

Birmingham Bloomfield Bancshares  
Form 10-Q  
November 15, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10 Q**

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

**For the quarterly period ended September 30, 2010**

**Commission File Number 000-52584**

**BIRMINGHAM BLOOMFIELD BANCSHARES, INC.**

(Exact name of registrant as specified in its charter)

**Michigan**

**20-1132959**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**33583 Woodward Avenue, Birmingham, MI 48009**

(Address of principal executive offices, including zip code)

**(248) 723-7200**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (i) 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 (ii) 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller 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

The number of shares outstanding of the issuer's Common Stock as of November 15, 2010, was 1,800,000 shares.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

	(unaudited) September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents		
Cash	\$ 11,661,891	\$ 4,644,416
Federal funds sold	50,299	3,113,785
Total cash and cash equivalents	11,712,190	7,758,201
Securities, available for sale (Note 3)	3,963,672	3,835,082
Loans (Note 4)		
Total loans	94,284,107	79,655,896
Less: allowance for loan losses	(1,424,006)	(1,173,865)
Net loans	92,860,101	78,482,031
Premises & equipment (Note 6)	1,366,918	1,488,689
Interest receivable and other assets	1,351,593	1,072,770
Total assets	\$ 111,254,474	\$ 92,636,773
<b>Liabilities and Shareholders Equity</b>		
Deposits (Note 5)		
Non-interest bearing	\$ 12,708,760	\$ 8,494,903
Interest bearing	87,288,547	72,970,583
Total deposits	99,997,307	81,465,486
Interest payable and other liabilities	358,611	443,354
Total liabilities	100,355,918	81,908,840
Shareholders equity		
Senior cumulative perpetual preferred stock series A \$1,000 liquidation value per share, 5% Authorized, issued and outstanding 1,635 shares	1,635,000	1,635,000
Discount on senior preferred stock series A	(65,474)	(79,427)
Warrant cumulative perpetual preferred stock series B \$1,000 liquidation value per share, 9% Authorized, issued and outstanding 82 shares	82,000	82,000
Premium on warrant preferred stock series B	7,117	8,634
	1,744,000	1,744,000

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Senior cumulative perpetual preferred stock series C \$1,000 liquidation value per share, 5% Authorized, issued and outstanding 1,744 shares		
Common stock, no par value Authorized 4,500,000 shares Issued and outstanding 1,800,000 shares	17,034,330	17,034,330
Additional paid in capital share based payments	493,154	489,459
Accumulated deficit	(10,182,536)	(10,299,436)
Accumulated other comprehensive income	150,965	113,373
Total shareholders equity	10,898,556	10,727,933
Total liabilities and shareholders equity	\$ 111,254,474	\$ 92,636,773

See accompanying notes to consolidated financial statements

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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest Income				
Loans, including fees	\$ 1,486,216	\$ 1,038,306	\$ 4,127,106	\$ 2,774,781
Taxable securities	35,215	36,437	101,270	110,948
Federal funds sold	51	1,019	1,299	2,934
Correspondent bank	9,967	9,526	21,283	17,122
<b>Total interest income</b>	<b>1,531,449</b>	<b>1,085,288</b>	<b>4,250,958</b>	<b>2,905,785</b>
Interest expense				
Deposits	336,660	337,221	1,012,639	1,005,080
<b>Total interest expense</b>	<b>336,660</b>	<b>337,221</b>	<b>1,012,639</b>	<b>1,005,080</b>
<b>Net interest income</b>	<b>1,194,789</b>	<b>748,067</b>	<b>3,238,319</b>	<b>1,900,705</b>
Provision for loan losses	255,652	32,000	544,949	180,776
<b>Net interest income after provision for loan losses</b>	<b>939,137</b>	<b>716,067</b>	<b>2,693,370</b>	<b>1,719,929</b>
Non-interest income				
Loan fees and charges	2,952	4,337	16,514	10,008
Deposit fees and charges	22,895	20,053	64,061	54,779
Other income	1,578	2,916	24,312	12,733
<b>Total non-interest income</b>	<b>27,425</b>	<b>27,306</b>	<b>104,887</b>	<b>77,520</b>
Non-interest expense				
Salaries and benefits	428,327	398,630	1,226,890	1,176,724
Occupancy & equipment expense	143,398	191,873	433,941	607,413
Share based payments		5,911	3,695	19,211
Data processing expense	56,870	54,845	162,000	158,610
Advertising and public relations	21,895	(650)	67,229	56,608
Professional fees	62,898	72,663	222,603	269,977
Printing and office supplies	7,013	5,400	18,714	21,422
FDIC and state regulatory assessments	48,876	50,131	121,861	137,054
Loan production and servicing expense	24,524	26,947	67,159	53,306
Other expense	74,821	61,052	212,334	205,963
<b>Total non-interest expense</b>	<b>868,622</b>	<b>866,802</b>	<b>2,536,426</b>	<b>2,706,288</b>

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Net income (loss) before taxes	97,940	(123,429)	261,831	(908,839)
Income taxes				
Net income (loss)	\$ 97,940	\$ (123,429)	\$ 261,831	\$ (908,839)
Dividend on senior preferred stock	(44,082)	(22,283)	(132,495)	(27,482)
Amortization of discount on preferred stock	(4,191)	(3,942)	(12,436)	(6,994)
Effective dividend on preferred stock	(48,273)	(26,225)	(144,931)	(34,476)
Net income (loss) applicable to common shareholders	\$ 49,667	\$ (149,654)	\$ 116,900	\$ (943,315)
Basic income (loss) per share	\$ 0.03	\$ (0.08)	\$ 0.06	\$ (0.52)
Diluted income (loss) per share	\$ 0.03	\$ (0.08)	\$ 0.06	\$ (0.52)

See notes to consolidated financial statements

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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**January 1, 2010 to September 30, 2010**  
**(Unaudited)**

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2010	\$ 3,390,207	\$ 17,034,330	\$ 489,459	(\$10,299,436)	\$ 113,373	\$ 10,727,933
Amortization of senior preferred stock A	13,953			(13,953)		
Accretion of warrant preferred stock B	(1,517)			1,517		
Preferred dividends				(132,495)		(132,495)
Share based payments expense			3,695			3,695
Comprehensive income:						
Net earnings				261,831		261,831
Change in unrealized gain on securities					37,592	37,592
Total comprehensive income						299,424
Balance at September 30, 2010	\$ 3,402,643	\$ 17,034,330	\$ 493,154	\$ (10,182,536)	\$ 150,965	\$ 10,898,556

See accompanying notes to consolidated financial statements



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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	For the Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities		
Net income (loss)	\$ 261,831	\$ (909,578)
Share based payments expense	3,695	19,950
Provision for loan losses	544,949	180,776
Accretion of securities	(3,865)	(3,531)
Gain on sales or calls of securities		(3,027)
Depreciation expense	134,157	225,674
Loss on disposal of equipment		
Net (increase) decrease in other assets	(278,823)	(48,359)
Net decrease in other liabilities	(84,743)	(33,846)
 Net cash provided by (used in) operating activities	 577,201	 (571,941)
Cash flows from investing activities		
Origination of portfolio loans, net of principal repayments	(14,923,019)	(10,662,699)
Purchase of securities	(2,976,260)	(2,954,862)
Proceeds from sales, calls or maturities of securities	2,889,128	2,422,629
Purchases of premises and equipment, net of proceeds	(12,387)	(16,746)
 Net cash used in investing activities	 (15,022,538)	 (11,211,678)
Cash flows from financing activities		
Increase in deposits	18,531,821	14,843,261
Proceeds from sale of senior preferred stock		1,635,000
Dividend on senior preferred stock	(132,495)	(27,482)
 Net cash provided by financing activities	 18,399,326	 16,450,779
 Increase in cash and cash equivalents	 3,953,989	 4,667,160
 Cash and cash equivalents at the beginning of the period	 7,758,201	 4,663,497
 Cash and cash equivalents at the end of the period	 \$ 11,712,190	 \$ 9,330,657
 Supplemental cash flow information:		
Cash paid for interest:	\$ 980,895	\$ 1,070,918

See accompanying notes to consolidated financial statements



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**BIRMINGHAM BLOOMFIELD BANCSHARES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Summary of Significant Accounting Policies**

**Basis of Statement Presentation**

The accompanying unaudited consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP ) with the instructions to Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The interim financial statements should be read in conjunction with the financial statements of Birmingham Bloomfield Bancshares, Inc. (the Corporation ) and the notes thereto included in the Corporation s annual report on Form 10-K for the year ended December 31, 2009.

All adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of financial position, results of operations, and cash flows, have been made. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010.

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary the Bank of Birmingham (the Bank ). All significant intercompany balances and transactions have been eliminated in consolidation.

**Recent Accounting Developments**

*Accounting Standards Update (ASU) No. 2010-20, Receivables (Topic 310): Disclosure about Credit Quality of Financing Receivables and the Allowance For Credit Losses* The objective of this guidance is for an entity to provide disclosures that facilitate the evaluation of the nature of credit risk inherent in the entity s portfolio of financing receivables; how that risk is analyzed and assessed in arriving at the allowance for doubtful accounts and; the changes and reasons for those changes in the allowance for credit losses. To achieve those objectives, disclosures on a disaggregated basis shall be provided on two defined levels: (1) portfolio segment; and (2) class of financing receivable. This guidance makes changes to existing disclosure requirements and includes additional disclosure requirements relating to financing receivables. Short-term accounts receivable, receivables measured at fair value or lower of cost or fair value and debt securities are exempt from this guidance. The guidance pertaining to disclosures as of the end of a reporting period is effective for the Corporation for interim and annual reporting periods on or after December 15, 2010. The guidance pertaining to disclosures about activity that occurs during a reporting period is effective for the Corporation for interim and annual reporting periods beginning on or after December 15, 2010. The provisions of this guidance are not expected to have a significant impact on the Corporation s consolidated financial condition, results of operations or liquidity.

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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 Fair Value Accounting****Valuation Hierarchy**

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets which the Corporation can participate.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement, and include inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Assets***Securities available for sale*

All of the Corporation's securities available for sale are classified within Level 2 of the valuation hierarchy as quoted prices for similar assets are available in an active market.

The following table presents the financial instruments carried at fair value as of September 30, 2010, on the Consolidated Balance Sheet and by FASB ASC 820 valuation hierarchy (as described above):

Assets measured at fair value on a recurring basis as of September 30, 2010 (000s omitted):

	Quoted Prices in Active Markets	Significant Other	Significant Unobservable	Balance at
	for Identical Assets Level 1	Observable Inputs Level 2	Inputs Level 3	September 30,2010
(unaudited) Securities available for sale	\$	\$ 3,964	\$	\$ 3,964

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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 Fair Value Accounting -continued**

The Corporation has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. The fair value of impaired loans is based on the present value of expected future cash flows using management's assumptions about future payment ability, timing of expected cash flows and the estimated realizable value of collateral (typically based on appraisals). There were \$0.6 million in impaired loans at September 30, 2010 and \$0 at September 30, 2009.

**Note 3 Securities**

The amortized cost and estimated fair value of securities, with gross unrealized gains and losses, follows (000s omitted):

(unaudited)	Amortized	Gross unrealized	Gross unrealized	Estimated
September 30, 2010	cost	gains	losses	fair value
U.S. Government agency securities	\$ 1,870	\$ 20	\$	\$ 1,890
State and local government securities	650	13		663
Mortgage backed securities	881	107		988
Corporate bonds	250	11		261
Subtotal Available for Sale	\$ 3,651	\$ 151	\$	\$ 3,802
FHLB Stock	162			162
Total	\$ 3,813	\$ 151	\$	\$ 3,964

December 31, 2009	Amortized	Gross unrealized	Gross unrealized	Estimated
September 30, 2009	cost	gains	losses	fair value
U.S. Government agency securities	\$ 2,342	\$ 18	\$	\$ 2,360
State and local government securities	200	4		204
Mortgage backed securities	1,018	91		1,109
Corporate bonds				
Subtotal Available for Sale	\$ 3,560	\$ 113	\$	\$ 3,673
FHLB Stock	162			162
Total	\$ 3,722	\$ 113	\$	\$ 3,835

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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 Securities -continued**

As of September 30, 2010 and December 31, 2009, all securities are available for sale, with the exception of Federal Home Loan Bank stock which is restricted in that it can only be sold back to the Federal Home Loan Bank. The carrying value of the stock approximates its fair value. The securities held in our portfolio experienced no rating changes during the quarter and remain at AAA, except for two securities, a municipal holding which is Aa3 and a corporate debt security at Aa2. Both were based on ratings by Moody. At September 30, 2010 and December 31, 2009, securities were pledged to secure public deposits from the State of Michigan. The total securities pledged were \$1.85 million at September 30, 2010 and \$1.45 million at December 31, 2009, respectively.

The amortized cost and estimated fair value of securities at September 30, 2010, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties. The contractual maturities of securities are as follows (000s omitted):

(unaudited)	Amortized Cost	Estimated fair value
Due in one year or less	\$ 1,200	\$ 1,208
Due in one year through five years	851	