (395)	$ 49,967
Held to Maturity:												
U.S. Government agency securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Obligations of states and political subdivisions:												
Taxable	0	0	0	0	0	0	0	0	0	0	0	0
Tax-exempt	221	12	0	233	221	22	0	244	945	18	0	963
Corporate securities	0	0	0	0	0	0	0	0	914	38	0	952
Mortgage-backed securities	0	0	0	0	0	0	0	0	0	0	0	0
Total	$ 221	$ 12	$ 0	$ 233	$ 221	$ 22	$ 0	$ 244	$ 1,859	$ 56	$ 0	$ 1,915
Total Investment Securities	$ 59,134	$ 137	$ (1,151)	$ 58,120	$ 57,505	$ 477	$ (498)	$ 57,485	$ 51,636	$ 641	$ (395)	$ 51,882

Table of Contents

The contractual maturity of investment securities at September 30, 2006 is shown below. Expected maturities of investment securities could differ from contractual maturities because the borrower, or issuer, could have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2006										
	One year or less		More than one to five years		More than five to ten years		More than ten years		Total investment securities and mortgage-backed securities		
	Amortized cost	Average yield	Amortized cost	Average yield	Amortized cost	Average yield	Amortized cost	Average yield	Amortized cost	Average yield	Market value
U.S. Government agency	$ 0	0.00%	$ 2,767	5.20%	$ 4,487	4.60%	$ 0	0.00%	$ 7,254	4.83%	$ 7,141
Obligations of states and political subdivisions:											
Taxable	0	0.00%	749	3.83%	0	0.00%	0	0.00%	749	3.83%	727
Tax-exempt	6,871	3.48%	7,747	3.76%	5,526	3.96%	9,073	4.35%	29,217	3.92%	29,260
Mortgage-backed securities	0	0.00%	163	4.92%	1,266	4.28%	16,538	4.57%	17,967	4.55%	17,395
Total	$ 6,871	3.48%	$ 11,426	4.19%	$ 11,279	4.40%	$ 25,611	4.61%	$ 55,187	4.48%	$ 54,523

As of September 30, 2006 the bank also held 14,858 shares of $100 par value Federal Home Loan Bank of Cincinnati stock, which is a restricted security. FHLB stock represents an equity interest in the FHLB, but it does not have a readily determinable market value. The stock can be sold at its par value only and solely to the FHLB or to another member institution. Member institutions are required to maintain a minimum stock investment in the FHLB, based on total assets, total mortgages, and total mortgage-backed securities. The bank s minimum investment in FHLB stock at September 30, 2006 was approximately $465,420.

Deposit accounts. Deposit accounts are a major source of funds for the bank. The bank offers a number of deposit products to attract both commercial and regular consumer checking and savings customers, including regular and money market savings accounts, NOW accounts, and a variety of fixed-maturity, fixed-rate certificates with maturities ranging from seven days to 60 months. These accounts earn interest at rates established by management based on competitive market factors and management s desire to increase certain types or maturities of deposit liabilities. The bank also provides travelers checks, official checks, money orders, ATM services, and IRA accounts. The following table shows the amount of time deposits of $100,000 or more as of September 30, 2006, including certificates of deposit, by time remaining until maturity.

	Maturity of time deposits of $100,000 or more at September 30, 2006	
Time remaining to maturity	**Amount**	**Percent of total**
Within three months	$ 3,970,602	12.73%
Beyond three but within six months	4,776,924	15.32%
Beyond six but within twelve months	10,853,608	34.81%

Beyond one year	11,580,064	37.14%
Total	$ 31,181,198	100.00%

Borrowings. Deposits and repayment of loan principal are the bank s primary sources of funds for lending activities and other general business purposes. However, when the supply of lendable funds or funds available for general business purposes cannot satisfy the demand for loans or general business purposes, the bank can obtain funds from the FHLB of Cincinnati. Interest and principal are payable monthly. The line of credit is secured by a blanket pledge collateral agreement. At September 30, 2006, the bank had $28.69 million of FHLB borrowings outstanding. Middlefield also has access to credit through the Federal Reserve Bank of Cleveland and other funding sources. The outstanding balances and related information about short-term borrowings, which includes securities sold under agreements to repurchase are summarized as follows.

	2005	**2004**	**2003**
Balance at year end	$6,710,914	$1,871,763	$ 444,819
Average balance outstanding	1,844,018	298,500	726,874
Maximum month-end balance	6,710,914	2,057,054	2,327,544
Weighted average rate at year end	4.38%	3.80%	0.23%
Weighted average rate during the year	5.63%	0.73%	0.56%

Personnel. As of December 31, 2006 Middlefield and the bank had 80 full-time equivalent employees. None of the employees is represented by a collective bargaining group. Management considers its relations with employees to be excellent.

Table of Contents

Supervision and regulation

The following discussion of bank supervision and regulation is qualified in its entirety by reference to the statutory and regulatory provisions discussed. Changes in applicable law or in the policies of various regulatory authorities could affect materially the business and prospects of Middlefield and the bank.

Middlefield is a bank holding company within the meaning of the Bank Holding Company Act of 1956. As such, Middlefield is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System. Middlefield is required to file annual reports and other information with the Federal Reserve. The Middlefield Banking Company is an Ohio-chartered commercial bank. As a state-chartered, nonmember bank, the bank is primarily regulated by the FDIC and by the Ohio Division of Financial Institutions. Federal and state banking laws governing Middlefield and its bank subsidiary are intended to protect depositors, not stockholders. Federal and state laws applicable to holding companies and their financial institution subsidiaries regulate the range of permissible business activities, investments, reserves against deposits, capital levels, lending activities and practices, the nature and amount of collateral for loans, establishment of branches, mergers, dividends, and a variety of other important matters. The bank is subject to detailed, complex, and sometimes overlapping federal and state statutes and regulations affecting routine banking operations. These statutes and regulations include but are not limited to state usury and consumer credit laws, the Truth-in-Lending Act and Regulation Z, the Equal Credit Opportunity Act and Regulation B, the Fair Credit Reporting Act, the Truth in Savings Act, and the Community Reinvestment Act. The bank must comply with Federal Reserve Board regulations requiring depository institutions to maintain reserves against their transaction accounts (principally NOW and regular checking accounts). Because required reserves are commonly maintained in the form of vault cash or in a noninterest-bearing account (or pass-through account) at a Federal Reserve Bank, the effect of the reserve requirement is to reduce an institution s earning assets. The Federal Deposit Insurance Corporation Improvement Act of 1991 expanded significantly the authority of federal agencies to regulate the activities of federally chartered and state-chartered financial institutions and their holding companies. The Federal Reserve Board and the FDIC have extensive authority to prevent and to remedy unsafe and unsound practices and violations of applicable laws and regulations by institutions and holding companies. The agencies may assess civil money penalties, issue cease-and-desist or removal orders, seek injunctions, and publicly disclose those actions. In addition, the Ohio Division of Financial Institutions possesses enforcement powers to address violations of Ohio banking law by Ohio-chartered banks.

Bank and bank holding company acquisitions. The Bank Holding Company Act requires every bank holding company to obtain approval of the Federal Reserve before -

- directly or indirectly acquiring ownership or control of any voting shares of another bank or bank holding company, if after the acquisition the acquiring company would own or control more than 5% of the shares of the other bank or bank holding company (unless the acquiring company already owns or controls a majority of the shares),
- acquiring all or substantially all of the assets of another bank, or
- merging or consolidating with another bank holding company.

The Federal Reserve will not approve an acquisition, merger, or consolidation that would have a substantially anticompetitive result, unless the anticompetitive effects of the proposed transaction are clearly outweighed by a greater public interest in satisfying the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial factors in its review of acquisitions and mergers.

Additionally, the Bank Holding Company Act, the Change in Bank Control Act, and the Federal Reserve Board s Regulation Y require advance approval of the Federal Reserve to acquire control of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of a class of voting securities of the bank holding company. If the holding company has securities registered under Section 12 of the Securities Exchange Act of 1934, as Middlefield does, or if no other person owns a greater percentage of the class of voting securities, control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities. Approval of the Ohio Division of Financial Institutions is also necessary to acquire control of an

Ohio-chartered bank.

Nonbanking activities. With some exceptions, the Bank Holding Company Act has for many years prohibited a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve non-bank activities that, by statute or by Federal Reserve Board regulation or order, are held to be closely related to the business of banking or of managing or controlling banks. In making its determination that a particular activity is closely related to the business of banking, the Federal Reserve considers whether the performance of the activities by a bank holding company can be expected to produce benefits to the public such as greater convenience, increased competition, or gains in efficiency in resources that will outweigh the risks of possible adverse effects such as decreased or unfair competition, conflicts of interest, or unsound banking practices. Some of the activities determined by Federal Reserve Board regulation to be closely related to the business of banking are making or servicing loans or leases, engaging in insurance and discount brokerage activities, owning thrift institutions, performing

Table of Contents

data processing services, acting as a fiduciary or investment or financial advisor, and making investments in corporations or projects designed primarily to promote community welfare.

Financial holding companies. The Gramm-Leach-Bliley Act became law in 1999, repealing much of the 1933 Glass-Steagall Act s separation of the commercial and investment banking industries. The Gramm-Leach-Bliley Act expands the range of nonbanking activities a bank holding company may engage in, while preserving existing authority for bank holding companies to engage in activities that are closely related to banking. The new legislation creates a new category of holding company called a financial holding company. Financial holding companies may engage in any activity that is -

- financial in nature or incidental to that financial activity, or
- complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

Activities that are financial in nature include -

- acting as principal, agent, or broker for insurance,
- underwriting, dealing in, or making a market in securities, and
- providing financial and investment advice.

The Federal Reserve Board and the Secretary of the Treasury have authority to decide that other activities are also financial in nature or incidental to financial activity, taking into account changes in technology, changes in the banking marketplace, competition for banking services, and so on. A bank holding company cannot be a financial holding company unless all of the depository institution subsidiaries are well capitalized and well managed. Although Middlefield is financial holding company, it is currently engaged solely in activities that were permissible for a bank holding company before enactment of the Gramm-Leach-Bliley Act.

Holding company capital and source of strength. The Federal Reserve considers the adequacy of a bank holding company s capital on essentially the same risk-adjusted basis as capital adequacy is determined by the FDIC at the bank subsidiary level. In general, bank holding companies are required to maintain a minimum ratio of total capital to risk-weighted assets of 8% and Tier 1 capital consisting principally of stockholders equity of at least 4%. Bank holding companies are also subject to a leverage ratio requirement. The minimum required leverage ratio for the very highest rated companies is 3%, but as a practical matter the minimum required leverage ratio for most bank holding companies is 4% or higher. It is also Federal Reserve Board policy that bank holding companies serve as a source of strength for their subsidiary banking institutions.

Under Bank Holding Company Act section 5(e), the Federal Reserve Board may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary if the Federal Reserve Board determines that the activity or control constitutes a serious risk to the financial safety, soundness or stability of a subsidiary bank. And with the Federal Deposit Insurance Corporation Improvement Act of 1991 s addition of the prompt corrective action provisions to the Federal Deposit Insurance Act, section 38(f)(2)(I) of the Federal Deposit Insurance Act now provides that a federal bank regulatory authority may require a bank holding company to divest itself of an undercapitalized bank subsidiary if the agency determines that divestiture will improve the bank s financial condition and prospects.

Federal deposit insurance. The FDIC insures deposits of banks, savings banks, and savings associations, and it safeguards the safety and soundness of the banking industry. As an FDIC member institution, deposits in the bank are insured to a maximum of $100,000 per depositor. Banks are required to pay semiannual deposit insurance premium assessments to the FDIC. In general terms, each institution is assessed insurance premiums according to how much risk to the insurance fund the institution represents. The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC also may suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

Interstate banking and branching. In 1994 the Riegle-Neal Interstate Banking and Branching Efficiency Act eased restrictions on interstate banking. The Riegle-Neal Act allows the Federal Reserve to approve an application by an adequately capitalized and adequately managed bank holding company to acquire a bank located in a state other than the acquiring company s home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve may not approve acquisition of a bank that has not been in existence for the minimum time period (up to five years) specified by the statutory law of the acquired, or target, bank s state. The Riegle-Neal Act also prohibits the Federal Reserve from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank s home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state that may be held or controlled by a bank or bank holding company if the limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% statewide concentration limit contained in the Riegle-Neal Act.

Branching between states may be accomplished by merging commonly controlled banks located in different states into one legal entity. Branching may also be accomplished by establishing *de novo* branches or acquiring branches in another state. Under section 24(j) of the Federal Deposit Insurance Act, a branch of a bank operating out-of-state in a host state is subject to the law of the host state regarding community reinvestment, fair lending, consumer protection, and establishment of branches. The Riegle-Neal Act authorizes the FDIC to approve interstate branching *de novo* by state-chartered banks solely in states that specifically allow it. Ohio bank law allows *de novo* branching in Ohio by an out-of-state bank. The FDIC has adopted regulations under the Riegle-Neal Act to prohibit an out-of-state bank from using the new interstate branching authority primarily for the purpose of deposit production. These regulations include guidelines to ensure that interstate branches operated by an out-of-state bank in a host state are reasonably helping to satisfy the credit needs of the communities served by the out-of-state bank.

Risk-based capital requirements. The Federal Reserve Board and the FDIC employ similar risk-based capital guidelines in their examination and regulation of bank holding companies and financial institutions. If capital falls below the minimum levels established by the guidelines, the bank holding company or bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities. Failure to satisfy capital guidelines could subject a banking institution to a variety of enforcement actions by federal bank regulatory authorities, including the termination of deposit insurance by the FDIC and a prohibition on the acceptance of brokered deposits. In the calculation of risk-based capital, assets and off-balance sheet items are assigned to broad risk categories, each with an assigned weighting (0%, 20%, 50% and 100%). Most loans are assigned to the 100% risk category, except for first mortgage loans fully secured by residential property, which have a 50% rating. Most investment securities are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weight, and direct obligations of or obligations guaranteed by the United States Treasury or United States Government agencies, which have a 0% risk-weight. Off-balance sheet items are also taken into account in the calculation of risk-based capital, with each class of off-balance sheet item being converted to a balance sheet equivalent according to established conversion factors. From these computations the total of risk-weighted assets is derived. Risk-based capital ratios therefore state capital as a percentage of total risk-weighted assets and off-balance sheet items. The ratios established by guideline are minimums only. Current risk-based capital guidelines require bank holding companies and banks to maintain a minimum risk-based total capital ratio equal to 8% and a Tier 1 capital ratio of 4%. Intangibles other than readily marketable mortgage servicing rights are generally deducted from capital. Tier 1 capital includes stockholders equity, qualifying perpetual preferred stock (within limits and subject to conditions, particularly if the preferred stock is cumulative preferred stock), and minority interests in equity accounts of consolidated subsidiaries, less intangibles, identified losses, investments in securities subsidiaries, and certain other assets. Tier 2 capital includes -

- the allowance for loan losses, up to a maximum of 1.25% of risk-weighted assets, - any qualifying perpetual preferred stock exceeding the amount includable in Tier 1 capital,

- mandatory convertible securities, and

- subordinated debt and intermediate term preferred stock, up to 50% of Tier 1 capital.

The FDIC also employs a market risk component in its calculation of capital requirements for nonmember banks. The market risk component could require additional capital for general or specific market risk of trading portfolios of debt and equity securities and other investments or assets. The FDIC s evaluation of an institution s capital adequacy takes account of a variety of other factors as well, including interest rate risks to which the institution is subject, the level and quality of an institution s earnings, loan and investment portfolio characteristics and risks, risks arising from the conduct of nontraditional activities, and a variety of other factors. Accordingly, the FDIC s final supervisory judgment concerning an institution s capital adequacy could differ significantly from the conclusions that might be derived from the absolute level of an institution s risk-based capital ratios. Therefore, institutions generally are expected to maintain risk-based capital ratios that exceed the minimum ratios discussed above. This is particularly true for institutions contemplating significant expansion plans and institutions that are subject to high or inordinate levels of risk. Moreover, although the FDIC does not impose explicit capital requirements on holding companies of institutions regulated by the FDIC, the FDIC can take account of the degree of leverage and risks at the holding company level. If the FDIC determines that the holding company (or another affiliate of the institution regulated by the FDIC) has an excessive degree of leverage or is subject to inordinate risks, the FDIC may require the subsidiary institution(s) to maintain additional capital or the FDIC may impose limitations on the subsidiary institution s ability to support its weaker affiliates or holding company.

The banking agencies have also established a minimum leverage ratio of 3%, which represents Tier 1 capital as a percentage of total assets, less intangibles. However, for bank holding companies and financial institutions seeking to expand and for all but the most highly rated banks and bank holding companies, the banking agencies expect an additional cushion of at least 100 to 200 basis points. At September 30, 2006 The Middlefield Banking Company was in compliance with all regulatory capital requirements.

Prompt Corrective Action. To resolve the problems of undercapitalized institutions and to prevent a recurrence of the banking crisis of the 1980s and early 1990s, the Federal Deposit Insurance Corporation Improvement Act of 1991 established a system known as prompt corrective action. Under the prompt corrective action provisions and implementing regulations, every institution is classified into one of five categories, depending on its total risk-based capital ratio, its Tier 1 risk-based capital ratio, its leverage ratio, and subjective factors. The categories are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A financial institution s operations can be significantly affected by its capital classification. For example, an institution that is not well capitalized generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, and the holding company of any undercapitalized institution must guarantee, in part, aspects of the institution s capital plan. Financial institution regulatory agencies generally are required to appoint a receiver or conservator shortly after an institution enters the category of weakest capitalization. The Federal Deposit Insurance Corporation Improvement Act of 1991 also authorizes the regulatory agencies to reclassify an institution from one category into a lower category if the institution is in an unsafe or unsound condition or engaging in an unsafe or unsound practice. Undercapitalized institutions are required to take specified actions to increase their capital or otherwise decrease the risks to the federal deposit insurance funds. The following table illustrates the capital and prompt corrective action guidelines applicable to The Middlefield Banking Company as well as its total risk-based capital ratio, Tier 1 capital ratio, and leverage ratio as of September 30, 2006.

	At September 30, 2006	**Minimum necessary to be well capitalized**	**Minimum necessary to be adequately capitalized**
total risk-based capital	14.67%	10.00%	8.00%
tier 1 risk-based capital	13.43%	6.00%	4.00%
leverage ratio	9.42%	5.00%	3.00%

Limits on dividends and other payments. Middlefield s ability to obtain funds for the payment of cash dividends and for other cash requirements depends on the amount of dividends that may be paid to it by its subsidiary bank. Under Ohio bank law, an Ohio-chartered bank may not pay a cash dividend if the amount of the dividend exceeds undivided profits, which is defined in Ohio bank law to mean the cumulative undistributed amount of the bank s net income. But with the approval of two thirds of the outstanding shares and approval of the superintendent of the Division of Financial Institutions, an Ohio-chartered bank may pay cash dividends from surplus. Lastly, approval of the superintendent is also required if the total of all cash dividends and distributions declared on the bank s shares in any year exceeds the total of the bank s net income for the year plus retained net income for the two preceding years.

State-chartered banks ability to pay dividends may be affected by capital maintenance requirements of their primary federal bank regulatory agency as well. Moreover, regulatory authorities may prohibit banks and bank holding companies from paying dividends if payment of dividends would constitute an unsafe and unsound banking practice. A 1985 policy statement of the Federal Reserve Board declares that a bank holding company should not pay cash dividends on common stock unless the organization s net income for the past year is sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the organization s capital needs, asset quality, and overall financial condition.

Transactions with affiliates. Although The Middlefield Banking Company is not a member bank of the Federal Reserve System, it is required by the Federal Deposit Insurance Act to comply with section 23A and section 23B of the Federal Reserve Act pertaining to transactions with affiliates as if it were a member bank. These statutes are intended to protect banks from abuse in financial transactions with affiliates, preventing federally insured deposits from being diverted to support the activities of unregulated entities engaged in nonbanking businesses. An affiliate of a bank includes any company or entity that controls or is under common control with the bank. Generally, section 23A and section 23B of the Federal Reserve Act -

- limit the extent to which a bank or its subsidiaries may lend to or engage in various other kinds of transactions with any one affiliate to an amount equal to 10% of the institution s capital and surplus, limiting the aggregate of covered transactions with all affiliates to 20% of capital and surplus,

- impose restrictions on investments by a subsidiary bank in the stock or securities of its holding company,

- impose restrictions on the use of a holding company s stock as collateral for loans by the subsidiary bank, and

- require that affiliate transactions be on terms substantially the same, or at least as favorable to the institution or subsidiary, as those provided to a non-affiliate.

The bank s authority to extend credit to insiders meaning executive officers, directors and greater than 10% stockholders or to entities those persons control, is subject to section 22(g) and section 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these laws require insider loans to be made on terms substantially similar to those offered to unaffiliated individuals, place limits on the amount of loans a bank may make to insiders based in part on the bank s capital position, and require that specified approval procedures be adhered to. Loans to an individual insider may not exceed the legal limit on loans to any one borrower, which in general terms is 15% of capital but can be higher in some circumstances. And the aggregate of all loans to all insiders may not exceed the bank s unimpaired capital and surplus. Insider loans exceeding the greater of 5% of capital or $25,000 must be approved in advance by a majority of the board, with any interested director not participating in the voting. Lastly, loans to executive officers are subject to special limitations. Executive officers may borrow in unlimited amounts to finance their children s education or to finance the purchase or improvement of their residence, and they may borrow no more than $100,000 for most other purposes. Loans to executive officers exceeding $100,000 may be allowed if the loan is fully secured by government securities or a segregated deposit account. A violation of these restrictions could result in the assessment of substantial civil monetary penalties, the imposition of a cease-and-desist order or other regulatory sanctions.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977 and implementing regulations of the banking agencies, a financial institution has a continuing and affirmative obligation consistent with safe and sound operation to address the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution s discretion to develop the types of products and services it believes are best suited to its particular community. The CRA requires that bank regulatory agencies conduct regular CRA examinations and provide written evaluations of institutions CRA performance. The CRA also requires that an institution s CRA performance rating be made public. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. Although CRA examinations occur on a regular basis, CRA performance evaluations have been used principally in the evaluation of regulatory applications submitted by an institution. CRA performance evaluations are considered in evaluating applications for such things as mergers, acquisitions, and applications to open branches. Following a CRA examination as of September 19, 2005, The Middlefield Banking Company received a rating of Outstanding.

Sarbanes-Oxley Act of 2002. On July 30, 2002 the Sarbanes-Oxley Act of 2002 became law. The goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures made under the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC under the Securities Exchange Act of 1934. The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules and requires the SEC, securities exchanges, and Nasdaq to adopt extensive additional disclosure, corporate governance, and other related rules. The Sarbanes-Oxley Act has had an impact on a wide variety of corporate governance and disclosure issues, including the composition of audit committees, certification of financial statements by the chief executive officer and the chief financial officer, forfeiture of bonuses and profits made by directors and senior officers in the 12-month period covered by restated financial statements, a prohibition on insider trading during pension plan black-out periods, disclosure of off-balance sheet transactions, a prohibition on personal loans to directors and officers (excluding Federally insured financial institutions), expedited filing requirements for stock transaction reports by officers and directors, the formation of a public accounting oversight board, auditor independence, and various increased criminal penalties for violations of securities laws.

State banking regulation. As an Ohio-chartered bank, The Middlefield Banking Company is subject to regular examination by the Ohio Division of Financial Institutions. State banking regulation affects the internal organization of the bank as well as its savings, lending, investment, and other activities. State banking regulation may contain limitations on an institution s activities that are in addition to limitations imposed under federal banking law. The Ohio Division of Financial Institutions may initiate supervisory measures or formal enforcement actions, and if the grounds provided by law exist it may take possession and control of an Ohio-chartered bank.

Monetary policy. The earnings of financial institutions are affected by the policies of regulatory authorities, including monetary policy of the Federal Reserve Board. An important function of the Federal Reserve System is regulation of aggregate national credit and money supply. The Federal Reserve Board accomplishes these goals with measures such as open market transactions in securities, establishment of the discount rate on bank borrowings, and changes in reserve requirements against bank deposits. These methods are used in varying combinations to influence overall growth and distribution of financial institutions loans, investments and deposits, and they also affect interest rates charged on loans or paid on deposits. Monetary policy is influenced by many factors, including inflation, unemployment, short-term and long-term changes in the international trade balance, and fiscal policies of the United States government. Federal Reserve Board monetary policy has had and will continue to have a significant effect on the operating results of financial institutions.

Properties

The bank s offices are

Main office: 15985 East High Street Middlefield, Geauga County, Ohio (owned)	Mantua Branch 10519 South Main Street Mantua, Portage County, Ohio (three-year lease renewed in November 2004, with option to renew for six additional consecutive three-year terms)
West Branch 15545 West High Street Middlefield, Geauga County, Ohio (owned)	Chardon Branch 348 Center Street Chardon, Geauga County, Ohio (owned)
Garrettsville Branch 8058 State Street	Orwell Branch 30 South Maple Avenue

Table of Contents

Garrettsville, Portage County, Ohio (owned)	Orwell, Ashtabula County, Ohio (owned)
Newbury Branch 11110 Kinsman Road Newbury, Geauga County, Ohio (opened December 26, 2006) (10-year lease with option to renew for four additional five-year terms)	

The Middlefield Banking Company also operates a loan production office in Cortland, Trumbull County, Ohio, which the bank expects will become a full-service banking office by the end of 2008. At September 30, 2006 the net book value of the bank s investment in premises and equipment totaled $6.57 million. The bank s electronic data processing functions are performed under contract with an electronic data processing services firm that performs services for financial institutions throughout the Midwest.

Legal proceedings

From time to time Middlefield and The Middlefield Banking Company are involved in various legal proceedings that are incidental to their business. In the opinion of management no current legal proceedings are material to the financial condition of Middlefield or the bank, either individually or in the aggregate.

Selected financial data of Middlefield

The summary financial information to follow is not a substitute for Middlefield s historical financial information and other detailed financial information we provide elsewhere in this prospectus/proxy statement. You should read the summary financial information together with the historical financial information and other detailed financial information we provide. We derived the financial data for the years ended December 31, 2001 through December 31, 2005 from Middlefield s audited financial statements for the fiscal years ended December 31, 2001 through 2005. The interim financial data at September 30, 2005 and 2006 and for the nine months ended September 30, 2005 and 2006 are derived from the unaudited financial statements of Middlefield for the quarter ended September 30, 2006, included in this prospectus/proxy statement. Middlefield believes that the unaudited interim financial date reflect all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation of results of operations for those periods and financial position at those dates. The results of operations for the nine-month period ended September 30, 2006 are not necessarily indicative of the operating results for the fiscal year ended December 31, 2006.

	As of and for the nine months ended September 30,		As of and for the year ended December 31,				
	2006	**2005**	**2005**	**2004**	**2003**	**2002**	**2001**
Income Statement Data							
Interest income	$ 14,327,027	$ 12,817,987	$ 17,378,504	$ 15,732,536	$ 14,647,163	$ 14,119,963	$ 13,706,569
Interest expense	6,129,689	4,840,076	6,654,614	5,768,898	5,724,907	6,148,086	6,747,922
Net interest income	8,197,338	7,977,911	10,723,890	9,963,638	8,922,256	7,971,877	6,958,647
Provision for loan losses	240,000	195,000	302,000	174,000	315,000	300,000	170,000

Net interest income after provision for loan losses	7,957,338	7,782,911	10,421,890	9,789,638	8,607,256	7,671,877	6,788,647
Noninterest income, including securities gains (losses)	1,788,583	1,566,894	2,119,237	1,779,231	1,428,144	1,143,217	1,194,193
Noninterest expense	5,976,168	5,741,520	7,424,640	6,965,706	6,105,450	5,206,339	4,741,374
Income before income taxes	3,769,753	3,608,285	5,116,487	4,603,163	3,929,950	3,608,755	3,241,466
Income taxes	1,033,587	1,001,000	1,415,156	1,330,000	1,131,330	1,107,806	970,859
Net income	$ 2,736,166	$ 2,607,285	$ 3,701,331	$ 3,273,163	$ 2,798,620	$ 2,500,949	$ 2,270,607
Balance Sheet Data							
Loans, net	241,802,547	223,113,217	231,213,699	213,029,852	190,358,883	172,642,646	150,766,103
Total deposits	264,705,898	248,166,687	249,449,640	239,885,451	219,839,910	187,384,494	167,382,728
FHLB advances	28,690,292	27,242,436	26,578,211	23,683,324	17,665,661	15,690,053	9,301,334
Total stockholders equity	29,567,232	26,685,796	27,289,365	24,822,024	23,504,314	21,746,408	19,786,807
Total assets	325,674,611	305,321,644	311,214,191	291,213,986	262,369,448	226,245,533	197,857,964
Per Common Share Data (1)							
Basic net income	$ 1.93	$ 1.86	$ 2.64	$ 2.28	$ 1.98	$ 1.77	$ 1.61

	As of and for the nine months ended September 30,		As of and for the year ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
Diluted net income	1.90	1.83	2.60	2.27	1.96	1.75	1.59
Book value	20.74	18.83	19.25	17.67	16.49	15.35	13.93
Weighted Average Number of Shares							
Basic	1,421,768	1,410,629	1,407,598	1,428,908	1,417,316	1,406,789	1,410,459
Diluted	1,444,915	1,432,093	1,428,765	1,441,845	1,421,197	1,409,097	1,411,921
Selected Ratios							
Return on average equity	12.98%	13.81%	14.43%	13.36%	12.39%	12.08%	11.89%
Return on average assets	1.16%	1.16%	1.23%	1.17%	1.13%	1.17%	1.22%
Dividend payout ratio	34.98%	33.17%	32.10%	32.72%	34.37%	34.30%	34.00%
Efficiency ratio (2)	58.99%	60.15%	54.17%	57.83%	56.42%	55.24%	60.13%
Asset Quality Ratios							
Reserve for loan losses to ending total loans	1.25%	1.21%	1.21%	1.22%	1.31%	1.31%	1.35%
Net loan charge-offs to average loans	0.01%	0.03%	0.04%	0.04%	0.05%	0.04%	0.10%
Capital Ratios							
Tier 1 leverage ratio (3)	9.42%	8.75%	9.10%	8.52%	8.89%	9.39%	10.03%
Tier 1 risk-based capital ratio (3)	13.43%	12.89%	13.16%	13.01%	14.48%	15.29%	16.48%
Total risk-based capital ratio (3)	14.67%	14.15%	14.41%	14.26%	15.74%	16.54%	17.73%

(1) Per share amounts are adjusted for 5% stock dividends paid in each year in the period from 2002 through 2006

(2) Efficiency ratio is noninterest expense divided by the sum of net interest income plus noninterest income minus nonrecurring items.

(3) Computed in accordance with

Federal Reserve Board and FDIC guidelines.

In the opinion of Middlefield s management, the quarterly financial data to follow include all normal recurring adjustments necessary to state fairly the information presented. Certain amounts previously reported may have been reclassified to conform with current presentation.

	Three Months Ended		
	March 31, 2006	**June 30, 2006**	**September 30, 2006**
Total interest income	$ 4,560,636	$ 4,790,313	$ 4,976,078
Total interest expense	1,874,659	2,037,549	2,217,481
Net interest income	2,685,977	2,752,764	2,758,597
Provision for loan losses	75,000	75,000	90,000
Net interest income after provision for loan losses	2,610,977	2,677,764	2,668,597
Total noninterest income	550,326	594,655	643,602
Total noninterest expense	2,035,731	1,898,032	2,042,405
Income before income taxes	1,125,572	1,374,387	1,269,794
Income taxes	308,000	386,587	339,000
Net income	$ 817,572	$ 987,800	$ 930,794
Per share data *			
Net income, basic	$ 0.58	$ 0.70	$ 0.65
Net income, diluted	0.57	0.69	0.64
Average shares outstanding			
Basic	1,419,305	1,418,496	1,424,003
Diluted	1,441,845	1,441,861	1,447,454

* Per share amounts are adjusted for a 5% stock dividend paid on December 15, 2006

	Three Months Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Total interest income	$ 4,115,912	$ 4,274,683	$ 4,427,392	$ 4,560,517
Total interest expense	1,547,711	1,628,943	1,663,422	1,814,538
Net interest income	2,568,201	2,645,740	2,763,970	2,745,979
Provision for loan losses	60,000	60,000	75,000	107,000
Net interest income after provision for loan losses	2,508,201	2,585,740	2,688,970	2,638,979
Total noninterest income	481,104	526,515	559,275	552,343
Total noninterest expense	2,013,215	1,846,301	1,882,004	1,683,119
Income before income taxes	976,090	1,265,954	1,366,241	1,508,203
Income taxes	262,000	349,000	390,000	414,156
Net income	$ 714,090	$ 916,954	$ 976,241	$ 1,094,047
Per share data *				
Net income, basic	$ 0.51	$ 0.66	$ 0.70	$ 0.78
Net income, diluted	0.50	0.65	0.69	0.76
Average shares outstanding				
Basic	1,396,290	1,401,902	1,405,230	1,409,210
Diluted	1,403,805	1,424,660	1,427,987	1,430,625

* Per share amounts are adjusted for stock dividends

	Three Months Ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Total interest income	$ 3,798,928	$ 3,889,197	$ 3,978,576	$ 4,065,835
Total interest expense	1,383,071	1,411,961	1,456,471	1,517,395
Net interest income	2,415,857	2,477,236	2,522,105	2,548,440
Provision for loan losses	30,000	30,000	51,000	63,000
Net interest income after provision for loan losses	2,385,857	2,447,236	2,471,105	2,485,440
Total noninterest income	396,719	485,889	484,244	412,379

Total noninterest expense	1,781,318	1,682,607	1,803,558	1,698,223
Income before income taxes	1,001,258	1,250,518	1,151,791	1,199,596
Income taxes	316,000	342,000	330,000	342,000
Net income	$ 685,258	$ 908,518	$ 821,791	$ 857,596
Per share data *				
Net income, basic	$ 0.49	$ 0.64	$ 0.57	$ 0.60
Net income, diluted	0.49	0.64	0.57	0.59
Average shares outstanding				
Basic	1,352,863	1,424,657	1,432,201	1,430,579
Diluted	1,360,377	1,433,676	1,441,220	1,446,181

* Per share amounts are adjusted for stock dividends

Management s discussion and analysis of financial condition and results of operations

Middlefield and its subsidiary bank derive substantially all of their income from banking and bank-related services, including interest earnings on residential real estate, commercial mortgage, commercial, and consumer financings as well as interest earnings on investment securities and deposit services to its customers.

Middlefield s board of directors declared a 5% share dividend for shareholders of record on December 1, 2006 and a quarterly cash dividend of $0.24 per common share. After adjustment for the stock dividend, the fourth quarter cash dividend was 7.2% higher than the fourth quarter 2005 cash payout. A 5% stock dividend was also paid by Middlefield in the fourth quarter of 2005. Share and related price and dividend amounts discussed herein have been adjusted to reflect the stock dividends.

Financial Condition. Middlefield s total assets increased 7% from year-end 2004 to December 31, 2005 and by another 4.7% from year-end 2005 to September 30, 2006. The increase in 2005 was accounted for by a net increase in securities of $646,000, net loans receivable of $18.2 million, and bank-owned life insurance of $209,000. Middlefield s total liabilities increased 6.6% from year-end 2004 to December 31, 2005. The increase in total liabilities was primarily due to a $9.6 million increase in deposits, an increase of $4.8 million in short-term borrowings, and a $2.9 million increase in other borrowings. Loans receivable increased $10.7 million to September 30, 2006, while cash and cash equivalents increased by $5.4 million. Liabilities increased 4.3% at September 30, 2006, primarily because of deposit growth of $15.3 million and increased FHLB borrowings. Stockholders equity increased 8.4% at September 30, 2006 because of increases of $527,000 in common stock, $1.8 million in retained earnings, and $211,000 in treasury stock.

Cash on hand and interest-earning deposits. Cash on hand and interest-earning deposits were both lower at December 31, 2005 than they were at year-end 2004. Deposits from customers into savings and checking accounts, loan and security repayments, and proceeds from borrowed funds typically increase these accounts, while customer withdrawals, new loan originations, security purchases, and repayments of borrowed funds deplete them. The net decrease in 2005 is primarily attributable to increases in loans. For the nine-month period ended September 30, 2006, cash on hand, cash due from banks, and federal funds in the aggregate increased $5.4 million from year-end 2005. Customer deposits into savings and checking accounts, loan and security repayments, and proceeds from borrowings typically increase the cash on hand, cash due from banks, and federal funds accounts, while customer withdrawals, new loan originations, security purchases, and debt repayments typically reduce them. The increase for the period ended September 30, 2006 is attributable principally to increased customer deposits.

Loans receivable. The loans receivable category consists primarily of single family mortgage loans used to purchase or refinance personal residences located within Middlefield s market area and commercial real estate loans used to finance properties that are used in the borrower s businesses or to finance investor-owned rental properties, and to a lesser extent commercial and consumer loans. Net loans receivable increased 8.5% from year-end 2004 to December 31, 2005, including $13.2 million growth in commercial loans, $3.0 million growth in home equity, and $2.0 million in mortgage loans. Correspondingly, the yield on The Middlefield Banking Company s loan portfolio increased from 6.67% in 2004 to 6.75% in 2005. Loans receivable increased by 4.6% from December 31, 2005 to September 30, 2006, consisting of 5.8% growth in mortgage loans and 3.3% growth in commercial loans, offset by a $122,000 decrease in consumer loans. The average yield increased from 6.7% for the nine months ended September 30, 2005 to 7.07% for the same period ended September 30, 2006. Middlefield is currently committed to expanding the commercial loan portfolio, believing that commercial lending relationships offer more attractive returns and potentially larger deposit relationships. Commercial loan portfolios generally have greater credit risk than residential real estate loan portfolios, however.

Securities. The loan portfolio is Middlefield s largest balance sheet asset classification, followed by the securities portfolio. Middlefield s securities portfolio increased a slight 1.1% from year-end 2004 to December 31, 2005, with purchases of $13.3 million available for sale securities consisting primarily of agencies and municipal bonds offset by $11.4 million of maturities and repayments, principally relating to mortgage-backed securities. Middlefield s deposits and borrowings primarily fund the securities portfolio. The securities portfolio declined 4.9% at September 30, 2006. During the first three quarters of 2006 Middlefield recorded purchases of available-for-sale securities of $1.7 million, consisting of municipal bonds, offset by repayments and maturities of $4.0. The market value of securities increased by $318,000 at September 30, 2006. These fair value adjustments represent temporary fluctuations resulting from changes in market rates in relation to average yields in the available-for-sale portfolio. If securities are held to their maturity dates, no fair value gain or loss is realized.

Other assets. FHLB stock increased 4.7% from year-end 2004 to December 31, 2005, primarily because of the increase in the bank s total assets, which is the measure used to calculate the bank s minimum stock requirement. Bank owned life insurance (BOLI) is universal life insurance purchased by The Middlefield Banking Company on officers lives. The policies provide tax-free earnings and a tax-free death benefit, which are realized by the bank as the policy owner. BOLI increased by $209,000 from year-end 2004 to December 31, 2005 as a result of underlying insurance policy earnings. For the period ended September 30, 2006, growth in other assets, including BOLI, was $1.4 million, or 15% from December 31, 2005. The majority of this increase was due to the purchase of an additional $1.0 million of BOLI. Earnings on BOLI for the nine-month period were $178,000. Additionally, there was an increase of $230,000 in accrued interest on investment securities that was due to the timing of interest payments on obligations of states and political subdivisions.

Deposits and borrowings. Middlefield considers various sources when evaluating funding needs, including deposits and borrowings. Deposits accounted for 88.2% of The Middlefield Banking Company s total funding sources at December 31, 2005 and 90% at September 30, 2006. Total deposits increased 4% from year-end 2004 to December 31, 2005 and by another 6.1% at September 30, 2006. For the year ended December 31, 2005, noninterest-bearing demand deposits increased 9.5% and time deposits grew by 20.6%. Savings deposits and money market accounts both declined for the year, savings deposits by $12.4 million and money market accounts by $2.6 million. For the period ended September 30, 2006, 15.5% growth in certificates of deposit primarily accounts for the total deposit growth, accompanied by growth of $708,000 in non interest-bearing demand deposits, $3.3 million in interest-bearing demand deposits, and $1.8 million money market accounts, offset by a decline of 13.9% in savings accounts.

The Middlefield Banking Company uses short- and long-term borrowings as another source of funding for asset growth and liquidity needs. Borrowings primarily consist of FHLB advances and repurchase agreements. Borrowed funds increased by 30% from year-end 2004 to December 31, 2005, with FHLB advances growing by 35.5%, or $8.4 million, and repurchase agreements by $100,000. The increase in borrowed funds for the year reflects Middlefield s decision to promote asset growth. Short-term borrowings declined by 80.1% at September 30, 2006 from year-end 2005, while FHLB advances increased 8.0% to support loan growth.

Stockholders equity. Stockholders equity increased 9.9% from year-end 2004 to December 31, 2005. The increase is attributable to net income of $3.7 million, partially offset by cash dividends of $1.2 million and an increase in accumulated other comprehensive loss of $648,000. The 8.4% growth in stockholders equity from year-end 2005 to September 30, 2006 is the result of increases in common stock and retained earnings, an increase in treasury stock arising out of Middlefield s purchase of 5,747 shares at an average price of $41.51 since December 31, 2005, and a reduction in accumulated other comprehensive loss reflecting the increased mark-to-market value of the available-for-sale portfolio.

Results of Operations *Average balance sheet and yield/rate*. The tables to follow give information about the total dollar amounts of interest income from interest-earning assets and the associated average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resultant average costs, net interest income, interest rate spread, and the net interest margin earned on average interest-earning assets. For purposes of this table, average balances are calculated using monthly averages, the average loan balances include non-accrual loans and exclude the allowance for loan losses, and interest income includes accretion of net deferred loan fees. Yields on tax-exempt securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis using a federal tax rate of 34%.

	For the year ended December 31,								
	2005			2004			2003		
(dollars in thousands)	Average balance	Interest	Average yield/cost	Average balance	Interest	Average yield/cost	Average balance	Interest	Average yield/cost
Interest-earning Assets									
Loans receivable	$ 222,926	$ 15,041	6.75%	$ 204,191	$ 13,618	6.67%	$ 183,683	$ 12,847	6.99%
Investment securities	59,370	2,218	4.49%	54,413	2,004	4.25%	45,011	1,683	4.30%
Interest-bearing deposits with other banks	2,698	120	4.45%	5,723	111	1.94%	6,883	117	1.70%
Total interest-earning assets	284,994	17,379	6.21%	264,327	15,733	6.07%	235,577	14,647	6.32%

Noninterest-earning assets	16,926			15,030			12,327		
Total assets	$ 301,920			$ 279,357			247,904		
Interest-bearing Liabilities									
Interest-bearing demand deposits	$ 9,371	75	0.80%	$ 8,759	56	0.64%	8,623	61	0.71%
Money market deposits	15,016	297	1.98%	15,145	277	1.83%	13,355	259	1.94%
Savings deposits	69,680	1,047	1.50%	73,067	1,030	1.41%	57,413	828	1.44%
Certificates of deposit	115,969	4,101	3.54%	103,022	3,543	3.44%	98,512	3,758	3.81%
Borrowings	26,577	1,135	4.27%	20,630	863	4.18%	19,635	819	4.17%
Total interest-bearing liabilities	236,613	6,655	2.81%	220,623	5,769	2.61%	197,538	5,725	2.90%
Other liabilities	39,682			34,236			27,773		
Stockholders equity	25,625			24,498			22,594		

	For the year ended December 31,								
	2005			2004			2003		
(dollars in thousands)	Average balance	Interest	Average yield/cost	Average balance	Interest	Average yield/cost	Average balance	Interest	Average yield/cost
Total liabilities and stockholders equity	$ 301,920			$ 279,357			$ 247,905		
Net interest income		$ 10,724			$ 9,964			$ 8,922	
Interest rate spread (1)			3.39%			3.46%			3.42%
Net yield on interest-earning assets (2)			3.92%			3.89%			3.89%
Ratio of average interest-earning assets to average interest-bearing liabilities			120.45%			119.81%			119.26%

(1) Interest rate spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(2) Net yield on interest-earning assets is net interest income as a percentage of average interest-earning assets.

	For the nine months ended September 30,					
	2006			2005		
(dollars in thousands)	Average balance	Interest	Average yield/cost (1)	Average balance	Interest	Average yield/cost (1)
Interest-earning Assets						
Loans receivable	$ 238,285	$ 12,598	7.07%	$ 220,824	$ 11,065	6.70%

Investment securities	57,086	1,617	4.69%	59,293	1,663	4.47%
Interest-bearing deposits with other banks	3,207	112	4.67%	2,955	90	4.07%
Total interest-earning assets	298,578	14,327	6.59%	283,072	12,818	6.21%
Noninterest-earning assets	16,028			16,871		
Total assets	$ 314,606			$ 299,943		
Interest-bearing Liabilities						
Interest-bearing demand deposits	$ 10,982	100	1.22%	$ 9,370	54	0.77%
Money market deposits	13,261	257	2.59%	15,508	217	1.87%
Savings deposits	59,147	696	1.57%	71,170	779	1.46%
Certificates of deposit	131,997	4,032	4.08%	113,745	2,991	3.52%
Borrowings	30,873	1,044	4.52%	25,708	799	4.16%
Total interest-bearing liabilities	246,260	6,129	3.33%	235,501	4,840	2.75%
Noninterest-bearing liabilities						
Other liabilities	40,154			39,261		
Stockholders equity	28,192			25,181		
Total liabilities and stockholders equity	$ 314,606			$ 299,943		
Net interest income		$ 8,198			$ 7,978	
Interest rate spread (2)			3.26%			3.46%
Net yield on interest-earning assets (3)			3.84%			3.92%
Ratio of average interest-earning assets to average interest-bearing liabilities			121.25%			120.20%

(1) Average yields are computed using annualized interest income and expense

Table of Contents

(2) Interest rate spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(3) Net yield on interest-earning assets is net interest income as a percentage of average interest-earning assets.

The tables to follow show changes in The Middlefield Banking Company s interest income and interest expense in 2005 and in 2004, as well as changes in the nine-month period ended September 30, 2006 compared to the same period in 2005. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (*x*) changes in volume (changes in average volume multiplied by prior year rate), and (*y*) changes in rates (changes in rate multiplied by prior year average volume). Changes attributable to the combined impact of volume and rate are allocated on a consistent basis between the volume and rate variances. Changes in securities interest income reflect the changes in interest income on a fully tax equivalent basis.

	Year ended December 31, 2005 vs. 2004 increase (decrease) due to ...			**Year ended December 31, 2004 vs. 2003 increase (decrease) due to ...**		
(in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest Income						
Loans receivable	$ 1,249	$ 174	$ 1,423	$ 1,434	$ (663)	$ 771
Investment securities	211	3	214	404	(83)	321
Other interest-earning assets	(59)	68	9	(20)	14	(6)
Total interest-earning assets	1,401	245	1,646	1,818	(732)	1,086
Interest Expense						
Interest-bearing demand	4	15	19	11	(16)	(5)
Money market	(2)	22	20	79	(61)	18
Savings	(48)	65	17	563	(361)	202
Certificates	445	113	558	487	(702)	(215)
Other interest-bearing liabilities	249	23	272	212	(168)	44

Total interest-bearing liabilities	648	238	886	1,352	(1,308)	44
Change in net interest income	$ 753	$ 7	$ 760	$ 466	$ 576	$ 1,042

	Nine months ended September 30, 2006 vs. 2005 increase (decrease) due to ...		
(in thousands)	**Volume**	**Rate**	**Total**
Interest Income			
Loans receivable	$ 64	$ 1,469	$ 1,533
Investment securities	(5)	(41)	(46)
Other interest-earning assets	2	20	22
Total interest-earning assets	61	1,448	1,509
Interest Expense			
Interest-bearing demand	7	39	46
Money market	(16)	56	40
Savings	(13)	(70)	(83)
Certificates	104	937	1,041
Other interest-bearing liabilities	19	226	245
Total interest-bearing liabilities	100	1,189	1,289
Change in net interest income	$ (39)	$ 259	$ 220

Nine-Month Period Ended September 30, 2006 Compared to the Nine-Month Period Ended September 30, 2005. Net interest income the primary source of The Middlefield Banking Company s revenue is determined by (*x*) the bank s interest rate spread, which is defined as the difference between income on earning assets and the cost of funds supporting those assets, and (*y*) the relative amounts of interest earning assets and interest bearing liabilities. To manage and improve net interest

Table of Contents

income, management periodically adjusts the mix of assets and liabilities as well as the rates earned or paid on those assets and liabilities. The level of interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities affect Middlefield s net interest income. Differing interest rate environments, such as persistently low long-term interest rates or rapidly rising short-term interest rates, can adversely affect the bank s net interest income. Net interest income after the provision for loan losses increased by $174,000, or 2.2%, for the nine months ended September 30, 2006 compared to the same period in 2005, attributable to an increase in interest income of $1.5 million and partially offset by an increase in interest expense of $1.3 million. The increase in net interest income for the first nine months was not sufficient to prevent a slight reduction in the bank s net interest margin. The decline in the net interest margin was the result of a 58 basis point increase in the cost of interest-bearing liabilities for the nine months ended September 30, 2006, increasing to 3.33% compared to 2.75% for the same period in 2005. The increase in the cost of funds was only partially offset by a 38 basis point increase in the yield on interest earning assets, increasing to 6.59% for the nine months ended September 30, 2005 compared to 6.21% for the same period in 2005.

Interest income. Interest income, on a fully taxable equivalent basis, of $14.3 million for the nine months ended September 30, 2006 increased by $1.5 million, or 11.8%, from the same period in 2005. This increase was primarily caused by an improvement in yield on earning assets of 38 basis points to 6.59% for the 2006 period. In addition, average earning assets of $198.6 million at September 30, 2006 grew $15.5 million, or 5.5%, from the same period in 2005, driven by an increase of $17.5 million in average loans, offset by a decrease of $2.2 million in investment securities.

Interest expense. Total interest expense increased 26.6% in the first nine months of 2006 compared to the same period in 2005. Deposit account interest is the largest component of the bank s interest incurred on interest-bearing liabilities. It increased by 25.8% in the first nine months of 2006 compared to the same period in 2005, primarily attributable to increased cost of interest-bearing deposits but also attributable to growth in the average balance of interest-bearing deposits. The cost of interest-bearing deposits grew from 2.58% for the first nine months of 2005 to 3.16% for the first nine months on 2006. The average balance of interest-bearing deposits grew 2.7% in the nine months ended September 30, 2006 compared to the same period in 2005. Interest incurred on borrowed funds grew by 30.7% in the nine months ended September 30, 2006 compared to the same period in 2005, attributable to a 20.1% rise in the average balance of borrowed funds and a slight increase in the cost of borrowed funds. The cost of borrowed funds for the nine months ended September 30, 2006 was 4.5%, compared to 4.2% for the same period in 2005.

Loan loss provision. The provision for loan losses is an operating expense recorded to maintain the related balance sheet allowance for loan losses at an amount considered adequate to cover probable losses incurred in the normal course of lending. The provision for loan losses was $302,000 for 2005, compared to $174,000 for 2004. The loan loss provision is based upon management s assessment of a variety of factors, including historical loss experience, the financial condition of borrowers, economic conditions (particularly as they relate to markets where the bank originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio. The loan loss provision reflects management s judgment of the current period cost-of-credit risk inherent in the loan portfolio. Although management believes the loan loss provision has been sufficient to maintain an adequate allowance for loan losses, actual loan losses could exceed the amounts that have been charged to operations. The change in the loan loss provision in 2005 was principally a result of an increase in loan volume during the year. The Middlefield Banking Company s allowance for loan losses increased from 1.21% of total loans at December 31, 2005 to 1.25% of total loans at September 30, 2006. And as a percentage of non-performing loans, the allowance for loan losses increased from 156.6% at December 31, 2005 to 179.6% at September 30, 2006.

Non-interest income and expense. Non-interest income increased $222,000 or 14.2% in the first nine months of 2006 compared to the same period in 2005. Growth of $143,000 in fees and service charges on deposit accounts, $22,000 in earnings on bank-owned life insurance (BOLI), and $63,000 in other income account for the improved non-interest income, partially offset by a $6,000 loss on the sale of investments in the first quarter. The 12.2% growth in fees and service charges on deposit accounts in the first nine months of 2006 compared to the same period in 2005 is almost entirely attributable to charges on over-drafted accounts. Non-interest expense also increased in the first nine months of 2006 compared to the same period in 2005, increasing by $235,000 or 4.1% and consisting of a $128,000 increase in other expense associated with updating and improving the bank s web site, an $82,000 increase in employee benefits expense, and a $40,000 increase in data processing costs associated with deposit accounts opened during the period.

Provision for income taxes. Middlefield recognized $1.0 million in income tax expense for the first nine months of 2006 and the first nine months of 2005, for an effective tax rate of 27.4% in 2006 and 27.7% for 2005.

2005 Compared to 2004. Middlefield s 13% increase in net income in 2005 is attributable primarily to a $1.7 million increase in interest income and a $340,000 increase in non-interest income, offset by increases in interest expense and non-interest expense.

Interest income. Net interest income grew 7.6% in 2005, with growth of $1.7 million in interest income offset by increased interest expense of $886,000. Interest income on loans receivable improved by 10.4% as the result of growth in the average balance of loans outstanding and an increase in loan yield from 6.67% in 2004 to 6.75% in 2005. Interest earned on securities increased 10.7% because of a $5.0 million increase in the average balance of securities.

Interest expense. A $16.0 million increase in the average balance of interest-bearing liabilities and a 20 basis-point increase in the rate paid on liabilities accounted for a 15.4% increase in interest expense during 2005. Interest on deposits accounted for $614,000 of the $16.0 million increase, resulting from deposit growth shifting from savings accounts to higher-cost certificates. Interest incurred on FHLB advances, repurchase agreements, and other borrowings grew by 31.5% in 2005, primarily because of an increase in the average balance of FHLB advances.

Loan loss provision. The provision for loan losses was 75% greater in 2005 than 2004, attributable principally to increased loan volume.

Non-interest income and expense. Non-interest income grew 19.1% in 2005, with growth of $177,000 in fees and service charges and growth of $77,000 in other income. Additionally, a loss realized on the sale of investment securities in 2004 was not duplicated in 2005. Earnings on bank-owned life insurance declined by $13,000 for 2005, partially offsetting growth in non-interest income. Non-interest expenses increased 6.6% in 2005, reflecting a 3.7% increase in compensation and employee benefits attributable to increases in payroll expenses, group health insurance, and the cost of employee training, and a 16.3% increase in data processing and equipment expenses reflecting Middlefield s commitment to continually improving technology to enhance customer service. The provision for income taxes increased 6.4% in 2005, the result of an 11.2% increase in income before income taxes.

2004 Compared to 2003. Increased interest income and increased non-interest income account for the 17% improvement in Middlefield s 2004 net income, partially offset by slightly increased interest expense and increased non-interest expense.

Interest Income. Net interest income increased 11.7% in 2004, largely because of a $771,000 increase in interest earned on loans receivable and a $322,000 increase in interest earned on securities. The 6.0% improvement in interest earned on loans receivable is attributable primarily to an 11.2% increase in the average balance of loans outstanding, but it is offset by a slight decline in the yield on loans from 6.99% in 2003 to 6.67% for 2004. The 19.1% improvement in interest earned on securities is likewise attributable primarily to growth in the average balance of securities for 2004 compared to 2003.

Interest expense. Interest expense increased slightly by less than 1% in 2004, attributable to a greater average balance of interest-bearing liabilities in 2004. Interest incurred on deposits was $4.9 million for both 2004 and 2003. The bank sought to shift deposit growth to lower-cost savings and demand deposits from higher-cost certificates, offsetting an 11.7% increase in average interest-bearing liabilities in 2004. Interest incurred on FHLB advances, repurchase agreements, and other borrowings increased 5.4% in 2004, primarily because of an increase in the average balance of FHLB advances.

Loan Loss Provision. The provision for loan losses was $174,000 in 2004 as compared to $315,000 in 2003. The loan loss provision is based upon management s assessment of a variety of factors, including types and amounts of nonperforming loans, historical loss experience, collectibility of collateral values and guarantees, pending legal action for collection of loans and related guarantees, and current economic conditions. The loan loss provision reflects management s judgment of the current period cost-of-credit risk inherent in the loan portfolio.

Non-interest income and expense. Non-interest income increased 24.6% in 2004. The Middlefield Banking Company introduced a new overdraft service in the second quarter of 2004, yielding a 35.6% gain in fees and service charges on deposit accounts in 2004 compared to 2003 and accounting for most of the improved non-interest income. Earnings on bank-owned life insurance also grew slightly in 2004. But the bank realized a $98,000 net loss on sales of securities in 2004, partially offsetting improved non-interest income. Non-interest expenses grew 14.1% in 2004 because of growth in compensation and employee benefit expense, data processing expense, occupancy expense, and advertising expense. Compensation and employee benefit expense increased 11.6% because of increases in payroll expenses, the cost of health benefits, and profit sharing expenses. Data processing expense increased 14.5% because of technology enhancements. Occupancy expense increased 22.6%, due in part to increased utility costs as well as leasehold improvements to the bank s Mantua facility. Advertising expense increased 50.4% as the result of enhanced promotional efforts by the bank in 2004. Other expenses increased 16.5% in 2004, a result in part of

Table of Contents

rising examination and auditing expenses associated with increased regulatory compliance burdens imposed on the banking industry in the period. The 17.6% increase in the provision for income taxes in 2004 is primarily the result of 17.1% growth in income before income taxes for the period.

Allowance for Loan Losses. The allowance for loan losses represents the amount management estimates is adequate to provide for probable losses inherent in the loan portfolio as of the balance sheet date. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. Middlefield s allowance for loan losses was $3.1 million at September 30, 2006, increasing because of loan growth to 1.25% of the gross loan portfolio compared to 1.21% at the end of 2005 and 1.22% at the end of 2004.

The allowance for loan losses is established through a provision for loan losses, which is charged to operations. The estimates used to determine the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant change in the near term. The total allowance for loan losses is a combination of a specific allowance for identified problem loans, a formula allowance, and an unallocated allowance. The specific allowance incorporates the results of measuring impaired loans as provided in Statement of Financial Accounting Standards (FAS) No. 114, *Accounting by Creditors for Impairment of a Loan* , and FAS No. 118, *Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures*. These accounting standards prescribe the measurement methods, income recognition, and disclosures for impaired loans. The formula allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance is determined. Loss factors are based on management s determination of the amounts necessary for concentrations and changes in mix and volume of the loan portfolio, and consideration of historical loss experience. The unallocated allowance is determined based upon management s evaluation of existing economic and business conditions affecting the key lending areas of the bank and other conditions, such as new loan products, credit quality trends, collateral values, specific industry conditions within portfolio segments that existed as of the balance sheet date, and the impact of those conditions on the collectibility of the loan portfolio. Management reviews these conditions quarterly. The unallocated allowance is subject to a higher degree of uncertainty because it considers risk factors are not necessarily reflected in historical loss factors.

Although management believes that it uses the best information available to make its determination about the adequacy of the loan loss allowance and that the allowance for loan losses was adequate at September 30, 2006, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy and employment could result in increased levels of non-performing assets and charge-offs, increased loan loss provisions, and reduced income. Additionally, as an integral part of the examination process bank regulatory agencies periodically review a bank s loan loss allowance. The banking agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination. The following table shows changes in The Middlefield Banking Company s allowance for loan losses.

	Nine-month period ended September 30,		**Year ended December 31,**				
(dollars in thousands)	**2006**	**2005**	**2005**	**2004**	**2003**	**2002**	**2001**
Allowance balance at beginning of period	$ 2,841	$ 2,623	$ 2,623	$ 2,521	$ 2,300	$ 2,062	$ 2,037
Loans charged off:							
Commercial and industrial	(103)	(74)	(103)	(61)	(75)	(67)	(74)
Real estate construction	0	0	0	0	0	0	0
Real estate mortgage:							
Residential	(15)	(14)	(15)	0	(32)	0	(29)
Commercial	0	0	0	0	0	0	(92)
Consumer installment	(61)	(34)	(61)	(57)	(37)	(52)	(71)

Total loans charged off	(179)	(122)	(179)	(118)	(144)	(119)	(266)
Recoveries of loans previously charged off:							
Commercial and industrial	64	36	64	27	28	24	4
Real estate construction	0	0	0	0	0	0	0
Real estate mortgage:							
Residential	17	0	17	3	0	0	0
Commercial	0	0	0	0	0	0	95
Consumer installment	14	4	14	16	22	33	22
Total recoveries	95	40	95	46	50	57	121

Table of Contents

(dollars in thousands)	Nine-month period ended September 30, 2006	2005	Year ended December 31, 2005	2004	2003	2002	2001
Net loans recovered (charged off)	(84)	(82)	(84)	(72)	(94)	(62)	(145)
Provision for loan losses	302	195	302	174	315	300	170
Allowance balance at end of period	$ 3,059	$ 2,736	$ 2,841	$ 2,623	$ 2,521	$ 2,300	$ 2,062
Loans outstanding:							
Average	$ 238,285	$ 220,106	$ 222,926	$ 204,191	$ 183,683	$ 163,828	$ 143,560
End of period	244,860	225,161	234,055	215,653	192,880	174,943	152,828
Ratio of allowance for loan losses to loans outstanding at end of period	1.25%	1.22%	1.21%	1.22%	1.31%	1.31%	1.35%
Net recoveries (charge offs) to average loans	(0.04)%	(0.04)%	(0.04)%	(0.04)%	(0.05)%	(0.04)%	(0.10)%

The allocation of The Middlefield Banking Company s allowance for probable loan losses is given in the tables to follow. The allocation of the allowance to each category is not necessarily indicative of future loss in a particular category and does not restrict use of the allowance to absorb losses in other loan categories.

	Allocation of the allowance for loan losses at December 31, 2005		2004		2003		2002		2001	
(dollars in thousands)	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Type of loan:										
Commercial and industrial	$ 1,151	27.6%	$ 1,139	24.1%	$ 568	21.8%	$ 611	18.8%	$ 722	18.5%
Real estate construction	50	1.2%	31	1.8%	32	1.8%	38	1.8%	37	2.1%
Real estate mortgage:										
Residential	965	64.9%	1,019	68.4%	844	69.5%	888	70.8%	781	74.0%
Commercial	297	3.5%	145	3.2%	228	4.1%	230	5.4%	161	2.2%

Consumer installment	128	2.8%	123	2.7%	120	2.9%	124	3.1%	111	3.2%
Unallocated	250		166		435		409		250	