

MIDDLEFIELD BANC CORP  
Form 10-Q  
November 08, 2012

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

FORM 10 - Q

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

For the quarterly period ended September 30, 2012

Commission File Number 000-32561  
Middlefield Banc Corp.

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(Exact name of registrant as specified in its charter)

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

15985 East High Street, Middlefield, Ohio 44062-9263  
(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [] NO [ ]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Small reporting company []

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

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

Class: Common Stock, without par value  
Outstanding at November 5, 2012: 1,983,491

## MIDDLEFIELD BANC CORP.

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MIDDLEFIELD BANC CORP.  
CONSOLIDATED BALANCE SHEET  
(Dollar amounts in thousands)  
(Unaudited)

|   | September 30,<br>2012 | December 31,<br>2011 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Cash and due from banks   | \$32,735              | \$15,730             |
| Federal funds sold  | 19,871                | 18,660               |
| Cash and cash equivalents   | 52,606                | 34,390               |
| Investment securities available for sale  | 179,140               | 193,977              |
| Loans   | 409,175               | 401,880              |
| Less allowance for loan losses  | 7,173                 | 6,819                |
| Net loans   | 402,002               | 395,061              |
| Premises and equipment  | 8,701                 | 8,264                |
| Goodwill  | 4,559                 | 4,559                |
| Bank-owned life insurance   | 8,465                 | 8,257                |
| Accrued interest and other assets   | 8,708                 | 10,043               |
| <b>TOTAL ASSETS</b>   | <b>\$664,181</b>      | <b>\$654,551</b>     |
| <b>LIABILITIES</b>  |                       |                      |
| <b>Deposits:</b>  |                       |                      |
| Noninterest-bearing demand  | \$70,505              | \$63,348             |
| Interest-bearing demand   | 65,164                | 55,853               |
| Money market  | 72,831                | 75,621               |
| Savings   | 174,273               | 167,207              |
| Time  | 201,965               | 218,933              |
| Total deposits  | 584,738               | 580,962              |
| Short-term borrowings   | 6,518                 | 7,392                |
| Other borrowings  | 15,836                | 16,831               |
| Accrued interest and other liabilities  | 2,003                 | 2,113                |
| <b>TOTAL LIABILITIES</b>  | <b>609,095</b>        | <b>607,298</b>       |
| <b>STOCKHOLDERS' EQUITY</b>   |                       |                      |
| Common stock, no par value; 10,000,000 shares authorized, 2,172,934 and 1,951,868 shares issued | 34,082                | 31,240               |
| Retained earnings   | 21,736                | 18,206               |
| Accumulated other comprehensive income  | 6,002                 | 4,541                |
| Treasury stock, at cost; 189,530 shares   | (6,734 )              | (6,734 )             |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>   | <b>55,086</b>         | <b>47,253</b>        |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$664,181</b>      | <b>\$654,551</b>     |

See accompanying notes to the unaudited consolidated financial statements.



MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF INCOME  
(Dollar amounts in thousands, except per share data)  
(Unaudited)

|  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|--------------|------------------------------------|---------------|
|  | 2012                                | 2011         | 2012                               | 2011          |
| <b>INTEREST INCOME</b>   |                                     |              |                                    |               |
| Interest and fees on loans                                     | \$5,810                             | \$5,555      | \$16,988                           | \$16,255      |
| Interest-bearing deposits in other institutions                | 7                                   | 4            | 19                                 | 8             |
| Federal funds sold   | 6                                   | -            | 13                                 | 13            |
| Investment securities:   |                                     |              |                                    |               |
| Taxable interest   | 749                                 | 1,220        | 2,455                              | 3,832         |
| Tax-exempt interest  | 749                                 | 724          | 2,249                              | 2,124         |
| Dividends on stock   | 21                                  | 25           | 73                                 | 76            |
| Total interest income  | 7,342                               | 7,528        | 21,797                             | 22,308        |
| <b>INTEREST EXPENSE</b>  |                                     |              |                                    |               |
| Deposits   | 1,418                               | 1,836        | 4,349                              | 5,877         |
| Short term borrowings  | 61                                  | 59           | 219                                | 177           |
| Other borrowings   | 78                                  | 100          | 244                                | 313           |
| Trust preferred securities                                     | 45                                  | 139          | 122                                | 412           |
| Total interest expense   | 1,602                               | 2,134        | 4,934                              | 6,779         |
| <b>NET INTEREST INCOME</b>                                     | <b>5,740</b>                        | <b>5,394</b> | <b>16,863</b>                      | <b>15,529</b> |
| Provision for loan losses                                      | 143                                 | 920          | 1,193                              | 2,485         |
| <b>NET INTEREST INCOME AFTER PROVISION FOR<br/>LOAN LOSSES</b> | <b>5,597</b>                        | <b>4,474</b> | <b>15,670</b>                      | <b>13,044</b> |
| <b>NONINTEREST INCOME</b>                                      |                                     |              |                                    |               |
| Service charges on deposit accounts                            | 481                                 | 455          | 1,383                              | 1,299         |
| Investment securities gains (losses), net                      | 152                                 | 6            | 448                                | (16)          |
| Earnings on bank-owned life insurance                          | 71                                  | 70           | 208                                | 209           |
| Other income   | 164                                 | 155          | 640                                | 487           |
| Total noninterest income                                       | 868                                 | 686          | 2,679                              | 1,979         |
| <b>NONINTEREST EXPENSE</b>                                     |                                     |              |                                    |               |
| Salaries and employee benefits                                 | 1,705                               | 1,754        | 5,255                              | 5,388         |
| Occupancy expense  | 233                                 | 242          | 703                                | 737           |
| Equipment expense  | 186                                 | 175          | 557                                | 488           |
| Data processing costs  | 184                                 | 162          | 574                                | 515           |
| Ohio state franchise tax                                       | 160                                 | 126          | 417                                | 351           |
| Federal deposit insurance expense                              | 250                                 | 176          | 751                                | 673           |
| Professional fees  | 270                                 | 181          | 670                                | 577           |
| Losses on other real estate owned                              | 188                                 | 195          | 238                                | 498           |
| Other expense  | 946                                 | 895          | 2,780                              | 2,676         |

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|                              |         |         |         |         |
|------------------------------|---------|---------|---------|---------|
| Total noninterest expense    | 4,122   | 3,906   | 11,945  | 11,903  |
| Income before income taxes   | 2,343   | 1,254   | 6,404   | 3,120   |
| Income taxes                 | 494     | 175     | 1,392   | 319     |
| NET INCOME                   | \$1,849 | \$1,079 | \$5,012 | \$2,801 |
| EARNINGS PER SHARE           |         |         |         |         |
| Basic                        | \$0.93  | \$0.63  | \$2.66  | \$1.69  |
| Diluted                      | 0.93    | 0.63    | 2.65    | 1.69    |
| DIVIDENDS DECLARED PER SHARE | \$0.26  | \$0.26  | \$0.78  | \$0.78  |

See accompanying notes to the unaudited consolidated financial statements.



MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(Dollar amounts in thousands)  
(Unaudited)

|   | Three Months Ended |          | Nine Months Ended |          |
|---|--------------------|----------|-------------------|----------|
|   | September 30       |          | September 30      |          |
|   | 2012               | 2011     | 2012              | 2011     |
| Net income  | \$1,849            | \$1,079  | \$5,012           | \$2,801  |
| Other comprehensive income:   |                    |          |                   |          |
| Net unrealized holding gain on available for sale securities          | 838                | 3,238    | 2,662             | 6,746    |
| Tax effect  | (285 )             | (1,124 ) | (905 )            | (2,294 ) |
| Reclassification adjustment for (gains) losses included in net income | (152 )             | (6 )     | (448 )            | 16       |
| Tax effect  | 52                 | 2        | 152               | (5 )     |
| Total other comprehensive income                                      | 453                | 2,110    | 1,461             | 4,463    |
| Comprehensive income  | \$2,302            | \$3,189  | \$6,473           | \$7,264  |

See accompanying notes to the unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(Dollar amounts in thousands, except dividend per share amount)  
(Unaudited)

|   | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|---|-----------------|----------------------|---|-------------------|----------------------------------|
| Balance, December 31, 2011  | \$31,240        | \$18,206             | \$ 4,541  | \$(6,734 )        | \$47,253                         |
| Net income  |                 | 5,012                |   |                   | 5,012                            |
| Comprehensive income  |                 |                      | 1,461   |                   | 1,461                            |
| Stock-based compensation expense<br>(1,722 shares)                        | 32              |                      |   |                   | 32                               |
| Common stock issuance (196,635<br>shares), net of issuance costs of \$816 | 2,329           |                      |   |                   | 2,329                            |
| Dividend reinvestment and purchase<br>plan (22,708 shares)                | 481             |                      |   |                   | 481                              |
| Cash dividends (\$0.78 per share)   |                 | (1,482 )             |   |                   | (1,482 )                         |
| Balance, September 30, 2012   | \$34,082        | \$21,736             | \$ 6,002  | \$(6,734 )        | \$55,086                         |

See accompanying notes to the unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Dollar amounts in thousands)  
(Unaudited)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2012                               | 2011      |
| <b>OPERATING ACTIVITIES</b>   |                                    |           |
| Net income  | \$5,012                            | \$2,801   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Provision for loan losses   | 1,193                              | 2,485     |
| Investment securities (gains) losses, net   | (448 )                             | 16        |
| Depreciation and amortization   | 663                                | 639       |
| Amortization of premium and discount on investment securities                     | 674                                | 247       |
| Amortization of deferred loan fees, net   | (139 )                             | (120 )    |
| Earnings on bank-owned life insurance   | (208 )                             | (209 )    |
| Deferred income taxes   | 220                                | (173 )    |
| Stock-based compensation expense  | 32                                 | 59        |
| Losses on other real estate owned   | 238                                | 498       |
| Increase in accrued interest receivable   | (364 )                             | (384 )    |
| Decrease in accrued interest payable  | (88 )                              | (73 )     |
| Decrease in prepaid federal deposit insurance                                     | 633                                | 642       |
| Other, net  | (95 )                              | (746 )    |
| Net cash provided by operating activities   | 7,323                              | 5,682     |
| <b>INVESTING ACTIVITIES</b>   |                                    |           |
| Investment securities available for sale:   |                                    |           |
| Proceeds from repayments and maturities   | 40,227                             | 56,940    |
| Proceeds from sale of securities  | 27,426                             | 24,305    |
| Purchases   | (50,828 )                          | (77,429 ) |
| Increase in loans, net  | (8,826 )                           | (18,217 ) |
| Proceeds from the sale of other real estate owned                                 | 542                                | 777       |
| Purchase of premises and equipment  | (883 )                             | (321 )    |
| Net cash provided by (used for) investing activities                              | 7,658                              | (13,945 ) |
| <b>FINANCING ACTIVITIES</b>   |                                    |           |
| Net increase in deposits  | 3,776                              | 21,987    |
| Decrease in short-term borrowings, net  | (874 )                             | (724 )    |
| Repayment of other borrowings   | (995 )                             | (1,366 )  |
| Common stock issuance   | 2,329                              | 2,210     |
| Proceeds from dividend reinvestment & purchase plan                               | 481                                | 414       |
| Cash dividends  | (1,482 )                           | (1,306 )  |
| Net cash provided by financing activities   | 3,235                              | 21,215    |
| Increase in cash and cash equivalents   | 18,216                             | 12,952    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 34,390                             | 30,635    |

|  |          |          |
|--|----------|----------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$52,606 | \$43,587 |
|--|----------|----------|

SUPPLEMENTAL INFORMATION

Cash paid during the year for:

|                                     |         |         |
|-------------------------------------|---------|---------|
| Interest on deposits and borrowings | \$5,022 | \$6,852 |
|-------------------------------------|---------|---------|

|              |       |     |
|--------------|-------|-----|
| Income taxes | 1,250 | 515 |
|--------------|-------|-----|

Non-cash investing transactions:

|   |       |         |
|---|-------|---------|
| Transfers from loans to other real estate owned | \$916 | \$1,146 |
|---|-------|---------|

See accompanying notes to the unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of Middlefield Banc Corp. ("Company") include its two bank subsidiaries, The Middlefield Banking Company ("MB") and Emerald Bank ("EB"), and a non-bank asset resolution subsidiary EMORECO, Inc. All significant inter-company items have been eliminated.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the instructions for Form 10-Q and Article 10 of Regulation S-X. In management's opinion, the financial statements include all adjustments, consisting of normal recurring adjustments, that the Company considers necessary to fairly state the Company's financial position and the results of operations and cash flows. The consolidated balance sheet at December 31, 2011, has been derived from the audited financial statements at that date but does not include all of the necessary informational disclosures and footnotes as required by U. S. generally accepted accounting principles. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included with Middlefield's Form 10-K for the year ended December 31, 2011 (File No. 000-32561). The results of Middlefield's operations for any interim period are not necessarily indicative of the results of Middlefield's operations for any other interim period or for a full fiscal year.

Recent Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other Topics (Topic 350), Testing Goodwill for Impairment. The objective of this Update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements and are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. This ASU did not have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to

have a significant impact on the Company's financial statements.

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## NOTE 2 - STOCK-BASED COMPENSATION

The Company has no unvested stock options outstanding and no unrecognized stock-based compensation costs outstanding as of September 30, 2012.

Stock option activity during the nine months ended September 30, 2012 and 2011 is as follows:

|                           | 2012   | Weighted-<br>average<br>Exercise<br>Price | 2011     | Weighted-<br>average<br>Exercise<br>Price |
|---------------------------|--------|---|----------|---|
| Outstanding, January 1    | 88,774 | \$26.81                                   | 89,077   | \$27.87                                   |
| Granted                   | -      | -   | 9,000    | 17.55                                     |
| Exercised                 | -      | -   | -        | -   |
| Forfeited                 | (420 ) | 36.86                                     | (7,549 ) | 29.22                                     |
| Outstanding, September 30 | 88,354 | \$26.76                                   | 90,528   | \$26.73                                   |
| Exercisable, September 30 | 88,354 | \$26.76                                   | 81,528   | \$27.75                                   |

## NOTE 3 - EARNINGS PER SHARE

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

There are no convertible securities that would affect the denominator in calculating basic and diluted earnings per share. The following tables set forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

|  | For the Three<br>Months Ended<br>September 30, |            | For the Nine<br>Months Ended<br>September 30, |            |
|--|--|------------|---|------------|
|  | 2012   | 2011       | 2012  | 2011       |
| Weighted average common shares outstanding   | 2,167,711                                      | 1,894,207  | 2,077,027                                     | 1,847,945  |
| Average treasury stock shares  | (189,530 )                                     | (189,530 ) | (189,530 )                                    | (189,530 ) |
| Weighted average common shares and common stock equivalents used to calculate basic earnings per share   | 1,978,181                                      | 1,704,677  | 1,887,497                                     | 1,658,415  |
| Additional common stock equivalents (stock options) used to calculate diluted earnings per share         | 5,682  | -          | 4,236   | -          |
| Weighted average common shares and common stock equivalents used to calculate diluted earnings per share | 1,983,863                                      | 1,704,677  | 1,891,733                                     | 1,658,415  |

The average share price for the quarter ended September 30, 2012 was \$22.85 while the year-to-date average price was \$21.08. Options to purchase 88,354 shares of common stock, at prices ranging from \$17.55 to \$40.24, were outstanding at September 30, 2012. Of those options, 9,000 were considered dilutive based on the average market price exceeding the strike price for the nine months ended September 30, 2012. The three month period ended with 17,536 shares considered dilutive. In accordance with the subscription agreement entered into by an institutional investor, there was also an additional 11,332 shares, at \$16 per share, considered dilutive for the three and nine-months ended September 30, 2012. The remaining options had no dilutive effect on the earnings per share.

The average share price for the quarter ended September 30, 2011 was \$17.23 while the year-to-date average price was \$17.36. The options to purchase 90,528 shares of common stock at prices ranging from \$17.55 to \$40.24 were outstanding during the three and nine months ended September 30, 2011 but were not included in the computation of diluted earnings per share as they were anti-dilutive due to the strike price being greater than the average market price.



## NOTE 4 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The three broad levels within the fair value hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following tables present the assets measured on a recurring basis on the Consolidated Balance Sheet at their fair value as of September 30, 2012 and December 31, 2011 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| (Dollar amounts in thousands)                               | September 30, 2012 |           |           |           |
|---|--------------------|-----------|-----------|-----------|
|   | Level I            | Level II  | Level III | Total     |
| <b>Assets Measured on a Recurring Basis:</b>                |                    |           |           |           |
| U.S. government agency securities                           | \$-                | \$17,268  | \$-       | \$17,268  |
| Obligations of states and political subdivisions            | -                  | 92,668    | -         | 92,668    |
| Mortgage-backed securities in government-sponsored entities |                    | 62,467    |           | 62,467    |
| Private-label mortgage-backed securities                    | -                  | 5,986     | -         | 5,986     |
| Total debt securities                                       | -                  | 178,389   | -         | 178,389   |
| Equity securities in financial institutions                 | 5                  | 746       | -         | 751       |
| Total   | \$5                | \$179,135 | \$-       | \$179,140 |

|   | December 31, 2011 |           |           |           |
|---|-------------------|-----------|-----------|-----------|
|   | Level I           | Level II  | Level III | Total     |
| <b>Assets Measured on a Recurring Basis:</b>                |                   |           |           |           |
| U.S. government agency securities                           | \$-               | \$31,933  | \$-       | \$31,933  |
| Obligations of states and political subdivisions            | -                 | 88,400    | -         | 88,400    |
| Mortgage-backed securities in government-sponsored entities |                   | 65,573    |           | 65,573    |
| Private-label mortgage-backed securities                    | -                 | 7,321     | -         | 7,321     |
| Total debt securities                                       | -                 | 193,227   | -         | 193,227   |
| Equity securities in financial institutions                 | 5                 | 745       | -         | 750       |
| Total   | \$5               | \$193,972 | \$-       | \$193,977 |

The Company obtains fair values from an independent pricing service which represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2).

Financial instruments are considered Level III when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The Company has no securities considered to be Level III as of September 30, 2012 and December 31, 2011.

The Company uses prices compiled by third party vendors due to the recent stabilization in the markets along with improvements in third party pricing methodology that have narrowed the variances between third party vendor prices and actual market prices.

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of September 30, 2012 and December 31, 2011, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loan include: quoted market prices for identical assets classified as Level I inputs; observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

September 30, 2012

| (Dollar amounts in thousands)                    | Level I | Level II | Level III | Total     |
|--|---------|----------|-----------|-----------|
| <b>Assets Measured on a non-recurring Basis:</b> |         |          |           |           |
| Impaired loans                                   | \$ -    | \$ -     | \$ 14,258 | \$ 14,258 |
| Other real estate owned                          | -       | -        | 2,332     | 2,332     |

December 31, 2011

|  | Level I | Level II | Level III | Total     |
|--|---------|----------|-----------|-----------|
| <b>Assets Measured on a non-recurring Basis:</b> |         |          |           |           |
| Impaired loans                                   | \$ -    | \$ -     | \$ 16,535 | \$ 16,535 |
| Other real estate owned                          | -       | -        | 2,196     | 2,196     |

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Company uses Level III inputs to determine fair value:

| (unaudited, in thousands)<br>September 30, 2012 | Estimate  | Quantitative Information about Level III Fair Value Measurements |   |   |
|---|-----------|--|---|---|
|   |           | Valuation<br>Technique   | Unobservable<br>Input                                 | Range (Weighted Average)                      |
| Impaired loans                                  | \$ 14,258 | Appraisal of collateral (1)                                      | Appraisal adjustments (2)<br>Liquidation expenses (2) | 0% to -75.0% (-31.9%)<br>0% to -45.8% (-1.5%) |
| Other real estate owned                         | \$ 2,332  | Appraisal of collateral (1), (3)                                 |   |   |

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

The estimated fair value of the Company's financial instruments is as follows:

|                               | Carrying<br>Value | September 30, 2012 |          |           | Total<br>Fair Value |
|-------------------------------|-------------------|--------------------|----------|-----------|---------------------|
|                               |                   | Level I            | Level II | Level III |                     |
| (in thousands)                |                   |                    |          |           |                     |
| <b>Financial assets:</b>      |                   |                    |          |           |                     |
| Cash and cash equivalents     | \$52,606          | \$52,606           | \$-      | \$-       | \$52,606            |
| <b>Investment securities</b>  |                   |                    |          |           |                     |
| Available for sale            | 179,140           | 5                  | 179,135  | -         | 179,140             |
| Net loans                     | 402,002           | -                  | -        | 394,070   | 394,070             |
| Bank-owned life insurance     | 8,465             | 8,465              | -        | -         | 8,465               |
| Federal Home Loan Bank stock  | 1,887             | 1,887              | -        | -         | 1,887               |
| Accrued interest receivable   | 2,598             | 2,598              | -        | -         | 2,598               |
| <b>Financial liabilities:</b> |                   |                    |          |           |                     |
| Deposits                      | \$584,738         | \$382,773          | \$-      | \$207,336 | \$590,109           |
| Short-term borrowings         | 6,518             | 6,518              | -        | -         | 6,518               |
| Other borrowings              | 15,836            | -                  | -        | 16,240    | 16,240              |
| Accrued interest payable      | 557               | 557                | -        | -         | 557                 |

|                               | September 30, 2012 |               | December 31, 2011 |               |
|-------------------------------|--------------------|---------------|-------------------|---------------|
|                               | Carrying<br>Value  | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| (in thousands)                |                    |               |                   |               |
| <b>Financial assets:</b>      |                    |               |                   |               |
| Cash and cash equivalents     | \$ 52,606          | \$ 52,606     | \$ 34,390         | \$ 34,390     |
| <b>Investment securities</b>  |                    |               |                   |               |
| Available for sale            | 179,140            | 179,140       | 193,977           | 193,977       |
| Net loans                     | 402,002            | 394,070       | 395,061           | 382,542       |
| Bank-owned life insurance     | 8,465              | 8,465         | 8,257             | 8,257         |
| Federal Home Loan Bank stock  | 1,887              | 1,887         | 1,887             | 1,887         |
| Accrued interest receivable   | 2,598              | 2,598         | 2,234             | 2,234         |
| <b>Financial liabilities:</b> |                    |               |                   |               |
| Deposits                      | \$ 584,738         | \$ 590,109    | \$ 580,962        | \$ 587,178    |
| Short-term borrowings         | 6,518              | 6,518         | 7,392             | 7,392         |
| Other borrowings              | 15,836             | 16,240        | 16,831            | 17,327        |
| Accrued interest payable      | 557                | 557           | 645               | 645           |

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the

instrument.

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If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. Since many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Federal Home Loan Bank Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings

The fair value is equal to the current carrying value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Investment Securities Available-for-sale

The fair value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Loans

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were used as estimates for fair value.

Deposits and Other Borrowings

The fair values of certificates of deposit and other borrowed funds are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposits are valued at the amount payable on demand.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure.

## NOTE 5 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair values of securities available-for-sale are as follows:

| (Dollar amounts in thousands)                               | Amortized<br>Cost | September 30, 2012  |                               | Fair<br>Value |
|---|-------------------|---------------------|-------------------------------|---------------|
|   |                   | Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| U.S. government agency securities                           | \$16,733          | \$537               | \$(2 )                        | \$17,268      |
| Obligations of states and political subdivisions:           |                   |                     |                               |               |
| Taxable   | 8,198             | 864                 | -                             | 9,062         |
| Tax-exempt  | 78,808            | 4,827               | (29 )                         | 83,606        |
| Mortgage-backed securities in government-sponsored entities | 60,139            | 2,328               | -                             | 62,467        |
| Private-label mortgage-backed securities                    | 5,418             | 570                 | (2 )                          | 5,986         |
| Total debt securities                                       | 169,296           | 9,126               | (33 )                         | 178,389       |
| Equity securities in financial institutions                 | 750               | 1                   | -                             | 751           |
| Total   | \$170,046         | \$9,127             | \$(33 )                       | \$179,140     |

|   | Amortized<br>Cost | December 31, 2011   |                               | Fair<br>Value |
|---|-------------------|---------------------|-------------------------------|---------------|
|   |                   | Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| U.S. government agency securities                           | \$31,520          | \$427               | \$(14 )                       | \$31,933      |
| Obligations of states and political subdivisions:           |                   |                     |                               |               |
| Taxable   | 8,207             | 766                 | -                             | 8,973         |
| Tax-exempt  | 75,807            | 3,681               | (61 )                         | 79,427        |
| Mortgage-backed securities in government-sponsored entities | 63,808            | 1,819               | (54 )                         | 65,573        |
| Private-label mortgage-backed securities                    | 7,005             | 411                 | (95 )                         | 7,321         |
| Total debt securities                                       | 186,347           | 7,104               | (224 )                        | 193,227       |
| Equity securities in financial institutions                 | 750               | -                   | -                             | 750           |
| Total   | \$187,097         | \$7,104             | \$(224 )                      | \$193,977     |

The amortized cost and fair value of debt securities at September 30, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| (Dollar amounts in thousands)          | Amortized<br>Cost | Fair<br>Value |
|--|-------------------|---------------|
| Due in one year or less                | \$3,003           | \$3,038       |
| Due after one year through five years  | 4,834             | 5,093         |
| Due after five years through ten years | 14,682            | 15,545        |
| Due after ten years                    | 146,777           | 154,713       |
| Total                                  | \$169,296         | \$178,389     |

Proceeds from the sales of securities available-for-sale and the gross realized gains and losses are as follows:

|                       | For the Three Months Ended<br>September 30, |           | For the Nine Months Ended<br>September 30, |           |
|-----------------------|---|-----------|--|-----------|
|                       | 2012  | 2011      | 2012                                       | 2011      |
| Proceeds from sales   | \$ 5,622                                    | \$ 14,233 | \$ 27,426                                  | \$ 24,305 |
| Gross realized gains  | 154   | 6         | 462  | 21        |
| Gross realized losses | (2 )  | -         | (14 )                                      | (37 )     |

Gross realized losses for the nine months ended September 30, 2011 were the result of other-than-temporary impairment ("OTTI") taken on equity securities.

Investment securities with an approximate carrying value of \$55,600,000 and \$55,800,000 at September 30, 2012 and 2011, respectively, were pledged to secure deposits and other purposes as required by law.

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

| (Dollar amounts in thousands)                       | Less than Twelve<br>Months |                               | September 30, 2012<br>Twelve Months or<br>Greater |                               | Total         |                               |
|---|----------------------------|-------------------------------|---|-------------------------------|---------------|-------------------------------|
|   | Fair<br>Value              | Gross<br>Unrealized<br>Losses | Fair<br>Value                                     | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses |
| U.S. government agency securities                   | \$1,998                    | \$(2 )                        | \$-   | \$-                           | \$1,998       | \$(2 )                        |
| Obligations of states and political<br>subdivisions | 1,671                      | (29 )                         | -   | -                             | 1,671         | (29 )                         |
| Private-label mortgage-backed<br>securities         | -                          | -                             | 370   | (2 )                          | 370           | (2 )                          |
| Total   | \$3,669                    | \$(31 )                       | \$370   | \$(2 )                        | \$4,039       | \$(33 )                       |



|   | Less than Twelve Months |                         | December 31, 2011<br>Twelve Months or Greater |                         | Total      |                         |
|---|-------------------------|-------------------------|---|-------------------------|------------|-------------------------|
|   | Fair Value              | Gross Unrealized Losses | Fair Value                                    | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. government agency securities                           | \$1,986                 | \$(14 )                 | \$-   | \$-                     | \$1,986    | \$(14 )                 |
| Obligations of states and political subdivisions            | 2,707                   | (40 )                   | 919   | (21 )                   | 3,626      | (61 )                   |
| Mortgage-backed securities in government sponsored entities | 8,992                   | (54 )                   | -   | -                       | 8,992      | (54 )                   |
| Private-label mortgage-backed securities                    | 1,628                   | (42 )                   | 398   | (53 )                   | 2,026      | (95 )                   |
| Equity securities in financial institutions                 | -                       | -                       | -   | -                       | -          | -                       |
| Total   | \$15,313                | \$(150 )                | \$1,317                                       | \$(74 )                 | \$16,630   | \$(224 )                |

There were 7 securities that were considered temporarily impaired at September 30, 2012.

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered OTTI. A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. OTTI losses are recognized in earnings when the Company has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if the Company does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred.

An unrealized loss is generally deemed to be other than temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss component of an OTTI is recorded as a component of investment securities gains (losses) in the accompanying Consolidated Statement of Income, while the remaining portion of the impairment loss is recognized in other comprehensive income, provided the Company does not intend to sell the underlying debt security and it is “more likely than not” that the Company will not have to sell the debt security prior to recovery.

Debt securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and state and political subdivisions accounted for more than 96% of the total available-for-sale portfolio as of September 30, 2012 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government and the lack of significant unrealized loss positions within the obligations of state and political subdivisions’ security portfolio. The Company’s assessment was concentrated mainly on private-label collateralized mortgage obligations of approximately \$5.4 million for which the Company evaluates credit losses on a quarterly basis. The gross unrealized gain position related to these private-label collateralized mortgage obligations amounted to \$570,000 and the gross unrealized loss position was \$2,000 on September 30, 2012. The Company considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis.
-

Changes in the near term prospects of the underlying collateral of a security such as changes in default rates, loss severity given default and significant changes in prepayment assumptions;

- The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer's industry and actions taken by the issuer to deal with the present economic climate.

For the three and nine months ended September 30, 2012, there were no available-for-sale debt securities with an unrealized loss that suffered OTTI.

#### NOTE 6 - LOANS AND RELATED ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are summarized as follows (in thousands):

|                                | September 30,<br>2012 | December 31,<br>2011 |
|--------------------------------|-----------------------|----------------------|
| Commercial and industrial      | \$ 65,323             | \$ 59,185            |
| Real estate - construction     | 21,322                | 21,545               |
| Real estate - mortgage:        |                       |                      |
| Residential                    | 205,433               | 208,139              |
| Commercial                     | 112,867               | 108,502              |
| Consumer installment           | 4,230                 | 4,509                |
|                                | 409,175               | 401,880              |
| Less allowance for loan losses | (7,173 )              | (6,819 )             |
| Net loans                      | \$ 402,002            | \$ 395,061           |

The Company's primary business activity is with customers located within its local trade area, eastern Geauga County, and contiguous counties to the north, east, and south. The Company also serves the central Ohio market with offices in Dublin and Westerville, Ohio. Commercial, residential, consumer, and agricultural loans are granted. Although the Company has a diversified loan portfolio, loans outstanding to individuals and businesses are dependent upon the local economic conditions in the Company's immediate trade area.

The following tables summarize the primary segments of the loan portfolio and allowance for loan losses (in thousands):

|                                       | September 30, 2012 | Real Estate- Mortgage     |                          |             |            | Total     |
|---------------------------------------|--------------------|---------------------------|--------------------------|-------------|------------|-----------|
|                                       |                    | Commercial and industrial | Real estate-construction | Residential | Commercial |           |
| Individually evaluated for impairment | \$4,414            | \$ 4,383                  | \$3,734                  | \$ 7,021    | \$-        | \$19,553  |
| Collectively evaluated for impairment | 60,909             | 16,939                    | 201,699                  | 105,846     | 4,230      | 389,622   |
| Total loans                           | \$65,323           | \$ 21,322                 | \$205,433                | \$ 112,867  | \$4,230    | \$409,175 |

| December 31, 2011                     | Real estate- Mortgage     |                          |                   |                   |                      | Total             |
|---------------------------------------|---------------------------|--------------------------|-------------------|-------------------|----------------------|-------------------|
|                                       | Commercial and industrial | Real estate-construction | Residential       | Commercial        | Consumer installment |                   |
| Individually evaluated for impairment | \$ 4,492                  | \$ 867                   | \$ 4,882          | \$ 6,491          | \$ -                 | \$ 16,732         |
| Collectively evaluated for impairment | 54,693                    | 20,678                   | 203,257           | 102,011           | 4,509                | 385,148           |
| <b>Total loans</b>                    | <b>\$ 59,185</b>          | <b>\$ 21,545</b>         | <b>\$ 208,139</b> | <b>\$ 108,502</b> | <b>\$ 4,509</b>      | <b>\$ 401,880</b> |

| September 30, 2012                              | Real Estate- Mortgage     |                          |                 |                 |                      | Total           |
|---|---------------------------|--------------------------|-----------------|-----------------|----------------------|-----------------|
|   | Commercial and industrial | Real estate-construction | Residential     | Commercial      | Consumer installment |                 |
| Allowance for loan losses:                      |                           |                          |                 |                 |                      |                 |
| Ending allowance balance attributable to loans: |                           |                          |                 |                 |                      |                 |
| Individually evaluated for impairment           | \$ 1,096                  | \$ 442                   | \$ 482          | \$ 955          | \$ -                 | \$ 2,975        |
| Collectively evaluated for impairment           | 608                       | 3                        | 2,471           | 1,100           | 16                   | 4,198           |
| <b>Total ending allowance balance</b>           | <b>\$ 1,704</b>           | <b>\$ 445</b>            | <b>\$ 2,953</b> | <b>\$ 2,055</b> | <b>\$ 16</b>         | <b>\$ 7,173</b> |

| December 31, 2011                               | Real Estate- Mortgage     |                          |                 |                 |                      | Total           |
|---|---------------------------|--------------------------|-----------------|-----------------|----------------------|-----------------|
|   | Commercial and industrial | Real estate-construction | Residential     | Commercial      | Consumer installment |                 |
| Allowance for loan losses:                      |                           |                          |                 |                 |                      |                 |
| Ending allowance balance attributable to loans: |                           |                          |                 |                 |                      |                 |
| Individually evaluated for impairment           | \$ 595                    | \$ 237                   | \$ 685          | \$ 185          | \$ -                 | \$ 1,702        |
| Collectively evaluated for impairment           | 701                       | 201                      | 3,046           | 1,121           | 48                   | 5,117           |
| <b>Total ending allowance balance</b>           | <b>\$ 1,296</b>           | <b>\$ 438</b>            | <b>\$ 3,731</b> | <b>\$ 1,306</b> | <b>\$ 48</b>         | <b>\$ 6,819</b> |

The Company's loan portfolio is segmented to a level that allows management to monitor risk and performance. The portfolio is segmented into Commercial and Industrial ("C&I"), Real Estate Construction, Real Estate - Mortgage which is further segmented into Residential and Commercial real estate, and Consumer Installment Loans. The C&I loan segment consists of loans made for the purpose of financing the activities of commercial customers. The residential mortgage loan segment consists of loans made for the purpose of financing the purchase or equity line of residences. The commercial mortgage loan segment consists of loans made for the purpose of financing the activities of commercial real estate owners and operators. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than \$150,000 and if the loan either is in nonaccrual status, or is risk rated Special Mention or Substandard. Loans are considered to be impaired when, based on current information and events, it is probable that

the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary (in thousands):

September 30, 2012

|  | Impaired Loans         |                                |                      |
|--|------------------------|--------------------------------|----------------------|
|  | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
| <b>With no related allowance recorded:</b> |                        |                                |                      |
| Commercial and industrial                  | \$ 978                 | \$ 978                         | \$ -                 |
| Real estate - construction                 | 203                    | 203                            | -                    |
| Real estate - mortgage:                    |                        |                                |                      |
| Residential                                | 1,859                  | 1,863                          | -                    |
| Commercial                                 | 1,306                  | 1,311                          | -                    |
| Consumer installment                       | 30                     | 30                             | -                    |
| Total                                      | \$ 4,376               | \$ 4,385                       | \$ -                 |
| <b>With an allowance recorded:</b>         |                        |                                |                      |
| Commercial and industrial                  | \$ 2,896               | \$ 2,899                       | \$ 840               |
| Real estate - construction                 | 3,986                  | 3,986                          | 442                  |
| Real estate - mortgage:                    |                        |                                |                      |
| Residential                                | 2,451                  | 2,458                          | 556                  |
| Commercial                                 | 3,524                  | 3,533                          | 1,137                |
| Total                                      | \$ 12,857              | \$ 12,876                      | \$ 2,975             |
| <b>Total:</b>                              |                        |                                |                      |
| Commercial and industrial                  | \$ 3,874               | \$ 3,877                       | \$ 840               |
| Real estate - construction                 | 4,189                  | 4,189                          | 442                  |
| Real estate - mortgage:                    |                        |                                |                      |
| Residential                                | 4,310                  | 4,321                          | 556                  |
| Commercial                                 | 4,830                  | 4,844                          | 1,137                |
| Consumer installment                       | 30                     | 30                             | -                    |
| Total                                      | \$ 17,233              | \$ 17,261                      | \$ 2,975             |

December 31, 2011

## Impaired Loans

|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|-------------------------------------|------------------------|--------------------------------|----------------------|
| With no related allowance recorded: |                        |                                |                      |
| Commercial and industrial           | \$ 1,172               | \$ 1,172                       | \$-                  |
| Real estate - construction          | 4,250                  | 4,250                          | -                    |
| Real estate - mortgage:             |                        |                                |                      |
| Residential                         | 3,188                  | 3,193                          | -                    |
| Commercial                          | 2,528                  | 2,536                          | -                    |
| Consumer installment                | 24                     | 24                             | -                    |
| Total                               | \$ 11,162              | \$ 11,175                      | \$-                  |
| With an allowance recorded:         |                        |                                |                      |
| Commercial and industrial           | \$ 658                 | \$ 658                         | \$ 203               |
| Real estate - construction          | 271                    | 271                            | 125                  |
| Real estate - mortgage:             |                        |                                |                      |
| Residential                         | 1,813                  | 1,817                          | 547                  |
| Commercial                          | 4,332                  | 4,344                          | 827                  |
| Total                               | \$ 7,074               | \$ 7,090                       | \$ 1,702             |
| Total:                              |                        |                                |                      |
| Commercial and industrial           | \$ 1,830               | \$ 1,831                       | \$ 203               |
| Real estate - construction          | 4,521                  | 4,521                          | 125                  |
| Real estate - mortgage:             |                        |                                |                      |
| Residential                         | 5,001                  | 5,010                          | 547                  |
| Commercial                          | 6,861                  | 6,880                          | 827                  |
| Consumer installment                | 24                     | 24                             | -                    |
| Total                               | \$ 18,237              | \$ 18,266                      | \$ 1,702             |

The following tables present average recorded investment and related interest income recognized for impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary (in thousands):

|                            | For the Three Months Ended<br>September 30, 2012   |                                  | For the Three Months Ended<br>September 30, 2011   |                                  |
|----------------------------|--|----------------------------------|--|----------------------------------|
|                            | Average<br>Recorded<br>Investment                  | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment                  | Interest<br>Income<br>Recognized |
| <b>Total:</b>              |  |                                  |  |                                  |
| Commercial and industrial  | \$ 2,535   | \$ 139                           | \$ 3,295   | \$ 11                            |
| Real estate - construction | 2,305  | -                                | 630  | 15                               |
| Real estate - mortgage:    |  |                                  |  |                                  |
| Residential                | 3,622  | 85                               | 997  | 23                               |
| Commercial                 | 3,597  | 200                              | 4,899  | 86                               |
| Consumer installment       | 13   | 1                                | 25   | -                                |
|                            |  |                                  |  |                                  |
|                            | For the Nine Months<br>Ended September 30,<br>2012 |                                  | For the Nine Months<br>Ended September 30,<br>2011 |                                  |
|                            | Average<br>Recorded<br>Investment                  | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment                  | Interest<br>Income<br>Recognized |
| <b>Total:</b>              |  |                                  |  |                                  |
| Commercial and industrial  | \$2,170  | \$ 170                           | \$3,266  | \$ 93                            |
| Real estate - construction | 2,400  | 113                              | 624  | 15                               |
| Real estate - mortgage:    |  |                                  |  |                                  |
| Residential                | 3,764  | 169                              | 793  | 68                               |
| Commercial                 | 3,985  | 324                              | 4,081  | 188                              |
| Consumer installment       | 27   | 2                                | 13   | 4                                |

Management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first five categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories used by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the doubtful category exhibit similar weaknesses found in the substandard loans, though the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Company’s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Credit Department performs an annual review of all commercial relationships \$200,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing



basis. The Company has an experienced Loan Review Department that continually reviews and assesses loans within the portfolio. The Company engages an external consultant to conduct loan reviews on a semi-annual basis. Generally, the external consultant reviews commercial relationships greater than \$250,000 and/or criticized relationships greater than \$125,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are individually evaluated for impairment are given separate consideration in the determination of the allowance.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system (in thousands):

|                            | Pass             | Special<br>Mention | Substandard     | Doubtful    | Total<br>Loans   |
|----------------------------|------------------|--------------------|-----------------|-------------|------------------|
| <b>September 30, 2012</b>  |                  |                    |                 |             |                  |
| Commercial and industrial  | \$60,439         | \$407              | \$4,477         | \$-         | \$65,323         |
| Real estate - construction | 16,913           | -                  | 4,409           | -           | 21,322           |
| Real estate - mortgage:    |                  |                    |                 |             |                  |
| Residential                | 191,710          | 868                | 12,855          | -           | 205,433          |
| Commercial                 | 104,030          | 2,176              | 6,661           | -           | 112,867          |
| Consumer installment       | 4,208            | 2                  | 20              | -           | 4,230            |
| <b>Total</b>               | <b>\$377,300</b> | <b>\$3,453</b>     | <b>\$28,422</b> | <b>\$-</b>  | <b>\$409,175</b> |
| <b>December 31, 2011</b>   |                  |                    |                 |             |                  |
| Commercial and industrial  | \$53,645         | \$1,104            | \$4,363         | \$73        | \$59,185         |
| Real estate - construction | 20,883           | -                  | 662             | -           | 21,545           |
| Real estate - mortgage:    |                  |                    |                 |             |                  |
| Residential                | 192,534          | 1,100              | 14,505          | -           | 208,139          |
| Commercial                 | 100,536          | 443                | 7,523           | -           | 108,502          |
| Consumer installment       | 4,495            | 6                  | 8               | -           | 4,509            |
| <b>Total</b>               | <b>\$372,093</b> | <b>\$2,653</b>     | <b>\$27,061</b> | <b>\$73</b> | <b>\$401,880</b> |

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due.

Loans are placed on non-accrual status when it is determined that the asset for which payment in full of interest or principal is not expected. The accrual of interest is resumed when the Company expects to collect all contractual principal and interest due and the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms.

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The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans (in thousands):

|                            | Current           | Still Accruing            |                           |                            | Total<br>Past Due | Non-<br>Accrual  | Total<br>Loans    |
|----------------------------|-------------------|---------------------------|---------------------------|----------------------------|-------------------|------------------|-------------------|
|                            |                   | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90<br>Days+<br>Past<br>Due |                   |                  |                   |
| September 30,<br>2012      |                   |                           |                           |                            |                   |                  |                   |
| Commercial and industrial  | \$ 62,529         | \$ 1,221                  | \$ 372                    | \$ 10                      | \$ 1,603          | \$ 1,191         | \$ 65,323         |
| Real estate - construction | 20,647            | -                         | -                         | -                          | -                 | 675              | 21,322            |
| Real estate - mortgage:    |                   |                           |                           |                            |                   |                  |                   |
| Residential                | 195,547           | 885                       | 363                       | -                          | 1,248             | 8,638            | 205,433           |
| Commercial                 | 109,932           | 140                       | 97                        | 79                         | 316               | 2,619            | 112,867           |
| Consumer installment       | 4,148             | 69                        | 1                         | -                          | 70                | 12               | 4,230             |
| <b>Total</b>               | <b>\$ 392,803</b> | <b>\$ 2,315</b>           | <b>\$ 833</b>             | <b>\$ 89</b>               | <b>\$ 3,237</b>   | <b>\$ 13,135</b> | <b>\$ 409,175</b> |

|                            | Current           | Still Accruing            |                           |                            | Total<br>Past Due | Non-<br>Accrual  | Total<br>Loans    |
|----------------------------|-------------------|---------------------------|---------------------------|----------------------------|-------------------|------------------|-------------------|
|                            |                   | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90<br>Days+<br>Past<br>Due |                   |                  |                   |
| December 31,<br>2011       |                   |                           |                           |                            |                   |                  |                   |
| Commercial and industrial  | \$ 57,291         | \$ 258                    | \$ 16                     | \$ 44                      | \$ 318            | \$ 1,576         | \$ 59,185         |
| Real estate - construction | 20,862            | 20                        | -                         | -                          | 20                | 663              | 21,545            |
| Real estate - mortgage:    |                   |                           |                           |                            |                   |                  |                   |
| Residential                | 193,732           | 2,624                     | 863                       | 275                        | 3,762             | 10,645           | 208,139           |
| Commercial                 | 104,086           | 83                        | 412                       | -                          | 495               | 3,921            | 108,502           |
| Consumer installment       | 4,408             | 60                        | 41                        | -                          | 101               | -                | 4,509             |
| <b>Total</b>               | <b>\$ 380,379</b> | <b>\$ 3,045</b>           | <b>\$ 1,332</b>           | <b>\$ 319</b>              | <b>\$ 4,696</b>   | <b>\$ 16,805</b> | <b>\$ 401,880</b> |

An allowance for loan losses (“ALL”) is maintained to absorb losses from the loan portfolio. The ALL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of nonperforming loans.

The Company's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Company's ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

The classes described above, which are based on the purpose code assigned to each loan, provide the starting point for the ALL analysis. Management tracks the historical net charge-off activity at the purpose code level. A historical charge-off factor is calculated using a defined number of consecutive historical quarters. All loan pools currently use a rolling 8 quarters period.

Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

The following tables summarize the primary segments of the loan portfolio as of the three and nine months ended September 30, 2012 and 2011 (in thousands):

|                                   | Commercial<br>and<br>industrial | Real estate-<br>construction | Real<br>estate-<br>residential<br>mortgage | Real estate-<br>commercial<br>mortgage | Consumer<br>installment | Total    |
|-----------------------------------|---------------------------------|------------------------------|--|--|-------------------------|----------|
| ALL balance at December 31, 2011  | \$ 1,296                        | \$ 438                       | \$ 3,731                                   | \$ 1,306                               | \$ 48                   | \$ 6,819 |
| Charge-offs                       | (88 )                           | -                            | (668 )                                     | (123 )                                 | (62 )                   | (941 )   |
| Recoveries                        | 70                              | -                            | 15   | -                                      | 17                      | 102      |
| Provision                         | 426                             | 7                            | (125 )                                     | 872                                    | 13                      | 1,193    |
| ALL balance at September 30, 2012 | \$ 1,704                        | \$ 445                       | \$ 2,953                                   | \$ 2,055                               | \$ 16                   | \$ 7,173 |

|                                   | Commercial<br>and<br>industrial | Real estate-<br>construction | Real<br>estate-<br>residential<br>mortgage | Real estate-<br>commercial<br>mortgage | Consumer<br>installment | Total    |
|-----------------------------------|---------------------------------|------------------------------|--|--|-------------------------|----------|
| ALL balance at December 31, 2010  | \$ 962                          | \$ 188                       | \$ 3,434                                   | \$ 1,543                               | \$ 94                   | \$ 6,221 |
| Charge-offs                       | (503 )                          | (6 )                         | (461 )                                     | (266 )                                 | (11 )                   | (1,247 ) |
| Recoveries                        | 75                              | -                            | 18   | -                                      | 22                      | 115      |
| Provision                         | 384                             | 75                           | 1,372                                      | 616                                    | 38                      | 2,485    |
| ALL balance at September 30, 2011 | \$ 918                          | \$ 257                       | \$ 4,363                                   | \$ 1,893                               | \$ 143                  | \$ 7,574 |

|                                   | Commercial<br>and<br>industrial | Real estate-<br>construction | Real<br>estate-<br>residential<br>mortgage | Real estate-<br>commercial<br>mortgage | Consumer<br>installment | Total    |
|-----------------------------------|---------------------------------|------------------------------|--|--|-------------------------|----------|
| ALL balance at June 30, 2012      | \$ 1,626                        | \$ 504                       | \$ 4,109                                   | \$ 1,492                               | \$ 21                   | \$ 7,752 |
| Charge-offs                       | (60 )                           | -                            | (570 )                                     | (70 )                                  | (40 )                   | (740 )   |
| Recoveries                        | 1                               | -                            | 12   | -                                      | 5                       | 18       |
| Provision                         | 137                             | (59 )                        | (598 )                                     | 633                                    | 30                      | 143      |
| ALL balance at September 30, 2012 | \$ 1,704                        | \$ 445                       | \$ 2,953                                   | \$ 2,055                               | \$ 16                   | \$ 7,173 |

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|                                   | Commercial<br>and<br>industrial | Real estate-<br>construction | Real<br>estate-<br>residential<br>mortgage | Real estate-<br>commercial<br>mortgage | Consumer<br>installment | Total   |
|-----------------------------------|---------------------------------|------------------------------|--|--|-------------------------|---------|
| ALL balance at June 30, 2011      | \$ 957                          | \$ 229                       | \$ 3,791                                   | \$ 1,921                               | \$ 129                  | \$7,027 |
| Charge-offs                       | (232 )                          |                              | (121 )                                     | (86 )                                  |                         | (439 )  |
| Recoveries                        | 49                              |                              | 15   |  | 2                       | 66      |
| Provision                         | 144                             | 28                           | 678  | 58                                     | 12                      | 920     |
| ALL balance at September 30, 2011 | \$ 918                          | \$ 257                       | \$4,363                                    | \$ 1,893                               | \$ 143                  | \$7,574 |

The following tables summarize troubled debt restructurings (in thousands):

Modifications  
Three Months Ended September 30, 2012

| Troubled Debt Restructurings | Rate<br>Forgiveness | Number of Contracts |       | Pre-Modification<br>Outstanding<br>Recorded<br>Investment |
|------------------------------|---------------------|---------------------|-------|---|
|                              |                     | Other               | Total |   |
| Commercial and industrial    | -                   | 2                   | 2     | \$ 13   |
| Real estate- mortgage:       |                     |                     |       |   |
| Residential                  | 1                   | 6                   | 7     | 619   |
| Consumer Installment         | -                   | 1                   | 1     | 6   |

| Troubled Debt Restructurings<br>subsequently defaulted | Number of<br>Contracts | Recorded Investment |
|--|------------------------|---------------------|
| Commercial and industrial                              | 1                      | \$ 30               |
| Real estate- mortgage:                                 |                        |                     |
| Residential  | 1                      | 20                  |

Modifications  
Nine Months Ended September 30, 2012

| Troubled Debt Restructurings | Rate<br>Forgiveness | Number of Contracts |       | Pre-Modification<br>Outstanding<br>Recorded<br>Investment |
|------------------------------|---------------------|---------------------|-------|---|
|                              |                     | Other               | Total |   |
| Commercial and industrial    | 1                   | 8                   | 9     | \$ 243  |
| Real estate- mortgage:       |                     |                     |       |   |
| Residential                  | 2                   | 8                   | 10    | 946   |
| Consumer Installment         | -                   | 2                   | 2     | 11  |

| Troubled Debt Restructurings<br>subsequently defaulted | Number of<br>Contracts | Recorded<br>Investment |
|--|------------------------|------------------------|
| Commercial and industrial                              | 2                      | \$60                   |
| Real estate- mortgage:                                 |                        |                        |
| Residential  | 1                      | 20                     |

The Company does not forgive principal upon troubled debt restructuring. Therefore, the post-modification outstanding recorded investment equals pre-modification outstanding recorded investment for each timeframe and category.





NOTE 7 – COMMON STOCK ISSUANCE

Middlefield Banc Corp. entered into an August 15, 2011 Stock Purchase Agreement with Banc Opportunity Fund LLC. The Stock Purchase Agreement provides for the purchase by Bank Opportunity Fund of up to 24.99% of our common stock. The Stock Purchase Agreement was amended by the First Amendment, dated September 29, 2011, the Second Amendment, dated October 20, 2011, the Third Amendment, dated November 28, 2011, the Fourth Amendment, dated December 21, 2011, the Fifth Amendment, dated April 17, 2012, and by the Sixth Amendment, dated August 23, 2012.

As amended by the Fifth Amendment on April 17, 2012, the Stock Purchase Agreement provides for Bank Opportunity Fund's ownership to reach 24.99% in three stages: (1) ownership of 4.9%, which occurred with the purchase by a Bank Opportunity Fund affiliate of 93,050 shares at \$16 per share on April 17, 2012, (2) ownership of 9.9%, which occurred on April 30, 2012 with the purchase by the affiliate of 103,585 shares at \$16 per share, and (3) ownership of 24.99% by the purchase of additional shares, currently estimated to be approximately 400,000 additional shares, which cannot occur unless Bank Opportunity Fund obtains regulatory approval, unless our stockholders approve the acquisition of shares by Bank Opportunity Fund, and unless the other conditions contained in the amended Stock Purchase Agreement are satisfied. The first sale of shares to Bank Opportunity Fund, on April 17, 2012, yielded gross proceeds of \$1,488,800 and the second sale, on April 30, yielded gross proceeds of \$1,657,360. Associated issuance costs totaled \$816,000 as of September 30, 2012. As amended by the Sixth Amendment, the purchase price for the additional shares in the third and final stage will be the greater of \$19 per share or 75% of tangible book value per share.

Completion of the third and final stage is subject to regulatory approval on the part of the Federal Reserve Bank of Cleveland and the Ohio Division of Financial Institutions. Additionally, Bank Opportunity Fund cannot own 20% or more of our common stock unless stockholders first approve that ownership level, acting at a special meeting in accordance with the Ohio Control Share Acquisition Act. As amended by the Sixth Amendment, the deadline for completion of the third and final stage is November 30, 2012, with a 45-day extension beyond that date unless the Federal Reserve or the Ohio Division of Financial Institutions advises Bank Opportunity Fund that the necessary regulatory approvals are unlikely to be received.

Bank Opportunity Fund currently is entitled by the terms of the amended Stock Purchase Agreement to designate one director for service on the board of Middlefield Banc Corp. and on the board of each of its subsidiary banks. By the terms of the April 17, 2012 Amended and Restated Purchaser's Rights and Voting Agreement with Bank Opportunity Fund, as amended by the amendment dated as of August 23, 2012, our directors and executive officers are required to vote shares they hold for approval of the acquisition of shares by Bank Opportunity Fund and in favor of election of Bank Opportunity Fund's director nominee.

Bank Opportunity Fund LLC is a Delaware limited liability company, established by its managing member Bank Acquisitions LLC, also a Delaware limited liability company. Bank Opportunity Fund was formed to invest primarily in U. S. banks, thrifts, and their holding companies. Bank Opportunity Advisors LLC, another Delaware limited liability company, is the investment adviser for Bank Opportunity Fund. Bank Acquisitions LLC as managing member and Bank Opportunity Advisors LLC as investment adviser manage the day-to-day operations and investment activities of Bank Opportunity Fund. Bank Acquisitions LLC controls Bank Opportunity Fund.

The proposed sale of additional shares to Bank Opportunity Fund is the final part of a private offering of our stock that began in 2010 and continued into 2011. Relying on the SEC's private offering exemption in Regulation D Rule 506, we conducted the private offering without registration under the Securities Act of 1933, offering and selling our shares solely to those qualifying as accredited investors, as defined in Regulation D. The subscription agreement entered into by an institutional investor that purchased 85,200 shares on August 12, 2011 in the private offering provides that – when the sale of shares to Bank Opportunity Fund is completed – the institutional investor will buy more shares from us so that the institutional investor maintains its ownership interest at 4.9%. The investor may, however, purchase the shares on the open market to maintain the 4.9% ownership interest. Accordingly, completion of the transaction with Bank Opportunity Fund obligates the institutional investor to purchase additional shares, which we currently estimate to be approximately 33,700 shares. Because the subscription agreement right to purchase shares at \$16 is significantly less than the current trading price for Middlefield Banc Corp. stock, we expect the investor will purchase these shares from us.

We give no assurance that the conditions to completion of the sale of stock to Bank Opportunity Fund will be satisfied by January 14, 2013, which is the final day of the 45-day extension of the November 30, 2012 deadline established by the Sixth Amendment of the Stock Purchase Agreement, or that the transaction will be completed at all. We are optimistic that Bank Opportunity Fund will obtain regulatory approval for its acquisition of additional shares, however. We have not yet fixed the date for the special meeting at which we will ask stockholders – in accordance with the Ohio Control Share Acquisition Act – to consider and vote upon the sale of shares to Bank Opportunity Fund. We currently expect to hold the special meeting before the end of the first quarter of 2013, and we expect to complete the sale of shares to Bank Opportunity Fund promptly after that meeting, assuming stockholders approve the sale.

This summary of the Stock Purchase Agreement, as amended, and related transactions is qualified in its entirety by reference to (1) the Form 8-K Current Report that we filed with the SEC on August 18, 2011, (2) the August 15, 2011 Stock Purchase Agreement (exhibit 10.26 to the Form 8-K Current Report filed on August 18, 2011), (3) the First, Second, Third, and Fourth Amendments of the Stock Purchase Agreement (exhibits 10.26.1, 10.26.2, 10.26.3, and 10.26.4 to our Form 10-K Annual Report for the year ended December 31, 2011), (4) the Form 8-K Current Report that we filed with the SEC on March 27, 2012, (5) the Form 8-K Current Report that we filed with the SEC on April 23, 2012, (6) the Fifth Amendment of the Stock Purchase Agreement and the Amended and Restated Purchaser's Rights and Voting Agreement (exhibits 10.26.6 and 10.28 to the Form 8-K Current Report filed on April 23, 2012), (7) the Form 8-K Current Report that we filed with the SEC on May 4, 2012, (8) the Form 8-K Current Report that we filed with the SEC on August 7, 2012, (9) the Form 8-K Current Report that we filed with the SEC on August 24, 2012, and (10) the Sixth Amendment of the Stock Purchase Agreement and the Amendment of the Amended and Restated Purchaser's Rights and Voting Agreement (exhibits 10.26.7 and 10.28.1 to the Form 8-K Current Report filed on August 24, 2012).

Forward-looking statements. This Form 10-Q includes forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include but are not limited to statements about anticipated operating and financial performance, such as loan originations, operating efficiencies, loan sales, charge-offs and loan loss provisions, growth opportunities, interest rates, and deposit growth. Words such as “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “project,” “plan,” and similar expressions to identify forward-looking statements. These statements involve risks and uncertainties that could cause actual results to differ materially, including without limitation delays in obtaining or failure to receive required regulatory approvals, including approval by the Superintendent of the Ohio Division of Financial Institutions and by the Board of Governors of the Federal Reserve System, the possibility that fewer than the required number of the Middlefield's stockholders vote in accordance with the Ohio Control Share Acquisition Act to approve the sale of shares to Bank Opportunity Fund, the occurrence of events that would have a material adverse effect on Middlefield as described in the Stock Purchase Agreement, as amended, and other uncertainties associated with the transactions described in this

Form 10-Q. Additional factors that could cause actual results to differ materially are discussed in Middlefield's filings with the Securities and Exchange Commission, including, without limitation, Middlefield's Form 10-K Annual Report, its Form 10-Q Quarterly Reports, and its Form 8-K Current Reports. Forward-looking statements are based on Middlefield's beliefs, plans, objectives, goals, assumptions, expectations, estimates, and intentions as of the date the statements are made. You must exercise caution because Middlefield cannot give any assurance that its beliefs, plans, objectives, goals, assumptions, expectations, estimates, and intentions will be realized. Middlefield does not undertake a duty to update any forward-looking statements in this Form 10-Q.

Additional information and where to find it. This communication may be deemed to be solicitation material. Middlefield will file with the SEC a proxy statement and other documents regarding the transaction with Bank Opportunity Fund. MIDDLEFIELD STOCKHOLDERS ARE URGED TO READ ALL RELEVANT DOCUMENTS TO BE FILED WITH THE SEC, INCLUDING MIDDLEFIELD'S PROXY STATEMENT, BECAUSE THE PROXY STATEMENT AND OTHER DOCUMENTS WILL CONTAIN IMPORTANT INFORMATION, INCLUDING INFORMATION ABOUT THE TRANSACTION WITH BANK OPPORTUNITY FUND. Members of the public will be able to obtain the proxy statement and other relevant documents free of charge at the SEC's website, <http://www.sec.gov>, and Middlefield's stockholders will receive information at an appropriate time about how to obtain the proxy statement and other transaction-related documents for free from Middlefield. The proxy statement and other documents are not currently available. Middlefield and its directors, executive officers, certain members of management, and employees may have interests in the transaction or be deemed to be participants in the solicitation of proxies of Middlefield's stockholders to approve the transaction with Bank Opportunity Fund. Information regarding the participants and their interest in the solicitation is set forth in the proxy statement filed by Middlefield with the SEC on April 9, 2012, for the 2012 Annual Meeting. Stockholders may obtain additional information regarding the interests of participants by reading the proxy statement relating to the transaction when the proxy statement becomes available.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides further detail to the financial condition and results of operations of the Company. The MD&A should be read in conjunction with the notes and financial statements presented in this report.

CHANGES IN FINANCIAL CONDITION

General. The Company's total assets at September 30, 2012 were \$664.2 million, an increase of \$9.6 million or 1.5% from December 31, 2011. Investment securities available-for-sale decreased \$14.8 million while cash and due from banks and net loans increased \$17.0 million and \$6.9 million, respectively. The increase in total assets coincided with an increase in total liabilities of \$1.8 million or .3%. Stockholders' equity increased \$7.8 million or 16.6%.

Cash on hand and due from banks. Cash on hand, due from banks, and Federal funds sold represent cash and cash equivalents. Cash and cash equivalents increased \$18.2 million or 53.0% to \$52.6 million at September 30, 2012 from \$34.4 million at December 31, 2011. Deposits from customers into savings and checking accounts, loan and security repayments and proceeds from borrowed funds typically increase these accounts. Decreases result from customer withdrawals, new loan originations, security purchases and repayments of borrowed funds.

Investment securities. Investment securities available-for-sale on September 30, 2012 totaled \$179.1 million, a decrease of \$14.8 million or 7.6% from \$194.0 million at December 31, 2011. During this period the Company recorded sales, repayments, calls, and maturities of available-for-sale securities of \$66.8 million, consisting of mortgage-backed securities, municipal and U. S. government bonds. Offsetting the outflow of securities were purchases of \$50.8 million.

Loans receivable. The loans receivable category consists primarily of single family mortgage loans used to purchase or refinance personal residences located within the Company's market area and commercial real estate loans used to finance properties that are used in the borrowers' businesses or to finance investor-owned rental properties, and to a lesser extent, construction and consumer loans. Net loans receivable increased \$6.9 million or 1.8% to \$402.0 million as of September 30, 2012 from \$395.1 million at December 31, 2011. Included in this amount was an increase in the commercial and industrial loan portfolio segment of \$6.1 million or 10.4% as well as the commercial real estate mortgage of \$4.4 million or 4.0% during the nine months ended September 30, 2012. The Company's lending philosophy centers around the growth of the commercial loan portfolio. The Company has taken a proactive approach in servicing the needs of both new and current clients. These relationships generally offer more attractive returns than residential loans and also offer opportunities for attracting larger balance deposit relationships. However, the shift in loan portfolio mix from residential real estate to commercial-oriented loans may increase credit risk.

Allowance for Loan Losses and Asset Quality. The allowance for loan losses increased to \$7.2 million, or 1.8% of total loans, at September 30, 2012, compared to \$6.8 million, or 1.7%, at December 31, 2011. The amount of allowance for loan losses is a continuation of the Company's approach to accurately measure credits identified as troubled in quarters past. Year-to-date net loan charge-offs totaled \$839,000 compared to \$1.1 million for the same period the year prior. To maintain the adequacy of the allowance for loan losses, the Company recorded provisions for loan losses of \$1.2 million year-to-date, versus \$2.5 million for year-to-date September 30, 2011.

Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the performance of the loan portfolio considering economic conditions, changes in interest rates and the effect of such changes on real estate values and changes in the amount and composition of the loan portfolio. The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term. Such evaluation, which includes a review of all loans for which full collectability may not be reasonably assured, considers among other matters, historical loan loss experience, the estimated fair value of the underlying collateral, economic conditions, current interest rates, trends in the borrower's industry and other factors that management believes warrant recognition in providing for an appropriate allowance for loan losses. Future additions to the allowance for loan losses will be dependent on these factors. Additionally, the Company uses an outside party to conduct an independent review of commercial and commercial real estate loans. The Company uses the results of this review to help determine the effectiveness of the existing policies and procedures, and to provide an independent assessment of the allowance for loan losses allocated to these types of loans. Management believes that the allowance for loan losses was appropriately stated at September 30, 2012. Based on the variables involved and the fact that management must make judgments about outcomes that are uncertain, the determination of the allowance for loan losses is considered a critical accounting policy.

Nonperforming assets. Nonperforming assets includes non-accrual loans, troubled debt restructurings ("TDRs"), loans 90 days or more past due, assets purchased by EMORECO from EB, other real estate, and repossessed assets. A loan is classified as non-accrual when, in the opinion of management, there are serious doubts about collectability of interest and principal. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, the borrower's financial condition is such that collection of principal and interest is doubtful. Payments received on nonaccrual loans are applied against principal according to management's shadow accounting system. The shadow accounting system tracks interest on nonaccrual loan payments as though current. The shadow account splits principal and interest on payments while the actual account undergoes only a principal reduction. TDRs are those loans which the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The Company has 47 TDRs with a total balance of \$4.7 million as of September 30, 2012. Nonperforming loans amounted to \$15.4 million, or 3.8% of total loans, and \$24.5 million or 6.1% of total loans at September 30, 2012 and December 31, 2011, respectively. The decrease in nonperforming loans has occurred partly due to improved performance of previously classified TDRs. A TDR that yields a market interest rate at the time of restructuring and is in compliance with its modified terms is no longer reported as TDR in calendar years after the year in which the restructuring took place. To be in compliance with its modified terms, a loan that is a TDR must not be in nonaccrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms. Nonperforming loans secured by real estate totaled \$13.6 million as of September 30, 2012, down \$9.2 million from \$22.8 million at December 31, 2011. Real estate owned is initially recorded at the lower of carrying cost or fair value less cost to sell and continually monitored for changes in fair value.

## Asset Quality History

(Dollar amounts in thousands)

| (Dollar amounts in thousands)                    | 9/30/2012 | 6/30/2012 | 3/31/2012 | 12/31/2011 | 9/30/2011 |
|--|-----------|-----------|-----------|------------|-----------|
| Nonperforming loans                              | \$15,404  | \$17,177  | \$17,677  | \$24,546   | \$22,725  |
| Real estate owned                                | 2,332     | 1,986     | 2,125     | 2,196      | 2,173     |
| Nonperforming assets                             | 17,736    | 19,163    | 19,802    | 26,742     | 24,898    |
| Allowance for loan losses                        | 7,173     | 7,752     | 7,267     | 6,819      | 7,574     |
| Ratios   |           |           |           |            |           |
| Nonperforming loans to total loans               | 3.76      | % 4.18    | % 4.37    | % 6.11     | % 5.85    |
| Nonperforming assets to total assets             | 2.67      | % 2.95    | % 3.01    | % 4.09     | % 3.77    |
| Allowance for loan losses to total loans         | 1.75      | % 1.89    | % 1.80    | % 1.70     | % 1.95    |
| Allowance for loan losses to nonperforming loans | 46.57     | % 45.13   | % 41.11   | % 27.78    | % 33.33   |

A major factor in determining the appropriateness of the allowance for loan losses is the type of collateral which secures the loans. Of the total nonperforming loans at September 30, 2012, 88.4% were secured by real estate. Although real estate collateral does not insure against all losses, the real estate typically provides for at least partial recovery, even in a distressed-sale and declining-value environment. In response to the poor economic conditions which have eroded the performance of the Company's loan portfolio, additional resources have been allocated to the loan workout process. The Company's objective is to minimize the future loss exposure to the Company.

Deposits. The Company considers various sources when evaluating funding needs, including but not limited to deposits, which are a significant source of funds totaling \$584.7 million or 96.3% of the Company's total funding sources at September 30, 2012. Total deposits increased \$3.8 million or .6% to \$584.7 million at September 30, 2012 from \$581.0 million at December 31, 2011. The increase in deposits is related to additions to demand and savings accounts of \$13.7 million or 7.0%, and \$7.1 million or 4.2%, respectively, at September 30, 2012. These increases were partially offset by decreases in time and money market accounts of \$17.0 million or 7.8%, and \$2.8 million or 3.7%, respectively, during the nine months ended September 30, 2012.

Borrowed funds. The Company uses short and long-term borrowings as another source of funding used for asset growth and liquidity needs. These borrowings primarily include Federal Home Loan Bank of Cincinnati ("FHLB") advances, junior subordinated debt, short-term borrowings from other banks and repurchase agreements. Short-term borrowings decreased \$874,000 or 11.8% to \$6.5 million as of September 30, 2012. This decline largely resulted from a decrease of \$632,000 in EB repurchase accounts. Other borrowings, representing advances from the FHLB, declined \$995,000 or 5.9%, to \$15.8 million for the nine months ended September 30, 2012. The decline in FHLB advances was the result of scheduled principal payments.

Stockholders' equity. Stockholders' equity increased \$7.8 million or 16.6% to \$55.1 million at September 30, 2012 from \$47.3 million at December 31, 2011. This increase was the result of increases in retained earnings, common stock, and accumulated other comprehensive income of \$3.5 million, \$2.8 million, and \$1.5 million, respectively. The increase in common stock was principally the result of a private offering of 196,635 shares pursuant to the Stock

Purchase Agreement (as amended) and described more completely in Note 7 to the financial statements included within this Form 10-Q. Additional shares of 22,708 were offered via the Company's dividend reinvestment plan at an average price of \$21.16 since December 31, 2011. The increase in accumulated other comprehensive income relates to increases in the fair value of the Company's securities available-for-sale portfolio.



## RESULTS OF OPERATIONS

General. Net income for the nine months ended September 30, 2012, was \$5.0 million, a \$2.2 million, or 78.9% increase from the \$2.8 million earned during the same period in 2011. Diluted earnings per share for the third quarter of 2012 was \$0.93 compared to \$0.63 for the same period in 2011. Diluted earnings per share for the nine months ended September 30, 2012 was \$2.65 compared to \$1.69 for the same period in 2011.

The Company's annualized return on average assets (ROA) and return on average equity (ROE) for the three months ended September 30, 2012 were 1.12% and 16.57%, respectively, compared with 0.66% and 11.11% for the same period in 2011. For the first nine months of 2012, the Company's ROA and ROE were 1.02% and 15.26%, respectively, compared with 0.59% and 9.82% for the same period of 2011.

The Company's earnings for the three and nine months ended September 30, 2012 were positively impacted by a decrease in deposit interest expense and provision for loan losses. This was partially offset by a decrease in interest income on securities.

Net interest income. Net interest income, the primary source of revenue for the Company, is determined by the Company's interest rate spread, which is defined as the difference between income on earning assets and the cost of funds supporting those assets, and the relative amounts of interest-earning assets and interest-bearing liabilities. Management periodically adjusts the mix of assets and liabilities, as well as the rates earned or paid on those assets and liabilities in order to manage and improve net interest income. The level of interest rates and changes in the amount and composition of interest-earning assets and liabilities affect the Company's net interest income. Historically from an interest rate risk perspective, it has been management's goal to maintain a balance between steady net interest income growth and the risks associated with interest rate fluctuations.

Net interest income for the three months ended September 30, 2012 totaled \$5.7 million, an increase of 6.4% from the \$5.4 million reported for the comparable period of 2011. The net interest margin was 4.02% for the third quarter of 2012, up from the 3.75% reported for the same quarter of 2011. The increase is primarily attributable to lower interest-bearing liability costs, which decreased 36 basis points to 1.20%. Deposit growth at the Banks has primarily been in products such as savings and interest-bearing demand accounts, which generally carry lower interest costs than other deposit alternatives.

Net interest income for the nine months ended September 30, 2012 totaled \$16.9 million, an increase of 8.6% from the \$15.5 million reported for the comparable period of 2011. The net interest margin was 3.95% for the year-to-date 2012, up from the 3.69% reported for the same quarter of 2011. The increase is primarily attributable to lower interest-bearing liability costs, which decreased 45 basis points to 1.23%. Deposit growth at the Banks has primarily been in products such as savings and interest-bearing demand accounts, which generally carry lower interest costs than other deposit alternatives.

Interest income. Interest income decreased \$186,000, or 2.5%, for the three months ended September 30, 2012, compared to the same period in the prior year. This can be attributed to a decrease in interest earned on investment securities of \$446,000, or 22.9%, partially offset by an increase in interest and fees on loans of \$255,000, or 4.6%. This increase was attributable to a \$24.3 million or 6.3% increase in the average balance of loans receivable from September 30, 2011.

Interest income decreased \$511,000, or 2.3%, for the nine months ended September 30, 2012, compared to the same period in the prior year. This can be attributed to a decrease in interest earned on investment securities of \$1.3 million, or 21.0%, partially offset by an increase in interest and fees on loans of \$733,000, or 4.5%. This increase was attributable to a \$26.3 million or 6.9% increase in the average balance of loans receivable from September 30, 2011.

Interest earned on securities decreased \$446,000, or 22.9%, for the three months ended September 30, 2012, compared to the same period in the prior year. This was primarily the result of a decrease in the average balance of the securities portfolio of \$25.0 million, or 12.7%, to \$172.6 million at September 30, 2012 from \$197.7 million for the same period in the prior year. Interest income on investment securities was also adversely affected by a decrease in the portfolio yield. The total investment securities portfolio yield of 4.34% for the three months ended September 30, 2012 decreased by 31 basis points from 4.65% for the same period in the prior year.

Interest earned on securities decreased \$1.3 million, or 21.0%, for the nine months ended September 30, 2012, compared to the same period in the prior year. This was primarily the result of a decrease in the average balance of the securities portfolio of \$13.2 million, or 6.8%, to \$181.1 million at September 30, 2012 from \$194.3 million for the same period in the prior year. Interest income on investment securities was adversely affected by a decrease in the portfolio yield. The total investment securities portfolio yield of 4.33% for the nine months ended September 30, 2012 decreased by 52 basis points from 4.85% for the same period in the prior year.

Interest expense. Interest expense decreased \$532,000, or 24.9%, for the three months ended September 30, 2012, compared to the same period in the prior year. This can be attributed to decreases in interest incurred on certificates of deposits and savings of \$183,000 and \$133,000, respectively. The reduction was intensified by decreases in the rates paid on money market and savings accounts of 37 and 34 basis points, respectively, when compared to the three months ended September 30, 2011.

Interest expense decreased \$1.8 million, or 27.2%, for the nine months ended September 30, 2012, compared to the same period in the prior year. This can be attributed to decreases in interest incurred on certificates of deposits and savings of \$655,000 and \$500,000, respectively. The reduction was enhanced by decreases in the rates paid on money market and savings accounts of 52 and 45 basis points, respectively, when compared to the nine months ended September 30, 2011.

Interest incurred on deposits, the largest component of the Company's interest-bearing liabilities, declined \$418,000, or 22.8%, for the three months ended September 30, 2012, compared to the same period in the prior year. This decrease was attributed to a decline in average rate paid on deposits to 1.11% for the three months ended September 30, 2012 from 1.41% for the same period in the prior year. The improvement in interest cost due to rates was bolstered by a decrease in the average balance of interest-bearing deposits of \$9.9 million, or 1.9%, to \$508.5 million for the three months ended September 30, 2012, compared to \$518.4 million for the same period in the prior year.

Interest incurred on deposits declined \$1.5 million, or 26.0%, for the nine months ended September 30, 2012, compared to the same period in the prior year. This decrease was attributed to a decline in average rate paid on deposits to 1.14% for the nine months ended September 30, 2012 from 1.53% for the same period in the prior year. The improvement in interest cost due to rates was enhanced by a decrease in the average balance of interest-bearing deposits of \$2.7 million, or 0.5%, to \$511.8 million for the nine months ended September 30, 2012, compared to \$514.4 million for the same period in the prior year.

These fluctuations are reflected in the quarterly rate volume report presented below depicting the cost decrease associated with interest-bearing liabilities. The Company diligently monitors the interest rates on its products as well as the rates being offered by its competition and utilizing rate surveys to minimize total interest expense.

Interest incurred on borrowed funds, declined by \$114,000, for the three months ended September 30, 2012, compared with the same period in the prior year. This decline was primarily attributable to a reduction of \$94,000 in interest paid on trust preferred securities when compared to September 30, 2011.

Interest incurred on borrowed funds, declined by \$316,000, for the nine months ended September 30, 2012, compared with the same period in the prior year. This decline was primarily attributable to a reduction of \$290,000 in interest paid on trust preferred securities when compared to September 30, 2011.

Provision for loan losses. The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the estimated probable incurred credit losses inherent in the loan portfolio. Each quarter management performs a review of estimated probable incurred credit losses in the loan portfolio. Based on this review, a provision for loan losses of \$143,000 was recorded for the quarter ended September 30, 2012 compared to \$920,000 for the quarter ended September 30, 2011. The provision for loan losses was lower due in part to decreases in net charge-offs and decreases in nonperforming and delinquent loans.

Nonperforming loans were \$15.4 million, or 3.8% of total loans at September 30, 2012 compared with \$22.7 million, or 5.9% at September 30, 2011. Net charge-offs were \$722,000 for the quarter ended September 30, 2012 compared with \$373,000 for the quarter ended September 30, 2011. Year-to-date net loan charge-offs totaled \$839,000 compared to \$1.1 million for the same period the year prior. Total loans were \$409.2 million at September 30, 2012 compared with \$388.6 million at September 30, 2011.

Non-interest income. Non-interest income increased \$182,000 for the three month period of September 30, 2012 over the comparable 2011 period. This growth was largely the result of increases in investment security gains and service charges on deposit accounts of \$146,000 and \$26,000, respectively.

Non-interest income increased \$700,000 for the nine month period of September 30, 2012 over the comparable 2011 period. This growth was largely the result of increases in investment security gains, revenue from investment services, and gain on loan sale of \$464,000, \$91,000, and \$84,000, respectively.

Non-interest expense. Non-interest expense of \$4.1 million for the third quarter of 2012 was 5.5%, or \$216,000 higher than the same period in 2011. Professional fees and FDIC expense increased \$89,000, or 49.2%, and \$74,000, or 42.0%, respectively, when compared to the same period in 2011. These increases were partially offset by a decrease in salaries and benefits of \$49,000, or 2.8%.

Non-interest expense of \$11.9 million for the year-to-date September 30, 2012 was 0.4%, or \$42,000, higher than the same period in 2011. Losses on other real estate owned and salaries and employee benefits decreased \$260,000, or 52.2%, and \$133,000, or 2.5%, as compared to the same period in 2011. These decreases were partially offset by increases in professional fees, FDIC expense, and equipment expense of \$93,000, or 16.1%, \$78,000, or 11.6%, and \$69,000, or 14.1%.

Provision for income taxes. The Company recognized \$1.4 million in income tax expense, which reflected an effective tax rate of 21.7% for the nine months ended September 30, 2012, as compared to \$319,000 with an effective tax rate of 10.2% for the respective 2011 period. The increase in the tax provision can be attributed to an increase in income before taxes of \$3.3 million, or 105.3% when compared to the same period in the prior year.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resultant 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 and 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. Interest and yields on tax-exempt securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis utilizing a federal tax rate of 34%. Yields and rates have been calculated on an annualized basis utilizing monthly interest amounts.

For the Three Months Ended September 30,

| (Dollars in thousands)   | 2012             |                |                    |          | 2011             |                |                    |          |
|--|------------------|----------------|--------------------|----------|------------------|----------------|--------------------|----------|
|  | Average Balance  | Interest       | Average Yield/Cost |          | Average Balance  | Interest       | Average Yield/Cost |          |
| <b>Interest-earning assets:</b>  |                  |                |                    |          |                  |                |                    |          |
| Loans receivable   | \$411,053        | \$5,810        | 5.62               | %        | \$386,788        | \$5,555        | 5.70               | %        |
| Investment securities (3)  | 172,637          | 1,498          | 4.34               | %        | 197,654          | 1,944          | 4.65               | %        |
| Interest-bearing deposits with other banks                                       | 23,126           | 34             | 0.58               | %        | 25,284           | 29             | 0.46               | %        |
| <b>Total interest-earning assets</b>   | <b>606,816</b>   | <b>7,342</b>   | <b>5.07</b>        | <b>%</b> | <b>609,726</b>   | <b>7,528</b>   | <b>5.14</b>        | <b>%</b> |
| Noninterest-earning assets   | 50,256           |                |                    |          | 36,781           |                |                    |          |
| <b>Total assets</b>  | <b>\$657,072</b> |                |                    |          | <b>\$646,507</b> |                |                    |          |
| <b>Interest-bearing liabilities:</b>   |                  |                |                    |          |                  |                |                    |          |
| Interest - bearing demand deposits   | \$64,785         | 67             | 0.41               | %        | \$60,197         | 90             | 0.59               | %        |
| Money market deposits  | 68,499           | 72             | 0.42               | %        | 75,734           | 151            | 0.79               | %        |
| Savings deposits   | 171,746          | 165            | 0.38               | %        | 163,178          | 298            | 0.72               | %        |
| Certificates of deposit  | 203,482          | 1,115          | 2.18               | %        | 219,262          | 1,298          | 2.35               | %        |
| Borrowings   | 22,997           | 183            | 3.17               | %        | 25,379           | 297            | 4.64               | %        |
| <b>Total interest-bearing liabilities</b>  | <b>531,509</b>   | <b>1,602</b>   | <b>1.20</b>        | <b>%</b> | <b>543,750</b>   | <b>2,134</b>   | <b>1.56</b>        | <b>%</b> |
| <b>Noninterest-bearing liabilities</b>   |                  |                |                    |          |                  |                |                    |          |
| Other liabilities  | 75,147           |                |                    |          | 61,066           |                |                    |          |
| Stockholders' equity   | 50,416           |                |                    |          | 41,691           |                |                    |          |
| <b>Total liabilities and stockholders' equity</b>                                | <b>\$657,072</b> |                |                    |          | <b>\$646,507</b> |                |                    |          |
| <b>Net interest income</b>   |                  | <b>\$5,740</b> |                    |          |                  | <b>\$5,394</b> |                    |          |
| Interest rate spread (1)   |                  |                | 3.87               | %        |                  |                | 3.58               | %        |
| <b>Net yield on interest-earning assets (2)</b>                                  |                  |                | <b>4.02</b>        | <b>%</b> |                  |                | <b>3.75</b>        | <b>%</b> |
| Ratio of average interest-earning assets to average interest-bearing liabilities |                  |                | 114.17             | %        |                  |                | 112.13             | %        |

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

(2) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(3) Tax equivalent adjustments to interest income for tax-exempt securities were \$385 and \$373 for 2012 and 2011, respectively.

Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense, between the three month periods ended September 30, 2012 and 2011, in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Company's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior period volume), changes in volume (changes in volume multiplied by prior period rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on securities reflects the changes in interest income on a fully

tax-equivalent basis.

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| (Dollars in thousands)                     | 2012 versus 2011 |               |               |
|--|------------------|---------------|---------------|
|  | Volume           | Rate          | Total         |
| <b>Interest-earning assets:</b>            |                  |               |               |
| Loans receivable                           | \$ 348           | \$(93 )       | \$ 255        |
| Investment securities                      | (292 )           | (154 )        | (446 )        |
| Interest-bearing deposits with other banks | (2 )             | 7             | 5             |
| <b>Total interest-earning assets</b>       | <b>54</b>        | <b>(240 )</b> | <b>(186 )</b> |
| <b>Interest-bearing liabilities:</b>       |                  |               |               |
| Interest - bearing demand deposits         | 7                | (30 )         | (23 )         |
| Money market deposits                      | (14 )            | (65 )         | (79 )         |
| Savings deposits                           | 16               | (149 )        | (133 )        |
| Certificates of deposit                    | (93 )            | (90 )         | (183 )        |
| Borrowings                                 | (28 )            | (86 )         | (114 )        |
| <b>Total interest-bearing liabilities</b>  | <b>(112 )</b>    | <b>(420 )</b> | <b>(532 )</b> |
| <b>Net interest income</b>                 | <b>\$ 166</b>    | <b>\$ 180</b> | <b>\$ 346</b> |

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| (Dollars in thousands)   | For the Nine Months Ended September 30, |                  |                       |          |                    |                  |                       |          |
|--|---|------------------|-----------------------|----------|--------------------|------------------|-----------------------|----------|
|  | Average<br>Balance                      | 2012<br>Interest | Average<br>Yield/Cost |          | Average<br>Balance | 2011<br>Interest | Average<br>Yield/Cost |          |
| <b>Interest-earning assets:</b>  |   |                  |                       |          |                    |                  |                       |          |
| Loans receivable   | \$ 406,919                              | \$ 16,988        | 5.58                  | %        | \$ 380,668         | \$ 16,255        | 5.71                  | %        |
| Investment securities<br>(3)   | 181,062                                 | 4,704            | 4.33                  | %        | 194,250            | 5,956            | 4.85                  | %        |
| Interest-bearing<br>deposits with other<br>banks   | 22,221                                  | 105              | 0.63                  | %        | 27,122             | 97               | 0.48                  | %        |
| <b>Total interest-earning<br/>assets</b>   | <b>610,202</b>                          | <b>21,797</b>    | <b>5.03</b>           | <b>%</b> | <b>602,040</b>     | <b>22,308</b>    | <b>5.20</b>           | <b>%</b> |
| Noninterest-earning<br>assets  | 45,323                                  |                  |                       |          | 33,524             |                  |                       |          |
| <b>Total assets</b>  | <b>\$ 655,525</b>                       |                  |                       |          | <b>\$ 635,564</b>  |                  |                       |          |
| <b>Interest-bearing<br/>liabilities:</b>   |   |                  |                       |          |                    |                  |                       |          |
| Interest - bearing<br>demand deposits  | \$ 61,718                               | 190              | 0.41                  | %        | \$ 55,314          | 265              | 0.64                  | %        |
| Money market deposits  | 70,108                                  | 216              | 0.41                  | %        | 73,963             | 515              | 0.93                  | %        |
| Savings deposits   | 170,423                                 | 495              | 0.39                  | %        | 157,538            | 995              | 0.84                  | %        |
| Certificates of deposit  | 209,504                                 | 3,448            | 2.20                  | %        | 227,613            | 4,103            | 2.41                  | %        |
| Borrowings   | 23,551                                  | 585              | 3.32                  | %        | 25,953             | 901              | 4.64                  | %        |
| <b>Total interest-bearing<br/>liabilities</b>  | <b>535,304</b>                          | <b>4,934</b>     | <b>1.23</b>           | <b>%</b> | <b>540,381</b>     | <b>6,779</b>     | <b>1.68</b>           | <b>%</b> |
| <b>Noninterest-bearing<br/>liabilities</b>   |   |                  |                       |          |                    |                  |                       |          |
| Other liabilities  | 70,846                                  |                  |                       |          | 55,672             |                  |                       |          |
| Stockholders' equity   | 49,375                                  |                  |                       |          | 39,511             |                  |                       |          |
| <b>Total liabilities and<br/>stockholders' equity</b>  | <b>\$ 655,525</b>                       |                  |                       |          | <b>\$ 635,564</b>  |                  |                       |          |
| <b>Net interest income</b>   |   | <b>\$ 16,863</b> |                       |          |                    | <b>\$ 15,529</b> |                       |          |
| Interest rate spread (1)   |   |                  | 3.79                  | %        |                    |                  | 3.52                  | %        |
| Net interest margin (2)  |   |                  | 3.95                  | %        |                    |                  | 3.69                  | %        |
| Ratio of average<br>interest-earning assets<br>to average<br>interest-bearing<br>liabilities |   |                  | 113.99                | %        |                    |                  | 111.41                | %        |

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

(2) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(3) Tax equivalent adjustments to interest income for tax-exempt securities was \$1,159 and \$1,094 for 2012 and 2011, respectively.



Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense, between the nine month periods ended September 30, 2012 and 2011, in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Company's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior period volume), changes in volume (changes in volume multiplied by prior period rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on securities reflects the changes in interest income on a fully tax-equivalent basis.

2012 versus 2011

| (Dollars in thousands)                     | Increase (decrease) due to |                |                |
|--|----------------------------|----------------|----------------|
|  | Volume                     | Rate           | Total          |
| <b>Interest-earning assets:</b>            |                            |                |                |
| Loans receivable                           | \$1,122                    | \$(389)        | \$733          |
| Investment securities                      | (479)                      | (773)          | (1,252)        |
| Interest-bearing deposits with other banks | (18)                       | 26             | 8              |
| <b>Total interest-earning assets</b>       | <b>625</b>                 | <b>(1,136)</b> | <b>(511)</b>   |
| <b>Interest-bearing liabilities:</b>       |                            |                |                |
| Interest - bearing demand deposits         | 31                         | (106)          | (75)           |
| Money market deposits                      | (27)                       | (272)          | (299)          |
| Savings deposits                           | 81                         | (581)          | (500)          |
| Certificates of deposit                    | (327)                      | (328)          | (655)          |
| Borrowings                                 | (83)                       | (233)          | (316)          |
| <b>Total interest-bearing liabilities</b>  | <b>(325)</b>               | <b>(1,520)</b> | <b>(1,845)</b> |
| <b>Net interest income</b>                 | <b>\$950</b>               | <b>\$384</b>   | <b>\$1,334</b> |

## LIQUIDITY

Management's objective in managing liquidity is maintaining the ability to continue meeting the cash flow needs of bank customers, such as borrowings or deposit withdrawals, as well as the Company's own financial commitments. The principal sources of liquidity are net income, loan payments, maturing and principal reductions on securities and sales of securities available-for-sale, federal funds sold and cash and deposits with banks. Along with its liquid assets, the Company has additional sources of liquidity available to ensure that adequate funds are available as needed. These include, but are not limited to, the purchase of federal funds, and the ability to borrow funds under line of credit agreements with correspondent banks and a borrowing agreement with the Federal Home Loan Bank of Cincinnati, Ohio and the adjustment of interest rates to obtain depositors. Management believes the Company has the capital adequacy, profitability and reputation to meet the current and projected needs of its customers.

For the three and nine months ended September 30, 2012, the adjustments to reconcile net income to net cash from operating activities consisted mainly of depreciation and amortization of premises and equipment, the provision for loan losses, net amortization of securities and net changes in other assets and liabilities. For a more detailed illustration of sources and uses of cash, refer to the condensed consolidated statements of cash flows.

## INFLATION

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). GAAP currently requires the Company to measure the financial position and results

of operations in terms of historical dollars, with the exception of securities available-for-sale, impaired loans and other real estate loans that are measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management's opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other, but do not always move in correlation with each other. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company's performance.

## REGULATORY MATTERS

The Company is subject to the regulatory requirements of The Federal Reserve System as a multi-bank holding company. The affiliate banks are subject to regulations of the Federal Deposit Insurance Corporation ("FDIC") and the State of Ohio, Division of Financial Institutions.

Effective February 11, 2010, the Board of Directors of the Company's subsidiary, EB, entered into a Memorandum of Understanding ("MOU") with the FDIC and the Ohio Division of Financial Institutions as a result of the joint examination by the FDIC and the Ohio Division of Financial Institutions completed in the fourth quarter of 2009. The MOU sets forth certain actions required to be taken by management of EB to rectify unsatisfactory conditions identified by the federal and state banking regulators that relate to EB's concentration of credit for non-owner occupied 1 - 4 family residential mortgage loans. The MOU requires EB to reduce delinquent and classified loans and enhance credit administration for non-owner occupied residential real estate; to develop specific plans for the reduction of borrower indebtedness on classified and delinquent credits; to correct violations of laws and regulations listed in the joint examination report; to implement an earnings improvement plan; to maintain specified capital discussed below; to submit to the FDIC and the Ohio Division of Financial Institutions for review and comment a revised methodology for calculating and determining the adequacy of the allowance for loan losses; and to provide 30 days' advance notification of proposed dividend payments.

Compliance with the terms of the MOU continues to be a high priority for the Company. Specific actions taken include the evaluation and reorganization of lending and credit administration personnel, retention of collection and workout personnel, and the sale of \$5.6 million of nonperforming assets to a sister, nonbank-asset resolution subsidiary. This amount is an increase from the original \$4.6 million sale in 2009. In 2010 and 2011, the Company invested \$500,000 and \$1.5 million in EB in the form of capital infusions to maintain Tier I capital at the level required by the FDIC and the Ohio Division of Financial Institutions.

The MOU requires that EB submit plans and report to the Ohio Division of Financial Institutions and the FDIC regarding EB's loan portfolio and profit plan, among other matters. The MOU also requires that the Bank maintain its Tier I Leverage Capital ratio at not less than 9 percent.

The following table sets forth the capital requirements for EB under the FDIC regulations and EB's capital ratios at September 30, 2012 and December 31, 2011:

## FDIC Regulations

| Capital Ratio           | Adequately Capitalized |   | Well Capitalized |        | September 30, 2012 | December 31, 2011 |
|-------------------------|------------------------|---|------------------|--------|--------------------|-------------------|
|                         |                        | % |                  | % (1 ) |                    | %                 |
| Tier I Leverage Capital | 4.00                   | % | 5.00             | % (1 ) | 10.17              | 9.92              |
| Risk-Based Capital:     |                        |   |                  |        |                    |                   |
| Tier I                  | 4.00                   |   | 6.00             |        | 13.10              | 12.57             |
| Total                   | 8.00                   |   | 10.00            |        | 14.35              | 13.82             |

(1) 9 percent required by the MOU.

## REGULATORY CAPITAL REQUIREMENTS

The Company is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the company's operations.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion and plans for capital restoration are required.

The Company's board has established a goal of maintaining Tier 1 leverage capital of at least 7.25% and total risk-based capital of at least 12%, both at the level of the holding company and at The Middlefield Banking Company. These enhanced capital levels have been achieved through a combination of measures, including restraining growth, sale of additional equity, and improved earnings. The goal of the elevated capital levels is to account for the ongoing economic stress in the markets in which we operate and to account for the levels of substandard and other nonperforming assets.

The following table illustrates the Company's and Banks' capital ratios at September 30, 2012:

|   | Middlefield Banc Corp.<br>September 30, 2012 |         | The Middlefield Banking Co.<br>September 30, 2012 |         | Emerald Bank<br>September 30, 2012 |         |
|---|--|---------|---|---------|------------------------------------|---------|
|   | Amount                                       | Ratio   | Amount  | Ratio   | Amount                             | Ratio   |
| (in thousands)                                      |  |         |   |         |                                    |         |
| <b>Total Capital<br/>(to Risk-weighted Assets)</b>  |  |         |   |         |                                    |         |
| Actual  | \$56,832                                     | 13.40 % | \$47,031  | 12.85 % | \$8,351                            | 14.35 % |
| For Capital Adequacy Purposes                       | 33,939                                       | 8.00    | 29,280  | 8.00    | 4,656                              | 8.00    |
| To Be Well Capitalized                              | 42,424                                       | 10.00   | 36,601  | 10.00   | 5,820                              | 10.00   |
| <b>Tier I Capital<br/>(to Risk-weighted Assets)</b> |  |         |   |         |                                    |         |
| Actual  | \$51,506                                     | 12.14 % | \$42,456  | 11.60 % | \$7,623                            | 13.10 % |
| For Capital Adequacy Purposes                       | 16,969                                       | 4.00    | 14,640  | 4.00    | 2,328                              | 4.00    |
| To Be Well Capitalized                              | 25,454                                       | 6.00    | 21,960  | 5.00    | 3,492                              | 6.00    |
| <b>Tier I Capital<br/>(to Average Assets)</b>       |  |         |   |         |                                    |         |
| Actual  | \$51,506                                     | 7.92 %  | \$42,456  | 7.42 %  | \$7,623                            | 10.17 % |
| For Capital Adequacy Purposes                       | 25,998                                       | 4.00    | 22,882  | 4.00    | 2,999                              | 4.00    |
| To Be Well Capitalized                              | 32,497                                       | 5.00    | 28,602  | 5.00    | 3,749                              | 5.00    |

### CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates involving the more significant judgments and assumptions used in the preparation of the consolidated financial statements as of September 30, 2012, have remained unchanged from December 31, 2011.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### ASSET AND LIABILITY MANAGEMENT

The primary objective of the Company's asset and liability management function is to maximize the Company's net interest income while simultaneously maintaining an acceptable level of interest rate risk given the Company's operating environment, capital and liquidity requirements, performance objectives and overall business focus. The principal determinant of the exposure of the Company's earnings to interest rate risk is the timing difference between the repricing and maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities. The Company's asset and liability management policies are designed to decrease interest rate sensitivity primarily by

shortening the maturities of interest-earning assets while at the same time extending the maturities of interest-bearing liabilities. The Board of Directors of the Company continues to believe in strong asset/liability management in order to insulate the Company from material losses as a result of prolonged increases in interest rates. As a result of this policy, the Company emphasizes a larger, more diversified portfolio of residential mortgage loans in the form of mortgage-backed securities. Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. Mortgage-backed securities also offer improved management of interest rate risk because some are adjustable rate securities. In this low interest rate environment, investment in mortgage-backed securities represents superior asset/liability management compared to investment in fixed-rate residential mortgages.

MB's Board of Directors have established an Asset and Liability Management Committee consisting of four outside directors, the President and Chief Executive Officer, Executive/Vice President/ Chief Operating Officer, Senior Vice President/Chief Financial Officer and Senior Vice President/Commercial Lending. This committee, which meets quarterly, generally monitors various asset and liability management policies and strategies, which were implemented by the Company over the past few years. These strategies have included: (i) an emphasis on the investment in adjustable-rate and shorter duration mortgage-backed securities; (ii) an emphasis on the origination of single-family residential adjustable-rate mortgages (ARMs), residential construction loans and commercial real estate loans, which generally have adjustable or floating interest rates and/or shorter maturities than traditional single-family residential loans, and consumer loans, which generally have shorter terms and higher interest rates than mortgage loans; (iii) increase the duration of the liability base of the Company by extending the maturities of savings deposits, borrowed funds and repurchase agreements.

MB and EB have established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a 200 basis point parallel and gradual increase or decrease in market interest rates, net interest income may not change by more than 10% for a one-year period.

Portfolio equity simulation. Portfolio equity is the net present value of the Company's existing assets and liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 20% of stockholders' equity.

The following table presents the simulated impact of a 200 basis point upward and a 200 basis point downward shift of market interest rates on net interest income and the change in portfolio equity. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at September 30, 2012 remained constant. The impact of the market rate movements was developed by simulating the effects of rates changing gradually over a one-year period from the September 30, 2011 levels for net interest income. The impact of market rate movements was developed by simulating the effects of an immediate and permanent change in rates at September 30, 2012 for portfolio equity:

|   | Increase<br>200 Basis<br>Points |     | Decrease<br>200 Basis<br>Points |     |
|---|---------------------------------|-----|---------------------------------|-----|
| Net interest income - increase (decrease) | 1.90                            | %   | 0.22                            | %   |
| Portfolio equity - increase (decrease)    | (17.73                          | ) % | (7.80                           | ) % |



#### Item 4. Controls and Procedures

##### Controls and Procedures Disclosure

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(e) and 15d-14(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are, to the best of their knowledge, effective to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that there were no significant changes in internal control or in other factors that could significantly affect its internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

##### Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1a. There are no material changes to the risk factors set forth in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Please refer to that section for disclosures regarding the risks and uncertainties related to the Company's business.

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

Please refer to Note 7 of the Notes to Unaudited Consolidated Financial Statements

Item 3. Defaults by the Company on its senior securities

None

Item 4. Mine Safety Disclosures

Item 5. Other information

None

Item 6. Exhibits

Exhibit list for Middlefield Banc Corp.'s Form 10-Q Quarterly Report for the Period Ended September 30, 2012

| exhibit number | description  | location   |
|----------------|--|--|
| 3.1            | Second Amended and Restated Articles of Incorporation of Middlefield Banc Corp., as amended  | Incorporated by reference to Exhibit 3.1 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2005, filed on March 29, 2006 |
| 3.2            | Regulations of Middlefield Banc Corp.  | Incorporated by reference to Exhibit 3.2 of Middlefield Banc Corp.'s registration statement on Form 10 filed on April 17, 2001                                       |
| 4.0            | Specimen stock certificate   | Incorporated by reference to Exhibit 4 of Middlefield Banc Corp.'s registration statement on Form 10 filed on April 17, 2001   |
| 4.1            | Amended and Restated Trust Agreement, dated as of December 21, 2006, between Middlefield Banc Corp., as Depositor, Wilmington Trust Company, as Property trustee, Wilmington Trust Company, as Delaware Trustee, and Administrative Trustees | Incorporated by reference to Exhibit 4.1 of Middlefield Banc Corp.'s Form 8-K Current Report filed on December 27, 2006  |
| 4.2            | Junior Subordinated Indenture, dated as of December 21, 2006, between Middlefield Banc Corp. and Wilmington Trust Company  | Incorporated by reference to Exhibit 4.2 of Middlefield Banc Corp.'s Form 8-K Current Report filed on December 27, 2006  |
| 4.3            | Guarantee Agreement, dated as of December 21, 2006, between Middlefield Banc Corp. and Wilmington Trust Company  | Incorporated by reference to Exhibit 4.3 of Middlefield Banc Corp.'s Form 8-K Current Report filed on December 27, 2006  |

| exhibit number | description   | location   |
|----------------|---|--|
| 10.1.0*        | 1999 Stock Option Plan of Middlefield Banc Corp.  | Incorporated by reference to Exhibit 10.1 of Middlefield Banc Corp.'s registration statement on Form 10 filed on April 17, 2001                                  |
| 10.1.1*        | 2007 Omnibus Equity Plan  | Incorporated by reference to Middlefield Banc Corp.'s definitive proxy statement for the 2008 Annual Meeting of Shareholders, Appendix A, filed on April 7, 2008 |
| 10.2*          | Severance Agreement between Middlefield Banc Corp. and Thomas G. Caldwell, dated January 7, 2008  | Incorporated by reference to Exhibit 10.2 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.3*          | Severance Agreement between Middlefield Banc Corp. and James R. Heslop, II, dated January 7, 2008 | Incorporated by reference to Exhibit 10.3 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.4.0*        | Severance Agreement between Middlefield Banc Corp. and Jay P. Giles, dated January 7, 2008        | Incorporated by reference to Exhibit 10.4 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.4.1*        | Severance Agreement between Middlefield Banc Corp. and Teresa M. Hetrick, dated January 7, 2008   | Incorporated by reference to Exhibit 10.4.1 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.4.2*        | [reserved]  |  |

| exhibit number | description   | location   |
|----------------|---|--|
| 10.4.3*        | Severance Agreement between Middlefield Banc Corp. and Donald L. Stacy, dated January 7, 2008               | Incorporated by reference to Exhibit 10.4.3 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008                                       |
| 10.4.4*        | Severance Agreement between Middlefield Banc Corp. and Alfred F. Thompson Jr., dated January 7, 2008        | Incorporated by reference to Exhibit 10.4.4 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008                                       |
| 10.5           | Federal Home Loan Bank of Cincinnati Agreement for Advances and Security Agreement dated September 14, 2000 | Incorporated by reference to Exhibit 10.4 of Middlefield Banc Corp.'s registration statement on Form 10 filed on April 17, 2001                                |
| 10.6*          | Amended Director Retirement Agreement with Richard T. Coyne   | Incorporated by reference to Exhibit 10.6 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.7*          | Amended Director Retirement Agreement with Frances H. Frank   | Incorporated by reference to Exhibit 10.7 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.8*          | Amended Director Retirement Agreement with Thomas C. Halstead   | Incorporated by reference to Exhibit 10.8 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.9*          | Director Retirement Agreement with George F. Hasman   | Incorporated by reference to Exhibit 10.9 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002 |

| exhibit number | description   | location  |
|----------------|---|---|
| 10.10*         | Director Retirement Agreement with Donald D. Hunter   | Incorporated by reference to Exhibit 10.10 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002 |
| 10.11*         | Director Retirement Agreement with Martin S. Paul   | Incorporated by reference to Exhibit 10.11 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002 |
| 10.12*         | Amended Director Retirement Agreement with Donald E. Villers                                      | Incorporated by reference to Exhibit 10.12 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008   |
| 10.13*         | Executive Survivor Income Agreement (aka DBO agreement [death benefit only]) with Donald L. Stacy | Incorporated by reference to Exhibit 10.14 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004 |
| 10.14*         | DBO Agreement with Jay P. Giles   | Incorporated by reference to Exhibit 10.15 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004 |
| 10.15*         | DBO Agreement with Alfred F. Thompson Jr.   | Incorporated by reference to Exhibit 10.16 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004 |

| exhibit number | description   | location  |
|----------------|---|---|
| 10.16*         | Reserved  |   |
| 10.17*         | DBO Agreement with Theresa M. Hetrick                                   | Incorporated by reference to Exhibit 10.18 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004 |
| 10.18*         | Executive Deferred Compensation Agreement with Jay P. Giles             | Incorporated by reference to Exhibit 10.18 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year ended December 31, 2011, filed on March 20, 2012 |
| 10.19*         | DBO Agreement with James R. Heslop, II                                  | Incorporated by reference to Exhibit 10.19 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004 |
| 10.20*         | DBO Agreement with Thomas G. Caldwell                                   | Incorporated by reference to Exhibit 10.20 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004 |
| 10.21*         | Form of Indemnification Agreement with directors and executive officers | Incorporated by reference to Exhibit 99.1 of Middlefield Banc Corp.'s registration statement on Form 10, Amendment No. 1, filed on September 14, 2001           |
| 10.22*         | Annual Incentive Plan   | Incorporated by reference to Exhibit 10.22 of Middlefield Banc Corp.'s Form 8-K Current Report filed on September 12, 2012                                      |

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| exhibit number | description   | location  |
|----------------|---|---|
| 10.22.1        | Annual Incentive Plan 2012 Award Summary for named executive officers   | Incorporated by reference to Exhibit 10.22.1 of Middlefield Banc Corp.'s Form 8-K Current Report filed on September 12, 2012                                      |
| 10.23*         | Amended Executive Deferred Compensation Agreement with Thomas G. Caldwell                                       | Incorporated by reference to Exhibit 10.23 of Middlefield Banc Corp.'s Form 8-K Current Report filed on May 9, 2008   |
| 10.24*         | Amended Executive Deferred Compensation Agreement with James R. Heslop, II                                      | Incorporated by reference to Exhibit 10.24 of Middlefield Banc Corp.'s Form 8-K Current Report filed on May 9, 2008   |
| 10.25*         | Amended Executive Deferred Compensation Agreement with Donald L. Stacy  | Incorporated by reference to Exhibit 10.25 of Middlefield Banc Corp.'s Form 8-K Current Report filed on May 9, 2008   |
| 10.26          | Stock Purchase Agreement dated August 15, 2011 between Bank Opportunity Fund LLC and Middlefield Banc Corp.     | Incorporated by reference to Exhibit 10.26 of Middlefield Banc Corp.'s Form 8-K Current Report filed on August 18, 2011   |
| 10.26.1        | Amendment 1 of the Stock Purchase Agreement with Bank Opportunity Fund LLC (amendment dated September 29, 2011) | Incorporated by reference to Exhibit 10.26.1 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year ended December 31, 2011, filed on March 20, 2012 |
| 10.26.2        | Amendment 2 of the Stock Purchase Agreement with Bank Opportunity Fund LLC (amendment dated October 20, 2011)   | Incorporated by reference to Exhibit 10.26.2 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year ended December 31, 2011, filed on March 20, 2012 |
| 10.26.3        | Amendment 3 of the Stock Purchase Agreement with Bank Opportunity Fund LLC (amendment dated November 28, 2011)  | Incorporated by reference to Exhibit 10.26.3 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year ended December 31, 2011, filed on March 20, 2012 |





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| exhibit number | description   | location  |
|----------------|---|---|
| 10.26.4        | Amendment 4 of the Stock Purchase Agreement with Bank Opportunity Fund LLC (amendment dated December 21, 2011)  | Incorporated by reference to Exhibit 10.26.4 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year ended December 31, 2011, filed on March 20, 2012 |
| 10.26.5        | March 21, 2012 letter agreement between Bank Opportunity Fund LLC and Middlefield Banc Corp   | Incorporated by reference to Exhibit 10.26.5 of Middlefield Banc Corp.'s Form 8-K Current Report filed on March 27, 2012  |
| 10.26.6        | Amendment 5 of the Stock Purchase Agreement with Bank Opportunity Fund LLC (amendment dated April 17, 2012)   | Incorporated by reference to Exhibit 10.26.6 of Middlefield Banc Corp.'s Form 8-K Current Report filed on April 23, 2012  |
| 10.26.7        | Amendment 6 of the Stock Purchase Agreement with Bank Opportunity Fund LLC (amendment dated August 23, 2012)  | Incorporated by reference to Exhibit 10.26.7 of Middlefield Banc Corp.'s Form 8-K Current Report filed on August 24, 2012   |
| 10.27          | [reserved]  |   |
| 10.28          | Amended and Restated Purchaser's Rights and Voting Agreement, dated April 17, 2012, among Bank Opportunity Fund LLC, Middlefield Banc Corp., and directors and officers of Middlefield Banc Corp. | Incorporated by reference to Exhibit 10.28 of Middlefield Banc Corp.'s Form 8-K Current Report filed on April 23, 2012  |
| 10.28.1        | Amendment of the Amended and Restated Purchaser's Rights and Voting Agreement (amendment dated August 23, 2012)   | Incorporated by reference to Exhibit 10.28.1 of Middlefield Banc Corp.'s Form 8-K Current Report filed on August 24, 2012   |
| 31.1           | Rule 13a-14(a) certification of Chief Executive Officer   | filed herewith  |
| 31.2           | Rule 13a-14(a) certification of Chief Financial Officer   | filed herewith  |
| 32             | Rule 13a-14(b) certification  | filed herewith  |
| 101.INS**      | XBRL Instance   | furnished herewith  |
| 101.SCH**      | XBRL Taxonomy Extension Schema  | furnished herewith  |

|           |                                      |                    |
|-----------|--------------------------------------|--------------------|
| 101.CAL** | XBRL Taxonomy Extension Calculation  | furnished herewith |
| 101.DEF** | XBRL Taxonomy Extension Definition   | furnished herewith |
| 101.LAB** | XBRL Taxonomy Extension Labels       | furnished herewith |
| 101.PRE** | XBRL Taxonomy Extension Presentation | furnished herewith |

\* management contract or compensatory plan or arrangement

\*\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

MIDDLEFIELD BANC CORP.

Date: November 8, 2012

By:/s/ Thomas G. Caldwell

Thomas G. Caldwell

President and Chief Executive Officer

Date: November 8, 2012

By:/s/ Donald L. Stacy

Donald L. Stacy

Principal Financial and Accounting  
Officer