



**Part II** Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶  
The merger is treated as a "reorganization" for U.S. federal income tax purposes within the meaning of IRC Section 368(a).  
The tax effects upon shareholders are governed by IRC Section 354, 356, 358, 1001, 1221

18 Can any resulting loss be recognized? ▶ Refer to the attached description of the basis calculation in Part II, box 15 above.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ This transaction was consummated on January 12, 2017. The reportable tax year of the Liberty Bank shareholders for reporting the tax effect of the share exchange is the tax year that includes the January 12, 2017 date. For shareholders who report taxable income on the calendar year basis, 2017 is the taxable year.

**Sign Here**  
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.  
Signature ▶ *Thomas G. Caldwell* Date ▶ 2/21/17  
Print your name ▶ Thomas G. Caldwell Title ▶ President and CEO

**Paid Preparer Use Only**  
Print/Type preparer's name: Danelle R. Stewart, CPA  
Preparer's signature: *Danelle R. Stewart*  
Date: 2-21-17  
Check  if self-employed  
Firm's name: S.R. Snodgrass, PC  
Firm's address: 2009 Mackenzie Way, Suite 340, Cranberry Township, PA 16066  
Firm's EIN: 25-1616561  
Phone no.: 724-934-0344  
PTIN: P00535522

**Middlefield Banc Corp**  
**34-1585111**  
**Attachment to Form 8937**

**REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES**

**Form 8937 Part I, Box 9:**

The securities subject to reporting include all shares of Middlefield Banc Corp (“Middlefield”) common stock issued in exchange for the outstanding common stock of Liberty Bank. (“Liberty”) as a result of the merger which closed January 12, 2017.

**Form 8937 Part II, Box 14:**

On January 12, 2017 Middlefield completed its acquisition of Liberty with Middlefield as the surviving corporation.

As a result of the Merger, Liberty shareholders exchanged their common stock into a right to receive either 1.1934 shares of Middlefield common stock, \$37.96 in cash, or a combination of cash and common stock of Middlefield, subject to proration and allocation to ensure that approximately 45% of the total number of shares of Liberty common stock were exchanged for Middlefield common stock and the remaining shares exchanged for cash. To the extent that the exchange would have resulted in the issuance of a fractional share of Middlefield common stock to a Liberty shareholder, a cash payment was paid in lieu of issuing a fractional share of Middlefield common stock.

**Form 8937 Part II, Box 15:**

The Merger of Liberty with and into Middlefield qualifies as a tax-free exchange within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. As a result, each Liberty shareholder’s tax consequences are as follows:

- Liberty shareholders who receive solely cash in exchange for all of his or her Liberty common stock as a result of the Merger will be treated as having received full payment for his or her Liberty common stock. Consequently, since the shareholder did not receive any Middlefield common stock, there will be no new basis to compute. Gain or loss will be recognized by those holders receiving solely cash for Liberty common stock pursuant to the Merger equal to the difference in the amount of cash received by a holder of Liberty common stock and such holder’s cost basis in such shares of Liberty common stock. If the Liberty common stock was held as a capital asset, any gain or loss will be a short-term or long-term capital gain or loss depending on the time the shareholder held the Liberty common stock;

- No gain or loss will be recognized by those holders receiving solely shares of Middlefield common stock in exchange for shares of Liberty common stock pursuant to the Merger (except with respect to any cash received in lieu of fractional shares). The aggregate basis of the Middlefield common stock received in the Merger will be the same as the aggregate basis of the Liberty common stock for which it was exchanged (decreased by any cash received instead of fractional share interests in Middlefield common stock);
- In general, a gain (but not loss) may be recognized by Liberty shareholders who receive shares of Middlefield common stock and cash in exchange for shares of Liberty common stock pursuant to the Merger. Such shareholders will recognize gain, if any, equal to the lesser of (1) the amount of cash received or (2) the amount of gain “realized” in the transaction (i.e., the amount by which (i) the cash plus fair market value of the Middlefield common stock received in the merger exceeds (ii) the shareholder’s basis in the Liberty common stock surrendered in exchange for the cash and Middlefield common stock. The aggregate basis of the Middlefield common stock received in the Merger by a Liberty shareholder who receives a combination of Middlefield common stock and cash in exchange for his or her Liberty common stock will be the same as the aggregate basis of the Liberty common stock for which it was exchanged, decreased by the amount of cash received in the Merger (except with respect to any cash received instead of fractional share interests in Middlefield common stock), decreased by any basis attributable to fractional share interests in Middlefield common stock for which cash is received, and increased by the amount of gain recognized on the exchange, but excluding any gain or loss recognized with respect to fractional share interests in Middlefield common stock for which cash is received;
- A holder of Liberty common stock who receives cash instead of a fractional share of Middlefield common stock will generally be treated as having received the fractional share pursuant to the Merger and then as having exchanged the fractional share for cash in a redemption by Middlefield. As a result, a holder of Liberty common stock will generally recognize a gain or loss equal to the difference between the amount of cash received and the basis in his or her fractional share interest as set forth above. The gain or loss will generally be a capital gain or loss, and will be a long-term capital gain or loss if, as of the effective date of the Merger, the holding period for such shares is greater than one year; and
- The holding period of Middlefield common stock received in exchange for shares of Liberty common stock will include the holding period of the Liberty common stock for which it is exchanged.

If holders of Liberty common stock acquired different blocks of Liberty common stock at different times or at different prices, any gain or loss will be determined separately with respect to each block of Liberty common stock and such holder’s basis and holding period in their shares of Middlefield common stock may be determined with reference to each block of Liberty common stock. Any such holders should consult their tax advisors regarding the manner in which cash and Middlefield common stock received in the exchange should be allocated among different blocks of Liberty common stock and with respect to identifying the basis or holding periods of the particular shares of Middlefield stock received in the Merger.