Birmingham Bloomfield Bancshares
Form 10-Q
August 13, 2008

Table of Contents

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 June 30, 2008
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 þ No o

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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes o No þ

The number of shares outstanding of the issuer s Common Stock as of August 13, 2008, was 1,800,000 shares.

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIRMINGHAM BLOOMFIELD BANCSHARES, INC
CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Cash and cash equivalents		
Cash	$ 1,219,245	$ 1,265,119
Federal funds sold	12,414,065	3,874,007
Total cash and cash equivalents	13,633,310	5,139,126
Securities, available for sale (Note 3)	1,766,686	2,595,930
Loans (Note 4)		
Total loans	49,388,881	37,106,976
Less: allowance for loan losses	(789,000)	(560,000)
Net loans	48,599,881	36,546,976
Premises & equipment (Note 6)	2,367,635	2,519,701
Interest receivable and other assets	475,313	458,157
Total assets	$ 66,842,825	$ 47,259,890
Liabilities and Shareholders Equity		
Deposits (Note 5)		
Non-interest bearing	$ 6,547,469	$ 5,385,200
Interest bearing	50,221,020	30,877,148
Total deposits	56,768,489	36,262,348
Interest payable and other liabilities	370,570	237,903
Total liabilities	57,139,059	36,500,251
Shareholders equity		
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	483,000	462,000
Accumulated deficit	(7,822,459)	(6,799,150)
Accumulated other comprehensive income	8,895	62,459

Total shareholders equity	9,703,766	10,759,639
Total liabilities and shareholders equity	$ 66,842,825	$ 47,259,890

See accompanying notes to consolidated financial statements

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Interest income				
Loans, including fees	$ 728,511	$ 344,503	$ 1,378,652	$ 597,906
Taxable securities	26,490	8,898	55,635	8,898
Federal funds sold	41,830	211,338	90,130	373,312
Total interest income	796,831	564,739	1,524,417	980,116
Interest expense				
Deposits	339,686	274,464	653,428	444,107
Total interest expense	339,686	274,464	653,428	444,107
Net interest income	457,145	290,275	870,989	536,009
Provision for loan losses	94,665	85,000	144,665	120,000
Net interest income after provision for loan losses	362,480	205,275	726,324	416,009
Non-interest income				
Loan fees and charges	1,102	20,202	11,829	46,113
Deposit fees and charges	19,991	10,418	37,815	21,158
Other income (loss)	2,483	(2,146)	11,917	(947)
Total non-interest income	23,576	28,474	61,561	66,324
Non-interest expense				
Salaries and benefits	312,540	461,070	861,604	895,762
Occupancy & equipment expense	199,284	249,800	418,244	457,553
FAS 123R share based payments	10,500		21,000	
Data processing expense	43,368	37,122	87,095	93,150
Advertising and public relations	36,395	61,178	59,611	130,098
Professional fees	72,512	64,510	159,782	125,411
Printing and office supplies	7,590	11,320	14,126	23,204
Other expense	102,465	94,167	189,732	153,918
Total non-interest expense	784,654	979,167	1,811,194	1,879,096
Net loss before taxes	(398,598)	(745,418)	(1,023,309)	(1,396,763)

Income taxes				
Net loss	$ (398,598)	$ (745,418)	$ (1,023,309)	$ (1,396,763)
Basic loss per share	$ (0.22)	$ (0.41)	$ (0.57)	$ (0.78)
Diluted loss per share	$ (0.22)	$ (0.41)	$ (0.57)	$ (0.78)

See accompanying notes to consolidated financial statements

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES, INC
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
January 1, 2008 to June 30, 2008
(Unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2008	$ 17,034,330	$ 462,000	$ (6,799,150)	$ 62,459	$ 10,759,639
Share based payments		21,000			21,000
Comprehensive loss:					
Net loss			(1,023,309)		(1,023,309)
Unrealized loss on securities				(53,564)	(53,564)
Total comprehensive loss					(1,076,873)
Balance at June 30, 2008	$ 17,034,330	$ 483,000	$ (7,822,459)	$ 8,895	$ 9,703,766

See accompanying notes to consolidated financial statements

Table of Contents

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

	For the Six Months Ended June 30, 2008	2007
Cash flows from operating activities		
Net loss	$ (1,023,309)	$ (1,396,763)
Share based payments expense	21,000	
Provision for loan losses	144,665	120,000
Accretion of securities	(7,305)	(1,189)
Gain on calls of securities	(6,474)	
Depreciation expense	156,000	187,200
Loss on disposal of equipment		35,479
Net increase in other assets	(17,156)	(86,004)
Net increase in other liabilities	132,667	578,502
Net cash used in operating activities	(599,912)	(562,775)
Cash flows from investing activities		
Increase in loans	(12,197,570)	(8,096,909)
Purchase of securities		(2,408,397)
Proceeds from sales, calls or maturities of securities	789,459	12,923
Purchases of premises and equipment	(3,934)	(736,626)
Proceeds from reimbursement of leasehold improvements		144,500
Net cash used in investing activities	(11,412,045)	(11,084,509)
Cash flows from financing activities Increase in deposits	20,506,141	20,251,552
Net cash provided by financing activities	20,506,141	20,251,552
Increase in cash and cash equivalents	8,494,184	8,604,268
Cash and cash equivalents at the beginning of the period	5,139,126	8,551,001
Cash and cash equivalents at the end of the period	$ 13,633,310	$ 17,155,269
Supplemental cash flow information:		
Cash paid for interest:	$ 542,564	$ 422,267

See accompanying notes to consolidated financial statements

Table of Contents

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-KSB for the year ended December 31, 2007.

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 six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

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

Establishing Standards on Measuring Fair Value

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. The Statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement. It also establishes a fair value hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value. The Corporation adopted SFAS 157 as of January 1, 2008. See Note 2, Fair Value Accounting for further information.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The decision to elect the fair value option may be applied instrument by instrument, is irrevocable and is applied to the entire instrument and not only specific risks, specific cash flows or portions of that instrument. Adoption of SFAS 159 was effective for the Corporation on January 1, 2008. The Corporation did not elect the fair value option on any financial assets or liabilities as of that date.

Non-controlling Interest in Consolidated Financial Statements an amendment to ARB No. 51

In November 2007, the FASB issued SFAS 160, *Non-controlling Interest in Consolidated Financial Statements an amendment to ARB No. 51.* SFAS 160 changes the way consolidated net earnings is presented. The new standard requires consolidated net earnings to be reported at amounts attributable to both the parent and the non-controlling interest and will require disclosure on the face of the consolidated statement of income amounts

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies continued

attributable to the parent and the non-controlling interest. The statement establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation. The statement also requires that a parent recognize a gain or loss in net earnings when a subsidiary is deconsolidated. The adoption of SFAS 160 is effective for the Corporation on January 1, 2009. Management does not expect that the adoption of this statement will have a material impact on the Corporation s financial condition, results of operation or liquidity.

Staff Accounting Bulletin 109

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 109 (SAB 109). SAB 109 expresses the views of the SEC regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. SAB 109 supersedes SAB 105 and expresses the current view of the staff that, consistent with the guidance in SFAS 156 *Accounting for Servicing of Financial Assets* and SFAS 159 *The Fair Value Option of Financial Assets and Financial Liabilities* , the expected net future cash flows related to the associated servicing of the loans should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 is effective on a prospective basis for derivative loan commitments issued or modified on January 1, 2008. Management believes the adoption of SAB 109 did not have a material impact on the Corporation s financial condition, results of operation or liquidity.

Staff Accounting Bulletin 110

In December 2007, the SEC issued Staff Accounting Bulletin 110 (SAB 110). SAB 110 expresses the views of the SEC regarding the use of a simplified method in developing an estimate of expected term of plain vanilla share options as discussed in SAB 107 and issued under SFAS 123 (revised 2004) *Share-Based Payment.* The SEC indicated in SAB 107 that it would accept a company s decision to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. Under SAB 107, the SEC had believed detailed information about employee exercise behavior would be readily available and therefore would not expect companies to use the simplified method for share option grants after December 31, 2007. SAB 110 states that the SEC will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007.

Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS 133

In March 2008, the FASB issued SFAS 161 *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS 133.* SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves on the transparency of financial reporting. In adopting SFAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial positions, financial performance and cash flows. This pronouncement is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. As the Corporation does not currently hold such derivative instruments, this pronouncement will not affect the Corporation s financial condition, results of operation, liquidity or financial disclosures.

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies continued

The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS 162 *The Hierarchy of Generally Accepted Accounting Principles.* SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The adoption of SFAS 162 will be effective 60 days following the Security Exchange Commission s (SEC) approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* Management does not expect that the adoption of this statement will have a material impact on the Corporation s financial condition, results of operation or liquidity.

Note 2 Fair Value Accounting

On January 1, 2008, the Corporation adopted SFAS 157. SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 was issued to bring conformity to the definition of fair value; prior to SFAS 157 there was no conformity in the accounting guidance regarding the definition of fair value.

Valuation Hierarchy

SFAS 157 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 1 of the valuation hierarchy as quoted prices are available in an active market.

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Fair Value Accounting continued

The following tables present the financial instruments carried at fair value as of June 30, 2008, on the Consolidated Balance Sheet and by SFAS 157 valuation hierarchy (as described above):

Assets measured at fair value on a recurring basis as of June 30, 2008 (000 s omitted):

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance at June 30, 2008
Securities available for sale	$ 1,767	$	$	$ 1,767

Assets measured at fair value on a nonrecurring basis as of June 30, 2008 (000 s omitted):

	Balance at June 30, 2008	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Losses for the Three and Six Months Ended June 30, 2008
Impaired loan accounted for under FAS 114	$ 173	$	$	$ 173	$ 173

Impaired Loans

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using primarily collateral value. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. The fair value of the collateral is based on an observable market price, current appraised value and management s estimates of collateral and other market conditions. Due to the lack of market transactions, volatility in pricing and other factors, some of which may be unobservable, the Corporation recorded the impaired loan as nonrecurring Level 3.

Note 3 Securities

The amortized cost and estimated fair value of securities are as follows (000 s omitted):

June 30, 2008 (unaudited)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Mortgage backed securities	$ 1,758	$ 9	$	$ 1,767
Total securities available for sale	$ 1,758	$ 9	$	$ 1,767

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
U.S. Government agency securities	$ 678	$ 7	$	$ 685
Mortgage backed securities	1,855	56		1,911
Total securities available for sale	$ 2,533	$ 63	$	$ 2,596

As of June 30, 2008 and December 31, 2007, all securities are available for sale. At June 30, 2008 and December 31, 2007, there were no securities pledged to secure borrowings, public deposits or for other purposes required or permitted by law.

The amortized cost and estimated fair value of securities at June 30, 2008, 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 (000 s omitted):

	Amortized cost	Estimated fair value
Mortgage backed securities, due after 10 years	$ 1,758	$ 1,767

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 Loans

A summary of the balances of loans are as follows (000 s omitted):

	June 30, 2008 (unaudited)	December 31, 2007
Mortgage loans on real estate:		
Residential 1 to 4 family	$ 2,006	$ 1,816
Multifamily	5,405	1,864
Commercial	18,788	13,601
Construction	3,215	2,348
Second mortgage	751	758
Equity lines of credit	11,495	8,696
Total mortgage loans on real estate	41,660	29,083
Commercial loans	7,550	7,898
Consumer installment loans	247	177