

Birmingham Bloomfield Bancshares

Form 10-Q

May 04, 2012

[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 March 31, 2012

Commission File Number 000-52584

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Michigan
(State or other jurisdiction of

20-3993452
(I.R.S. Employer

incorporation or organization)

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

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 May 4, 2012, was 1,812,662 shares.

Table of Contents

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS (Unaudited)</u>	3
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	23
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	32
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	32
<u>PART II. OTHER INFORMATION</u>	34
<u>ITEM 1. LEGAL PROCEEDINGS</u>	34
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	34
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	34
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	34
<u>ITEM 5. OTHER INFORMATION</u>	34
<u>ITEM 6. EXHIBITS</u>	35
EX-3.1	
EX-31.1	
EX-31.2	
EX-32.1	
EX-101	

Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF CONDITION**

	(Unaudited) March 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents		
Cash	\$ 11,436,761	\$ 4,693,585
Federal funds sold		
Total cash and cash equivalents	11,436,761	4,693,585
Securities, available for sale (Note 2)	4,513,638	4,594,761
Federal home loan bank stock	169,900	169,900
Loans held for sale	199,479	2,484,829
Loans (Note 3)		
Total portfolio loans	106,628,134	106,297,926
Less: allowance for loan losses	(1,594,350)	(1,574,350)
Net portfolio loans	105,033,784	104,723,576
Premises & equipment	1,350,946	1,395,187
Bank-owned Life Insurance	2,121,566	2,100,000
Interest receivable and other assets	3,837,097	4,235,623
Total assets	\$ 128,663,171	\$ 124,397,461
Liabilities and Shareholders' Equity		
Deposits (Note 4)		
Non-interest bearing	\$ 18,750,714	\$ 19,662,283
Interest bearing	93,023,218	88,015,546
Total deposits	111,773,932	107,677,829
Interest payable and other liabilities	592,595	755,090
Total liabilities	112,366,527	108,432,919
Shareholders' equity		
Senior non-cumulative perpetual preferred stock series D \$1,000 liquidation value per share, 1%		
Authorized, issued and outstanding 4,621 shares	4,621,000	4,621,000
Common stock, no par value		
Authorized 4,500,000 shares		
Issued and outstanding 1,812,662 shares	17,066,618	17,066,618
Additional paid in capital	493,154	493,154
Accumulated deficit	(5,975,004)	(6,311,398)
Accumulated other comprehensive income	90,876	95,168
Total shareholders' equity	16,296,644	15,964,542

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Total liabilities and shareholders' equity	\$ 128,663,171	\$ 124,397,461
--	----------------	----------------

See accompanying notes to consolidated financial statements

Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

	For the three months ended March 31,	
	2012	2011
Interest Income		
Interest and fees on loans	\$ 1,592,317	\$ 1,555,809
Interest on securities	25,696	27,911
Interest on fed funds and bank balances	3,414	4,631
Total interest income	1,621,427	1,588,351
Interest Expense		
Interest on deposits	227,557	314,055
Interest on fed funds and short-term borrowings	64	14,509
Total interest expense	227,621	328,564
Net Interest Income	1,393,806	1,259,787
Provision for Loan Losses	20,000	39,000
Net Interest Income After Provision for Loan Losses	1,373,806	1,220,787
Non-interest Income		
Service charges on deposit accounts	18,798	11,572
Mortgage banking activities	162,828	11,439
SBA loan sales	121,791	291,294
Other Income	180,572	10,804
Total non-interest income	483,989	325,109
Non-interest Expense		
Salaries and employee benefits	761,670	582,017
Occupancy expense	119,731	118,102
Equipment expense	49,152	35,400
Advertising and public relations	42,594	36,046
Data processing expense	59,002	49,013
Professional fees	117,034	111,524
Loan origination expense	69,012	26,369
Regulatory assessments	25,260	48,426
Other expenses	95,040	76,519
Total non-interest expense	1,338,495	1,083,416
Net Income Before Federal Income Tax	519,300	462,480
Federal income tax expense	171,353	
Net Income	347,947	462,480
Dividend on senior preferred stock	11,553	44,083
Accretion of discount on preferred stock		4,100
Net Income Applicable to Common Shareholders	\$ 336,394	\$ 414,297
Basic and Diluted Income per Share	\$ 0.19	\$ 0.23
Average Shares Outstanding	1,812,662	1,800,000

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
	2012	2011
Net income applicable to common shareholders	\$ 336,394	\$ 414,297
Other comprehensive income (loss), net of applicable taxes		
Change in value of investments available for sale	(4,292)	(737)
Comprehensive income	\$ 332,102	\$ 413,560

See accompanying notes to consolidated financial statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Unaudited)

	Three Months Ended	
	March 31,	
Total Shareholders Equity	2012	2011
Balance at beginning of period	\$ 15,964,542	\$ 10,985,525
Net income	347,947	462,480
Net change in unrealized gains on securities available for sale	(4,292)	(737)
Preferred dividends	(11,553)	(44,083)
Balance at end of period	\$ 16,296,644	\$ 11,403,185

See accompanying notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

	For the Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 347,947	\$ 462,480
Provision for loan losses	20,000	39,000
Gain on sale of loans	(162,828)	(8,697)
Proceeds for sales of loans originated for sale	7,012,578	436,197
Loans originated for sale	(4,564,400)	(105,000)
Accretion of securities	1,486	(1,576)
Depreciation expense	54,696	43,669
Deferred income taxes	171,353	
Net decrease (increase) in other assets	207,818	(24,137)
Net (decrease) in other liabilities	(162,495)	(99,863)
Net cash provided by operating activities	2,926,155	742,073
Cash flows from investing activities		
Net change in portfolio loans	(330,208)	2,173,575
Purchase of securities	(1,001,000)	
Proceeds from calls or maturities of securities	1,000,000	
Principal payments on securities	74,134	50,189
Purchases of premises and equipment	(10,455)	(119,585)
Net cash (used in) provided by investing activities	(267,529)	2,104,179
Cash flows from financing activities		
Increase in deposits	4,096,103	7,337,501
Net change in short term borrowings		(1,469,095)
Dividend on senior preferred stock	(11,553)	(44,083)
Net cash provided by financing activities	4,084,550	5,824,323
Increase in cash and cash equivalents	6,743,176	8,670,575
Cash and cash equivalents beginning of period	4,693,585	5,366,304
Cash and cash equivalents end of period	\$ 11,436,761	\$ 14,036,879
Supplemental Information:		
Interest paid	\$ 229,396	\$ 642,745
Income tax paid		
Loans transferred to other real estate		

See accompanying notes to consolidated financial statements

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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, 2011.

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 months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

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.

Changes in Significant Accounting Policies

Comprehensive Income - In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income . This standard requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but continuous statements. This standard eliminates the option to present the components of other comprehensive income as part of the statement of equity. This standard is effective for fiscal years and interim periods with those years beginning after December 15, 2011. The implementation of this standard will only change the presentation of comprehensive income; it will not have an impact on the Company s financial position or results of operations. This guidance was adopted in the first quarter of 2012 with no impact to the financial statements.

Table of Contents**Note 2 Securities**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2012				
U. S. Government agency securities	\$ 2,347	\$ 10	\$ (7)	\$ 2,350
Municipal securities	707	16	(3)	720
Mortgage backed securities	1,072	106		1,178
Corporate bonds	250	16		266
Sub-Total Available for Sale	\$ 4,376	\$ 148	\$ (10)	\$ 4,514
FHLB Stock	170			170
Total Securities	\$ 4,546	\$ 148	\$ (10)	\$ 4,684
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011				
U. S. Government agency securities	\$ 2,347	\$ 9	\$ (2)	\$ 2,354
Municipal securities	709	16	(4)	721
Mortgage backed securities	1,145	113		1,258
Corporate bonds	250	12		262
Sub-Total Available for Sale	\$ 4,451	\$ 150	\$ (6)	\$ 4,595
FHLB Stock	170			170
Total Securities	\$ 4,621	\$ 150	\$ (6)	\$ 4,765

As of March 31, 2012 and December 31, 2011, all securities are classified as available for sale. Unrealized gains and losses within the investment portfolio are determined to be temporary. The Bank has performed an analysis of the portfolio for other than temporary impairment and concluded no losses are required to be recognized. Management has no specific intent to sell any securities and it is not more likely than not the Bank will be required to sell any securities before recovery of the cost basis. Management expects to collect all amounts due according to the contractual terms of the security. The unrealized losses reported in the Bank's investment portfolio are the result of changes in interest rates and the Bank expects to recover the amortized cost of the investment. The Corporation had four individual securities with unrealized losses totaling \$10,000 while there were three individual securities with gross unrealized losses totaling \$6,000 at December 31, 2011.

At March 31, 2012 and December 31, 2011, securities with a market value of \$3.5 million and \$3.6 million, respectively, were pledged to the Federal Home Loan Bank of Indianapolis as collateral to access funding.

Federal Home Loan Bank stock is restricted and can only be sold back to the Federal Home Loan Bank. The carrying value of the stock approximates its fair value.

The amortized cost and estimated fair value of all securities at March 31, 2012, 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):

	Amortized cost	Estimated fair value
--	-------------------	-------------------------

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Due in one year or less	\$ 1,000	\$ 999
Due in one year through five years	3,160	3,268
Due in five years through ten years	216	247
Due after ten years		
Total	\$ 4,376	\$ 4,514

Table of Contents**Note 3 Loans**

A summary of the portfolio loan balances as of March 31, 2012 and December 31, 2011 is as follows (000s omitted):

	March 31, 2012	December 31, 2011
Mortgage loans on real estate:		
Residential 1 to 4 family	\$ 6,394	\$ 4,005
Multifamily	14,413	14,508
Commercial	49,972	50,426
Construction	2,967	2,541
Second mortgage	110	112
Equity lines of credit	10,468	11,119
 Total mortgage loans on real estate	 84,324	 82,711
Commercial loans	21,456	22,512
Consumer installment loans	917	1,141
 Total loans	 106,697	 106,364
Less: Allowance for loan losses	(1,594)	(1,574)
Net deferred loan fees	(69)	(66)
 Net loans	 \$ 105,034	 \$ 104,724

Table of Contents**Note 3 Loans Continued**

An analysis of the allowance for loan losses for the year to date period ended March 31, 2012 and 2011 (000s omitted):

Three months ended March 31, 2012

Allowance for Loan Losses	Commercial	Home Equity	Residential	Consumer	Total
Beginning balance	\$ 1,142	\$ 416	\$ 10	\$ 6	\$ 1,574
Charge-offs					
Recoveries					
Provision	18	(9)	11		20
Ending balance	\$ 1,160	\$ 407	\$ 21	\$ 6	\$ 1,594
Percent of principal balance	1.26%	4.44%	0.51%	0.56%	1.50%
Ending balance: individually evaluated for impairment	\$ 115	\$ 212	\$	\$	\$ 327
Ending balance: collectively evaluated for impairment	\$ 1,045	\$ 195	\$ 21	\$ 6	\$ 1,267
Portfolio Loans					
Ending unpaid principal balance	\$ 92,307	\$ 9,162	\$ 4,149	\$ 1,079	\$ 106,697
Ending unpaid principal balance: individually evaluated for impairment	\$ 699	\$ 590	\$	\$	\$ 1,289
Ending unpaid principal balance: collectively evaluated for impairment	\$ 91,608	\$ 8,572	\$ 4,149	\$ 1,079	\$ 105,408

Three months ended March 31, 2011

Allowance for Loan Losses	Commercial	Home Equity	Residential	Consumer	Total
Beginning balance	\$ 1,070	\$ 352	\$ 14	\$ 12	\$ 1,448
Charge-offs					
Recoveries					
Provision	43	(2)		(2)	39
Ending balance	\$ 1,113	\$ 350	\$ 14	\$ 10	\$ 1,487
Percent of principal balance	1.29%	3.47%	1.22%	1.23%	1.51%
Ending balance: individually evaluated for impairment	\$ 56	\$ 212	\$	\$	\$ 268
Ending balance: collectively evaluated for impairment	\$ 1,057	\$ 138	\$ 14	\$ 10	\$ 1,219
Portfolio Loans					
Ending unpaid principal balance	\$ 86,233	\$ 10,099	\$ 1,145	\$ 811	\$ 98,288
Ending unpaid principal balance: individually evaluated for impairment	\$ 699	\$ 888	\$	\$	\$ 1,587
Ending unpaid principal balance: collectively evaluated for impairment	\$ 85,534	\$ 9,211	\$ 1,145	\$ 811	\$ 96,701

Table of Contents**Note 3 Loans - continued**

Management uses a loan rating system to identify the inherent risk associated with portfolio loans. Loan ratings are based on a subjective definition that describes the conditions present at each level of risk and identifies the important aspect of each loan. The Bank currently uses a 1 to 8 grading scale for commercial loans. Each loan grade corresponds to a specific qualitative classification. All other consumer and mortgage loan types are not graded using the risk rating scale but are internally rated based on various credit quality characteristics using the same qualitative classification. The risk rating classifications included: pass, special mention, substandard, doubtful and loss.

Loans risk-rated as special mention, are considered criticized loans, exhibiting some potential credit weakness that requires additional attention by management and are maintained on the internal watch list and monitored on a regular basis. Loans risk-rated as substandard or higher are considered classified loans exhibiting well-defined credit weakness and are recorded on the problem loan list and evaluated more frequently. The Bank's credit administration function is designed to provide increased information on all types of loans to identify adverse credit risk characteristics in a timely manner. Total criticized and classified loans increased modestly to \$13,901,000 at March 31, 2012 from \$13,821,000 at December 31, 2011. The change was the result of an increase totaling \$14,000 in special mention loans and a \$66,000 increase in substandard accounts. The increase is isolated to commercial loans and a function of the conservative approach by credit administration. It is not a reflection of a deterioration in the portfolio. The Bank has no loans in non-accrual status. There were no loans that were risk rated doubtful or loss at March 31, 2012 or December 31, 2011. Management closely monitors each loan adversely criticized or classified and institutes appropriate measures to eliminate the basis of criticism.

The primary risk elements considered by management regarding each consumer and residential real estate loan are lack of timely payment and loss of real estate values. Management has a reporting system that monitors past due loans and has adopted policies to pursue its creditor's rights in order to preserve the Bank's position. The primary risk elements concerning commercial and industrial loans and commercial real estate loans are the financial condition of the borrower, the sufficiency of collateral, and lack of timely payment. Management has a policy of requesting and reviewing periodic financial reporting from its commercial loan customers and verifies existence of collateral and its value.

An analysis of credit quality indicators at March 31, 2012 and December 31, 2011 follows (000s omitted):

March 31, 2012**Commercial Loans**

Credit Quality	Commercial Real Estate	Commercial Term	Commercial LOC	Commercial Construction
1 pass	\$	\$	\$	\$
2 pass	169	84		
3 pass	15,111	5,023	4,123	327
4 pass	41,881	8,586	3,368	683
5 special mention	5,548	2,491	501	1,957
6 substandard	1,422	553	480	
7 - doubtful				
8 - loss				
	\$ 64,131	\$ 16,737	\$ 8,472	\$ 2,967

Consumer Loans

Credit Quality	Home Equity LOC	Residential Mortgage	Home Equity Term	Consumer Installment	Consumer LOC
Pass	\$ 8,230	\$ 4,039	\$ 110	\$ 415	\$ 647
Special mention	342			17	
Substandard	590				

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Doubtful
Loss

\$ 9,162	\$ 4,039	\$ 110	\$ 432	\$ 647
----------	----------	--------	--------	--------

12

Table of Contents

Note 3 Loans - continued

December 31, 2011

Commercial Loans

Credit Quality	Commercial Real Estate	Commercial Term	Commercial LOC	Commercial Construction
1 pass	\$	\$	\$	\$
2 pass	217	89		
3 pass	16,023	3,793	4,644	
4 pass	41,184	8,754	5,248	683
5 special mention	5,586	2,524	511	1,858
6 substandard	1,426	598	365	
7 - doubtful				
8 - loss				
	\$ 64,436	\$ 15,758	\$ 10,768	\$ 2,541

Consumer Loans

Credit Quality	Home Equity LOC	Residential Mortgage	Home Equity Term	Consumer Installment	Consumer LOC
Pass	\$ 8,686	\$ 1,828	\$ 111	\$ 583	\$ 700
Special mention	343			20	
Substandard	590				
Doubtful					
Loss					
	\$ 9,619	\$ 1,828	\$ 111	\$ 603	\$ 700

A loan is considered a troubled debt restructuring (TDR) if the Bank for economic or legal reasons related to the borrower s financial condition grants a concession to the debtor that the Bank would not otherwise consider. TDRs represent loans where the original terms of the agreement have been modified to provide relief to the borrower and are individually evaluated for impairment. The Bank had one loan classified as a TDR at March 31, 2012 and December 31, 2011. The loan continues to perform according to the modified contractual terms.

Information regarding modified loans as of March 31, 2012 and December 31, 2011 (000s omitted):

March 31, 2012

Troubled Debt Restructuring	Number of Contracts	Pre-Modification Investment	Post-Modification Investment
Commercial Real Estate	1	\$ 699	\$ 699
Commercial Term			
Commercial LOC			
Construction			
Home Equity			
Residential Mortgage			
Consumer			

December 31, 2011

<u>Troubled Debt Restructuring</u>			
Commercial Real Estate	1	\$ 699	\$ 699
Commercial Term			
Commercial LOC			
Construction			
Home Equity			
Residential Mortgage			
Consumer			

Table of Contents**Note 3 Loans - continued**

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all principal and interest payments according to the contractual terms of the loan agreement. Characteristics considered by management in determining impairment include delinquency status, collateral value, and known factors adversely affecting the ability of the borrower to satisfy the terms of the agreement. When an individual loan is classified as impaired, the Corporation measures impairment using (1) the present value of expected cash flows discounted at the loans effective interest rate, (2) the loans observable market price, or (3) the fair value of the collateral. The method used is determined on a loan by loan basis, except for a collateral dependent loan. All collateral dependent loans are required to be measured using the fair value of collateral method. If the value of an impaired loan is less than the recorded investment in the loan an impairment reserve is recognized. All modified loans are considered impaired.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, except if modified and considered to be a troubled debt restructuring.

Information regarding impaired loans at March 31, 2012; December 31, 2011; and March 31, 2011 (000s omitted):

	Recorded Investment	Unpaid Principal	Allowance	Average Investment	Year to Date Interest Recognized
March 31, 2012					
Impaired loans					
Allowance recorded:					
Commercial Real Estate	\$ 699	\$ 699	\$ 115	\$ 699	\$ 14
Home Equity Line of Credit	\$ 590	\$ 590	\$ 212	\$ 590	\$ 7
Total:					
Commercial	\$ 699	\$ 699	\$ 115	\$ 699	\$ 14
Home Equity	\$ 590	\$ 590	\$ 212	\$ 590	\$ 7
December 31, 2011					
Impaired loans					
Allowance recorded:					
Commercial Real Estate	\$ 699	\$ 699	\$ 115	\$ 699	\$ 35
Home Equity Line of Credit	\$ 590	\$ 590	\$ 211	\$ 590	\$ 29
Total:					
Commercial	\$ 699	\$ 699	\$ 115	\$ 699	\$ 35
Home Equity	\$ 590	\$ 590	\$ 211	\$ 590	\$ 29
March 31, 2011					
Impaired loans					
No related allowance recorded:					
Home Equity Line of Credit	\$ 298	\$ 298	\$	\$ 298	\$
Allowance recorded:					
Commercial Real Estate	\$ 699	\$ 699	\$ 56	\$ 675	\$ 4
Home Equity Line of Credit	\$ 590	\$ 590	\$ 212	\$ 378	\$ 7
Total:					
Commercial	\$ 699	\$ 699	\$ 56	\$ 675	\$ 4
Home Equity	\$ 888	\$ 888	\$ 212	\$ 676	\$ 7

Table of Contents**Note 3 Loans - continued**

As of March 31, 2012 loans totaling \$2,000 were more than 30 days past due while at December 31, 2011 loans representing \$4,000 were more than 30 days past due. There were no nonperforming loans, which represents non-accruing loans and loans past due 90 days or more and still accruing interest, at March 31, 2012 and December 31, 2011. Loans are placed in non-accrual status when, in the opinion of management, uncertainty exists as to the ultimate collection of principal and interest. Commercial loans are reported as being in non-accrual status if: (a) they are maintained on a cash basis because of deterioration in the financial position of the borrower, (b) payment in full of interest or principal is not expected, or (c) principal or interest has been in default for a period of 90 days or more. If it can be documented that the loan obligation is both well secured and in the process of collection, the loan may remain on accrual status. However, if the loan is not brought current before becoming 120 days past due, the loan is reported as non-accrual. A non-accrual asset may be restored to accrual status when none of its principal or interest is due and unpaid, when it otherwise becomes well secured, or is in the process of collection.

Information regarding past due loans at March 31, 2012 and December 31, 2011 follows (000s omitted):

March 31, 2012	Loans past due					Total Current	Total Loans	Non- Accrual	>90 days Accruing
	30	59	60 - 90	Over 90	Total Past Due				
Commercial real estate	\$	\$	\$	\$	\$	\$ 64,131	\$ 64,131	\$	\$
Commercial term						16,737	16,737		
Commercial LOC						8,472	8,472		
Construction						2,967	2,967		
Home equity LOC						9,162	9,162		
Residential mortgage						4,039	4,039		
Home equity term						110	110		
Consumer installment		2			2	430	432		
Consumer LOC						647	647		
	\$ 2	\$	\$	\$	\$ 2	\$ 106,695	\$ 106,697	\$	\$

December 31, 2011	Loans past due					Total Current	Total Loans	Non- Accrual	>90 days Accruing
	30	59	60 - 90	Over 90	Total Past Due				
Commercial real estate	\$	\$	\$	\$	\$	\$ 64,436	\$ 64,436	\$	\$
Commercial term						15,758	15,758		
Commercial LOC						10,768	10,768		
Construction						2,541	2,541		
Home equity LOC						9,619	9,619		
Residential mortgage						1,828	1,828		
Home equity term						111	111		
Consumer installment		4			4	599	603		
Consumer LOC						700	700		
	\$ 4	\$	\$	\$	\$ 4	\$ 106,360	\$ 106,364	\$	\$

Table of Contents**Note 4 Deposits**

Deposits are summarized as follows (000s omitted):

	March 31, 2012		December 31, 2011	
	Balance	Percentage	Balance	Percentage
Noninterest bearing demand	\$ 18,751	16.78%	\$ 19,662	18.26%
NOW accounts	8,894	7.96%	8,040	7.47%
Money market	8,868	7.93%	6,622	6.15%
Savings	17,827	15.95%	18,188	16.89%
Time deposits under \$100,000	10,773	9.64%	11,469	10.65%
Time deposits over \$100,000	42,127	37.69%	43,697	40.58%
Brokered deposits	4,534	4.05%		0.00%
Total deposits	\$ 111,774	100.0%	\$ 107,678	100.0%

At March 31, 2012, the scheduled maturities of time and brokered deposits are as follows (000s omitted):

	<\$100,000	>\$100,000	Total
2012	\$ 6,823	\$ 15,284	\$ 22,107
2013	2,119	18,083	20,202
2014	1,244	5,527	6,771
2015	124	4,187	4,311
2016	463	1,914	2,377
Thereafter		1,666	1,666
Total	\$ 10,773	\$ 46,661	\$ 57,434

Note 5 Loan Servicing

Loans serviced for others are not included in the accompanying consolidated financial statements. The unpaid principal balance of loans serviced for others was \$11,239,688 and \$10,457,902 at March 31, 2012 and December 31, 2011, respectively. Unamortized cost of loan servicing rights included in accrued interest receivable and other assets on the consolidated balance sheet, for the periods ended March 31, 2012 and December 31, 2011 are shown below.

	March 31, 2012	December 31, 2011
Balance, beginning of period	\$ 123,820	\$
Amount capitalized	24,066	129,783
Amount amortized	2,717	5,963
Balance, end of period	\$ 145,169	\$ 123,820

Table of Contents**Note 6 Leases and Commitments**

The Corporation has entered into a lease agreement for its main office facility. Payments began in February 2005 and the initial term of the lease expires in October 2015. In October 2007, the Corporation exercised its first renewal option on the property which expires in October 2025. The main office lease has one additional ten year renewal option. In March 2011, a new one year lease was signed for additional office space in the building adjacent to the main office. During the first quarter of 2012, the Corporation renewed the lease for an additional three year period.

Rent expense under these agreements was \$67,000 and \$64,000 for the three month period ended March 31, 2012 and 2011, respectively.

The following is a schedule of future minimum rental payments under operating leases on a calendar year basis:

2012	\$ 202,466
2013	274,378
2014	279,190
2015	257,566
2016	253,721
Thereafter	2,473,080
Total	\$ 3,740,401

Table of Contents**Note 7 Fair Value of Financial Instruments**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents - The carrying values of cash and cash equivalents approximate fair values.

Securities-Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or other observable inputs.

Loans Receivable - For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Accrued Interest - The carrying value of accrued interest approximates fair value.

Other Financial Instruments - The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

The carrying values and estimated fair values of financial instruments at March 31, 2012 and December 31, 2011, are as follows (in thousands):

	March 31, 2012		December 31, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 11,437	\$ 11,437	\$ 4,694	\$ 4,694
Securities available for sale	4,684	4,684	4,764	4,764
Net portfolio loans	105,034	105,483	104,724	104,638
Loans held for sale	199	199	2,485	2,485
Accrued interest receivable	477	477	450	450
Financial liabilities:				
Deposits	111,774	112,020	107,678	107,987
Accrued interest payable	59	59	61	61

Table of Contents**Note 8 Fair Value Accounting****Valuation Hierarchy**

Accounting standards establish a three-level valuation hierarchy for fair value measurements. The valuation hierarchy prioritizes valuation techniques based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and are the primary method of valuation used by Birmingham Bloomfield Bancshares, Inc. 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 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 other 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.

Following is a description of the inputs and valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as general classification of those instruments under the valuation hierarchy.

Available-for-sale Securities

Quoted market prices in an active market are used to value securities when such prices are available. Those securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, the fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows using reasonable inputs. Level 2 securities include U.S. Government agency securities, mortgage backed securities, obligations of states and municipalities, and certain corporate securities. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the valuation hierarchy in which the fair value measurements fall at March 31, 2012 and December 31, 2011 (000s omitted):

	Level 1	Level 2	Level 3	Fair Value
March 31, 2012				
U.S. government agency	\$	\$ 2,350	\$	\$ 2,350
Municipal securities		720		720
Mortgage backed securities		1,178		1,178
Corporate bonds		266		266
Securities available for sale	\$	\$ 4,514	\$	\$ 4,514
December 31, 2011				
U.S. government agency	\$	\$ 2,354	\$	\$ 2,354
Municipal securities		721		721

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Mortgage backed securities		1,258		1,258
Corporate bonds		262		262
Securities available for sale	\$	\$ 4,595	\$	\$ 4,595

Table of Contents**Note 8 Fair Value Accounting continued**

Following is a description of the inputs and valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying consolidated balance sheets, as well as general classification of those instruments under the valuation hierarchy.

Impaired Loans

Loans for which it is probable the Corporation will not collect all principal and interest due according to the contractual terms are measured for impairment. The fair value of impaired loans is estimated using one of three methods; market value, collateral value, or discounted cash flow. Those impaired loans not requiring an allowance represent loans for which the fair value of collateral exceeds the recorded investment. When the fair value of the collateral is based on an observable market price or current appraised value, the impaired loan is classified within Level 2. When a market value is not available or management applies a discount factor to the appraised value, the Corporation records the impaired loan in Level 3.

Other Real Estate Owned (ORE)

Loans on which the underlying collateral has been repossessed are adjusted to fair value less costs to sell upon transfer to repossessed assets. Subsequently, repossessed assets are carried at the lower of carrying value or fair value, less anticipated marketing and selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the repossessed asset as a nonrecurring Level 2 valuation. When a market value is not available or management applies a discount factor to the appraised value, the Corporation records the repossessed asset in Level 3.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a non-recurring basis and the level within the valuation hierarchy in which the fair value measurements fall at March 31, 2012 and December 31, 2011:

	Balance	Level 1	Level 2	Level 3	Losses
<u>March 31, 2012</u>					
Impaired Loans	\$ 1,289	\$	\$	\$ 1,289	\$
ORE	\$	\$	\$	\$	\$
<u>December 31, 2011</u>					
Impaired Loans	\$ 1,289	\$	\$	\$ 1,289	\$
ORE	\$ 298	\$	\$	\$ 298	\$

Table of Contents**Note 9 Minimum Regulatory Capital Requirements**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, 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. Failure to meet capital requirements can initiate regulatory action. The prompt corrective action regulations provide four classifications, well capitalized, adequately capitalized, 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 Bank was classified as well-capitalized as of March 31, 2012. For the period ended March 31, 2012, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size.

The Bank's actual capital amounts and ratios as of March 31, 2012 and December 31, 2011 are presented in the following table (000s omitted):

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To be Well-Capitalized Amount	Ratio
<u>As of March 31, 2012</u>						
Total risk-based capital (to risk weighted assets)						
Bank of Birmingham	\$ 14,164	11.4%	\$ 9,902	8.0%	12,377	10.0%
Tier I capital (to risk weighted assets)						
Bank of Birmingham	\$ 12,616	10.2%	\$ 4,951	4.0%	\$ 7,426	6.0%
Tier I capital (to average assets)						
Bank of Birmingham	\$ 12,616	10.1%	\$ 4,983	4.0%	\$ 6,229	5.0%
<u>As of December 31, 2011</u>						
Total risk-based capital (to risk weighted assets)						
Bank of Birmingham	\$ 13,504	12.0%	\$ 9,026	8.0%	\$ 11,283	10.0%
Tier I capital (to risk weighted assets)						
Bank of Birmingham	\$ 12,091	10.7%	\$ 4,513	4.0%	\$ 6,770	6.0%
Tier I capital (to average assets)						
Bank of Birmingham	\$ 12,091	9.9%	\$ 4,866	4.0%	\$ 6,083	5.0%

Table of Contents

Note 10 Shareholders Equity

On July 28, 2011, the Corporation fully redeemed from the United States Treasury all of the Preferred Shares associated with the Capital Purchase Program for \$3,461,000. The redemption was funded by proceeds from the issuance of Preferred Shares to the U.S. Treasury under the Small Business Lending Fund totaling \$4,621,000. As a result of the transaction, the Corporation recorded \$46,000 in accelerated accretion on the remaining discount of the Capital Purchase Program Preferred stock during the third quarter of 2011, reducing the amount available to common shareholders. See Management's Discussion and Analysis of Financial Condition and Results of Operation for additional preferred stock discussion.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Disclosure Regarding Forward Looking Statements

This report contains forward-looking statements throughout that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Corporation and the Bank. Words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, projects, variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are intended to be covered by the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Actual results and outcomes may materially differ from what may be expressed or forecasted in the forward-looking statements. The Corporation undertakes no obligation to update, amend, or clarify forward looking statements, whether as a result of new information, future events (whether anticipated or unanticipated), or otherwise.

Future factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: the credit risks of lending activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses; competitive pressures among depository institutions; interest rate movements and their impact on customer behavior and net interest margin; the impact of re-pricing and competitor's pricing initiatives on loan and deposit products; the ability to adapt successfully to technological changes to meet customers' needs and development in the market place; our ability to access cost-effective funding; changes in financial markets; changes in economic conditions in general and particularly as related to the automotive and related industries in the Detroit metropolitan area; new legislation or regulatory changes, including but not limited to changes in federal and/or state tax laws or interpretations thereof by taxing authorities; changes in accounting principles, policies or guidelines; and our future acquisitions of other depository institutions or lines of business. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Corporation and its business, including additional factors that could materially affect the Corporation's financial results, is included in its filings with the Securities and Exchange Commission.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The Corporation is a Michigan corporation that was incorporated in 2004 to serve as the holding company for a Michigan state bank, Bank of Birmingham (the Bank). The Bank is a full service commercial bank headquartered in Birmingham, Michigan. The Bank serves businesses and consumers across Oakland and Macomb counties with a full range of lending, deposit and internet banking services. The net income of the Corporation is derived primarily from net interest income. Net interest income is the difference between interest earned on the Bank's loan and investment portfolios and the interest paid on deposits and borrowings. The volume, mix and rate of interest-bearing assets and liabilities determine net interest income.

OPERATIONS

The Corporation's (and the Bank's) main office is located at 33583 Woodward Avenue, Birmingham, MI 48009. The building is a free-standing one story office building of approximately 8,300 square feet. The main office lease commenced in October 2005 and the Bank exercised its first renewal option resulting in the lease being extended until October 2025. The main office lease has an additional ten year renewal option. See Note 5 of the Notes to Consolidated Financial Statements regarding additional lease information.

The Bank will continue to focus on the lending, deposit and general banking needs in the community it serves. The profile of products available to customers continues to expand as the Bank offers more options for residential mortgage and commercial customers, including SBA products. The Bank will investigate additional product and service offerings and will consider providing those that will be of benefit to our customers and the Bank.

FINANCIAL CONDITION

The Corporation reported net income applicable to common shareholders of \$336,000 or \$0.19 per common share for the period ended March 31, 2012 compared to net income of \$414,000 of \$0.23 per common share for the first quarter of 2011. The results for 2012 include the impact of recognizing tax expense not previously required. Excluding the effect of income tax expense of \$171,000 recognized during the period, pre-tax net income before preferred dividends was \$519,300, an increase of 12.3% from the first quarter of 2011. The improved performance was the result of higher margins, an increase in non-interest income and a reduction in provision expense. This generated a pre-tax, pre-provision return on average assets of 1.71%.

Total assets as of March 31, 2012 were \$128,663,000, an increase \$4,266,000 from December 31, 2011 and 10.4% from the first quarter of 2011. The growth was primarily the result of an increase in loan and deposit balances. The Company continues to focus on providing a broad range of product and services to attract new customers and expand existing relationships.

Cash and Cash Equivalents

Cash and cash equivalents increased \$6,743,000 to \$11,437,000 at March 31, 2012. The increase was primarily the result of deposit growth combined with proceeds from loan sales and maturities.

Table of Contents**Investments**

Total investments decreased \$81,000 to \$4,514,000 during the three month period ended March 31, 2012. The net reduction is the result of principal payments received on mortgage backed securities. The Corporation purchased a \$1.0 million investment during the quarter with the proceeds from a called security. The activity had no net impact on the total balance of the portfolio. The Corporation did not hold any held-to-maturity securities as of March 31, 2012 or December 31, 2011. The makeup of the Corporation's investment portfolio evolves with the changing price and risk structure, and liquidity needs of the Corporation.

Management believes that the unrealized gains and losses within the investment portfolio are temporary, since they are a result of market changes, rather than a reflection of credit quality. Management has no specific intent to sell any securities, although the entire investment portfolio is classified as available for sale. The following chart summarizes the portfolio by type at March 31, 2012 and December 31, 2011 (000s omitted):

	March 31, 2012		December 31, 2011		Change
U.S. Government agency securities	\$ 2,350	52.0%	\$ 2,354	51.2%	\$ (4)
Municipal securities	720	16.0%	721	15.7%	(1)
Mortgage backed securities	1,178	26.1%	1,258	27.4%	(80)
Corporate bonds	266	5.9%	262	5.7%	4
Total securities	\$ 4,514	100.0%	4,595	100.0%	\$ (81)

Loans, Credit Quality and Allowance for Loan Losses

The following table summarizes the mix of the Corporation's portfolio loans at March 31, 2012 and December 31, 2011 (000s omitted):

	March 31, 2012	December 31, 2011	Change
Real estate mortgage	\$ 81,357	\$ 80,170	\$ 1,187
Construction	2,967	2,541	426
Commercial and industrial	21,456	22,512	(1,056)
Consumer installment	917	1,141	(224)
Deferred loan fees and costs	(69)	(66)	(3)
Total loans	\$ 106,628	\$ 106,298	\$ 330

Total portfolio loans increased modestly during the first quarter of 2012 to \$106,628,000. The growth during the quarter was concentrated in Real Estate Mortgage and Construction loans. The increase was due to focused business development efforts in generating new loan activity and expanding existing relationships. The other loan categories experienced declines as result of scheduled amortization of the portfolio, maturities and principal reduction payments.

The allowance for loan losses increased \$20,000 to \$1,594,000, representing 1.50% of total loans at March 31, 2012. The increase was a direct result of new loan growth. There were no charge-offs or recoveries recorded for the three months ended March 31, 2012 and 2011 and the Corporation did not have any nonperforming loans outstanding during both periods presented.

Management evaluates the condition of the loan portfolio on a quarterly basis or more frequently when warranted, to determine the adequacy of the allowance for loans losses. The allowance for loan losses is maintained at a level believed to be adequate to cover losses on individually evaluated loans that are determined to be impaired and on groups of loans with similar risk characteristics that are collectively evaluated for impairment. Estimated credits losses represent the current amount of the loan portfolio that is probable the institution will be unable to collect given the facts and circumstances as of the evaluation date. Management's evaluation of the allowance is based on consideration of actual loss experience, the present and prospective financial condition of borrowers, adequacy of collateral, industry concentrations within the portfolio,

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

various environmental factors and general economic conditions. Loans individually evaluated for impairment are measured using one of the three standard methods and provided a specific allowance. Management believes that the present allowance is adequate given the size, complexity and risk profile of the current portfolio.

Table of Contents

Although management believes that the allowance for credit losses is adequate to absorb losses as they arise, there can be no assurance that the Bank will not sustain losses in any given period that could be substantial in relation to the size of the allowance for credit losses. It must be understood that inherent risks and uncertainties related to the operation of a financial institution require management to depend on estimates, appraisals and evaluations of loans to prepare the Corporation's financial statements. Changes in economic conditions and the financial prospects of borrowers may result in changes to the estimates, appraisals and evaluations used. In addition, if circumstances and losses differ substantially from management's assumptions and estimates, the allowance for loan losses may not be sufficient to absorb all future losses and net income could be adversely impacted.

Premises and Equipment

Premises and equipment was \$1,351,000 as of March 31, 2012 down from \$1,395,000 as of December 31, 2011. The Corporation expects to support further growth of business lines with investments in operating facilities and technology.

Deposits and Short-term Financing

Total deposits increased 3.8% during the first quarter of 2012 totaling \$111,774,000 as the Corporation continues to grow the organization and fund new loan activity. The categories experiencing the largest increase were Brokered deposits, Money Market and NOW accounts. Brokered deposits are a new source of funding for the Corporation and are generated using a third party. This funding increased \$4,534,000 and was used to manage interest rate risk and replace maturing time deposits. Money Market and NOW accounts increased \$2,246,000 and \$854,000, respectively during the three months ended March 31, 2012 as the Corporation expands existing relationship and attracts new customers. The category experiencing the largest decline during the period was Time deposits as the Corporation reduced participation in an on-line marketing service to acquire wholesale CD's and replaced maturing CD's with Brokered deposits. This was an intentional strategy by management to extend the maturity duration of the portfolio in a more cost effective manner utilizing the brokered market.

	As of March 31, 2012		As of December 31, 2011	
	Balance	Percentage	Balance	Percentage
Non-interest bearing demand	\$ 18,751	16.78%	\$ 19,662	18.26%
NOW accounts	8,894	7.96%	8,040	7.47%
Money market	8,868	7.93%	6,622	6.15%
Savings	17,827	15.95%	18,188	16.89%
Time deposits < \$100,000	10,773	9.64%	11,469	10.65%
Time deposits >\$100,000	42,127	37.69%	43,697	40.58%
Brokered deposits	4,534	4.05%		0.00%
Total deposits	\$ 111,774	100.00%	\$ 107,678	100.00%

At March 31, 2012 and December 31, 2011, the Bank had no secured borrowings outstanding. The Bank did not utilize discount window during the first quarter of 2012. The Bank did utilize its line of credit from the FHBLI during the first quarter for short term financing. However, there were no FHLBI borrowings outstanding at March 31, 2012.

Table of Contents**RESULTS OF OPERATIONS**

The Corporation reported net income applicable to common shareholders of \$336,000 for the first quarter of 2012 compared to \$414,000 for the same period of 2011. The reduction in earnings is directly related to the recognition of income tax expense totaling \$171,000 during the period. This is the first quarter the Corporation was required to realize an income tax liability. Refer to the income tax section for further discussion. Excluding the impact of income taxes, net income before preferred dividends was \$519,000 for the period ended March 31, 2012, a 12.3% increase from the first quarter of 2011. The increase in pre-tax earnings was the result of improved margins, increased revenue and lower provision expense. Net interest margin for the current period was 4.80% compared to 4.49% for the first quarter of 2011. This was achieved by improving the asset mix of the balance sheet and reducing total funding costs. The corporation also increased total revenue during the period by generating additional non-interest income. Total non-interest income for the three month period ended March 31, 2012 was \$484,000, an increase of \$159,000 from the same period of 2011. The majority of the revenue was generated from SBA loan sales, mortgage banking activities and the gain on sale of a foreclosed property. Provision expense totaled \$20,000 during the period, a decrease of \$19,000 from the first quarter of 2011. The reduction is directly related to the quality of the portfolio. Total non-interest expense for the first quarter of 2012 was \$1,339,000, an increase of \$255,000 from the same period in 2011. The additional costs are the associated with the increased volume from residential mortgage activity, adding new personnel to facilitate growth, expanding services and dedicating resources to improving franchise recognition in our primary markets.

The following table present trends in selected financial data for the five most recent quarters:

	March 31, 2012	December 31, 2011	Quarter Ended September 30, 2011	June 30, 2011	March 31, 2011
Income Statement					
Interest income	\$ 1,622	\$ 1,630	\$ 1,582	\$ 1,565	\$ 1,588
Interest expense	228	280	301	314	329
Net interest income	1,394	1,350	1,281	1,251	1,259
Provision for loan losses	20	75	105	15	39
Non-interest income	484	309	319	280	325
Non-interest expense	1,339	1,484	1,317	1,207	1,083
Income before income taxes	519	100	177	309	462
Income tax expense (benefit)	171	(2,885)			
Net income	348	2,985	177	309	462
Effective dividend on preferred stock	12	20	68	48	48
Net income applicable to common shareholders	336	2,965	109	261	414
Basic and diluted income per share	\$ 0.19	\$ 1.64	\$ 0.06	\$ 0.15	\$ 0.23
Performance Measurements					
Net interest margin (tax equivalent)	4.80%	4.61%	4.44%	4.51%	4.49%
Return on average assets (1)	1.11%	9.60%	0.58%	1.06%	1.62%
Return on average assets (2)	1.71%	0.56%	0.92%	1.11%	1.76%
Return on average common equity (1)	12.08%	132.13%	8.50%	15.39%	24.17%
Return on average common equity (2)	18.72%	7.77%	13.54%	16.13%	26.21%
Efficiency ratio	71.3%	89.43%	82.37%	78.80%	68.36%
Tier 1 Leverage Ratio (Bank only)	10.13%	9.94%	9.22%	8.54%	8.33%
Equity / Assets	12.67%	12.83%	10.47%	9.86%	9.79%
Total loans / Total deposits	95.4%	98.7%	92.3%	94.1%	93.9%
Book value per share	\$ 6.44	\$ 6.26	\$ 4.65	\$ 4.60	\$ 4.44
Income per share basic & diluted	\$ 0.19	\$ 1.64	\$ 0.06	\$ 0.15	\$ 0.23

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Shares outstanding	1,812,662	1,812,662	1,812,662	1,800,000	1,800,000
--------------------	-----------	-----------	-----------	-----------	-----------

- (1) Amount is computed on net income before preferred dividends (annualized).
- (2) Amount is computed on pre-tax, pre-provision earnings before preferred dividends (annualized).

Table of Contents**Net Interest Income**

Net interest income for the three month period ended March 31, 2012 totaled \$1,394,000, an increase of 10.6% compared to the same period of the prior year. The increase was a result of earning assets growth and a reduction in total funding costs. The earning asset growth was concentrated in loan volume, providing the largest benefit to interest income. Total average interest bearing deposit accounts increased \$275,000 in the first quarter of 2012 relative to the first quarter of 2011 but total deposit related interest expenses decreased \$101,000. The lower cost of funds was achieved by changes in pricing strategy and improved mix of the portfolio.

The Corporation's net interest margin increased 31 basis points to 4.80% for the period ended March 31, 2012 compared to 4.49% for the same period in 2011. Net interest spread, the difference between the yield on earning assets and cost of funds, also increased relative to the first quarter of 2011. The increase in both spread and margin is the result of an improved mix and a reduction in deposit costs. Asset yields declined during the period due to a reduction in loan and investment rates but a more favorable mix mitigated the impact. Total cost of funds for the first quarter of 2012 was 1.02% compared to 1.48% for the same period of 2011. This was accomplished as a result of an effective pricing strategy implemented by management and access to other funding options.

The following table presents the Corporation's consolidated average balances of interest-earning assets, interest-bearing liabilities, and the amount of interest income or interest expense attributable to each category, the average yield or rate for each category, and the net interest margin for the periods ended March 31, 2012, and 2011 (000s omitted). Average loans are presented net of unearned income and the allowance for loan and lease losses. Interest on loans includes loan fees.

	Three Months Ended March 31,					
	2012			2011		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans receivable	\$ 103,873	\$ 1,592	5.98%	\$ 100,976	\$ 1,556	6.17%
Securities available for sale	4,684	26	2.30%	3,389	28	3.41%
Federal funds sold			%	40		0.13%
Interest-bearing balances with other financial institutions	6,906	3	0.20%	9,529	4	0.20%
Total interest-earning assets	115,463	1,621	5.50%	113,934	1,588	5.59%
Noninterest-earning assets:						
Cash and due from banks	3,818			643		
All other assets	7,218			858		
Total Assets	\$ 126,499			\$ 115,435		
Interest-bearing liabilities:						
NOW accounts	\$ 8,382	\$ 7	0.37%	\$ 8,274	\$ 6	0.31%
Money market	7,923	7	0.40%	8,231	11	0.55%
Savings	17,894	25	0.55%	17,670	31	0.72%
Time deposits	52,877	179	1.36%	54,191	265	1.96%
Brokered deposits	2,896	9	1.22%			%
Short-term borrowing	63		0.41%	1,394	15	4.22%
Total interest-bearing liabilities:	\$ 90,035	\$ 227	1.02%	\$ 89,760	328	1.48%
Non-interest bearing demand deposits						
All other liabilities	19,558			13,844		
	700			691		
Total liabilities	110,283			104,295		
Shareholders' Equity	16,206			11,140		
Total liabilities and shareholders' equity	\$ 126,499			\$ 115,435		

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Net Interest Income	\$ 1,394	\$ 1,260
Net spread	4.48%	4.11%
Net Interest Margin(1)	4.80%	4.49%

(1) Net interest earnings divided by average interest-earning assets.

Table of Contents**Provision for Loans Losses**

The provision for loan losses was \$20,000 and \$39,000 for the three months ended March 31, 2012 and 2011, respectively. The decrease from the previous comparable period was due to the pace of loan growth and overall credit quality of the portfolio. The Corporation recorded no charge offs or recoveries during the periods ended March 31, 2012 and March 31, 2011.

Non-Interest Income

Non-interest income was \$484,000 and \$325,000 for the three months ended March 31, 2012 and 2011, respectively. The increase in non-interest income was the result of additional revenue from the sale of residential mortgages and additional other income. For the three months ended March 31, 2012 and 2011, other income increased by \$170,000 as a result of the gain on sale of a foreclosed property and income from bank-owned life insurance. The gain on sale of SBA loans declined during the period compared to the 1st quarter of 2011 due to lower loan volumes.

The following table presents the Corporation's non-interest income for the three month periods ending March 31, 2012 and 2011:

	For the Three Months Ended		
	March 31, 2012	March 31, 2011	Change
Non-interest income			
Service charge income	\$ 18,798	\$ 11,572	\$ 7,226
Mortgage banking activities	162,828	11,439	151,389
SBA loan sales	121,791	291,294	(169,503)
Other income	180,572	10,804	169,768
Total non-interest income	\$ 483,989	\$ 325,109	\$ 158,880

Non-Interest Expense

Non-interest expense for the period ended March 31, 2012 was \$1,338,000, an increase of \$255,000 from the first quarter of 2011. This was the result of additional expenses associated with new employees, increased activity from mortgage banking activities and growth of the organization. The largest component of non-interest expense is Salaries and Benefits, totaling \$762,000 for the current period compared \$482,000 for the three months ended March 31, 2011. The increase in total compensation is a result of adding new employees to accommodate future growth and an increase in commissions for originators associated with residential mortgage activity. Occupancy, Equipment and Data Processing expenses all increased relative to the same period of the prior year as the bank invested in facilities and system applications to improve services. The Corporation continues to dedicate resources to business marketing efforts to improve franchise recognition; this is reflected in the increase in Advertising costs reported during the period relative to the prior year. Loan origination expense was \$69,000 for the period, an increase of \$43,000. This additional cost is directly related to an increase in loan volume from mortgage banking. Regulatory assessments declined \$23,000 for the three month period ended March 31, 2012 due to a reduction in insurance rates and change in the assessment base. Other expenses totaled \$95,000 for the first quarter of 2012, an increase of \$19,000 compared to the same period of 2011. The additional costs are a reflection of the increase in operating costs associated with the growth of the institution and expansion of product services.

The following table presents the Corporation's non-interest expense for the three month periods ending March 31, 2012 and 2011:

	For the Three Months Ended		
	March 31, 2012	March 31, 2011	Change
Non-interest expense			
Salaries and employee benefits	\$ 761,670	\$ 582,017	\$ 179,653
Occupancy expense	119,731	118,102	1,629
Equipment expense	49,152	35,400	13,752
Advertising	42,594	36,046	6,548
Data processing	59,002	49,013	9,989
Professional fees	117,034	111,524	5,510

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

Loan origination expenses	69,012	26,369	42,643
Regulatory assessments	25,260	48,426	(23,166)
Other expense	95,040	76,519	18,521
Total non-interest expense	\$ 1,338,495	\$ 1,083,416	\$ 255,079

Table of Contents

Income Taxes

The Corporation recorded federal income tax expense of \$171,000 for the three month period ended March 31, 2012. A tax liability of \$166,000 was realized for the first quarter of 2011 with a corresponding reduction in the Deferred Tax Asset valuation reserve resulting in no income tax expense being reported for the first quarter of March 31, 2011.

The deferred tax asset (DTA) balance represents the aggregate tax effect of all deductible temporary differences and operating loss carry-forwards. DTAs are recorded when an event generating a tax benefit has been recognized in the financial statements and is measured using the applicable tax rate. When it is more likely than not a portion or all of the DTA will not be realized a valuation reserve is required. The objective of the reserve is to reduce the DTA balance to an amount that is likely to be recognized. The requirement for a valuation reserve on a DTA is based on an analysis of all existing evidence, both positive and negative.

Since inception, the Corporation established a reserve on the full amount of the outstanding DTA balance. The reserve was maintained based on the Corporation's cumulative losses and concern regarding the ability of the organization to realize the full benefit of the asset. In December 2011, as a result of improved earnings, positive performance trends and financial projections demonstrating sustainable profitability, management determined there was sufficient evidence the Corporation would be able to recognize the full benefit of the entire DTA balance and eliminated the valuation reserve of \$2,884,000. The Corporation's deferred tax asset (DTA) is included in other assets on the balance sheet. During the first quarter of 2012, management performed an evaluation of the ability of the Corporation to utilize the benefit of the DTA balance and determined no reserve was required. As of March 31, 2011, the Corporation had a valuation reserve for the entire balance of the DTA balance.

The Corporation has net operating loss carry-forwards of approximately \$4,940,000 that are available to reduce future taxable income. The carry-forwards begin to expire twenty years from date of origination.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES; ASSET/LIABILITY MANAGEMENT**

The management team has responsibility for developing and recommending liquidity and risk management policies including but not limited to the determination of internal operating guidelines, contingency plans, change management and pricing to the Asset/Liability Committee (ALCO) of the Board of Directors. Management ensures that the liquidity of a bank allows it to provide funds to meet its cash flow needs, such as loan requests, outflows of deposits, other investment opportunities and general operating requirements, under multiple operating scenarios. While the current structure of the Corporation and the Bank are not complex, the objective in the management of liquidity and capital resources is to be able to take advantage of business opportunities that may arise. The major sources of liquidity for the Bank have been deposit growth, federal funds sold, and loans which mature within one year. The Bank is also a member of the Federal Home Loan Bank of Indianapolis and has access to funding from the discount window at the Federal Reserve Bank of Chicago. The ALCO committee has also approved alternate funding sources to add flexibility. Large deposit balances which might fluctuate in response to interest rate changes are closely monitored. These deposits consist mainly of certificates of deposit over \$100,000. We anticipate that we will have more than sufficient funds available to meet our future commitments. As of March 31, 2012, off balance sheet loan commitments totaled \$39,008,000. As a majority of the unused commitments represent commercial and equity lines of credit, the Bank expects, and experience has shown, that only a small portion of the unused commitments will normally be drawn upon.

The following table presents loan commitments by time period as of March 31, 2012 (000s omitted):

	Total	Amount of commitment expiration by period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Commitments to grant loans	\$ 20,263	\$ 20,263	\$	\$	\$
Unfunded commitments under lines of credit	18,142	12,163	2,487	1,106	2,386
Commercial and standby letters of credit	603	603			
Total commitments	\$ 39,008	\$ 33,029	\$ 2,487	\$ 1,106	\$ 2,386

Commitments to grant loans are governed by the Corporation's credit underwriting standards, as established in the Corporation's Loan Policy. As the above schedule illustrates, in general, it is the Corporation's practice to grant loan commitments for a finite period of time, usually lasting one year or less. The most significant departure from this practice involves home equity lines of credit (HELOCs). The Corporation's equity lines have a contractual draw period exceeding 5 years. The Corporation has the ability to suspend the draw privileges on a HELOC where a default situation or other impairment issue is identified.

The largest sources of cash and cash equivalents for the Corporation for the three months ended March 31, 2012, as noted in the Consolidated Statement of Cash Flows, were primarily loan sales and deposit origination.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, 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. Failure to meet capital requirements can initiate regulatory action. The prompt corrective action regulations provide five classifications, 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 Bank was well-capitalized as of March 31, 2012. Note 8 to the financial statements is hereby incorporated by reference. At March 31, 2012, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size.

On July 28, 2011, Birmingham Bloomfield Bancshares, Inc. entered into a Securities Purchase Agreement with the Secretary of the Treasury (the Treasury), pursuant to which the Company issued and sold to the Treasury 4,621 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series D (Series D Preferred Stock), having a liquidation preference of \$1,000 per share (the Liquidation Amount), for aggregate proceeds of \$4,621,000. In conjunction with the issuance of the Series D Preferred Stock, the Company has redeemed from the Treasury for \$3,461,000, all of the Series A Preferred Shares, Series B Preferred Shares, and Series C Preferred Shares which were issued to the Treasury in 2009 under the Treasury's Emergency Economic Stabilization Act of 2008 Capital Purchase Program.

Table of Contents

The Series D Preferred Stock is entitled to receive non-cumulative dividends payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, which is calculated on the aggregate Liquidation Amount, is based upon the current level of Qualified Small Business Lending, or QSBL (as defined in the Securities Purchase Agreement) by the Company's wholly owned subsidiary Bank of Birmingham (the Bank). The dividend rate for future dividend periods will be set based upon the Percentage Change in Qualified Lending (as defined in the Securities Purchase Agreement) between each dividend period and the Baseline QSBL level. Such dividend rate may vary from 1% per annum to 5% per annum for the second through tenth dividend periods, from 1% per annum to 7% per annum for the eleventh dividend period through year four and one-half. If the Series D Preferred Stock remains outstanding for more than four and one-half years, the dividend rate will be fixed at 9%. Prior to that time, in general, the dividend rate decreases as the level of the Bank's QSBL increases. Such dividends are not cumulative, but the Company may only declare and pay dividends on its common stock (or any other equity securities junior to the Series D Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series D Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities.

Managing rates on earning assets and interest bearing liabilities focuses on maintaining stability in the net interest margin, an important factor in earnings growth and stability. Emphasis is placed on maintaining a controlled rate sensitivity position to avoid wide swings in margins and to manage risk due to changes in interest rates. Some of the major areas of focus of the Corporation's Asset Liability Committee (ALCO) incorporate the following overview functions: review the interest rate risk sensitivity of the Bank to measure the impact of changing interest rates on the Bank's net interest income, review the liquidity position through various measurements, review current and projected economic conditions and the corresponding impact on the Bank, ensure that capital and adequacy of the allowance for loan losses are maintained at proper levels to sustain growth, monitor the investment portfolio, recommend policies and strategies to the Board that incorporate a better balance of our interest rate risk, liquidity, balance sheet mix and yield management, and review the current balance sheet mix and proactively determine the future product mix.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risk exposure is interest rate risk and liquidity risk. All of the Corporation's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. Any impacts that changes in foreign exchange rates would have on interest rates are assumed to be insignificant.

Interest rate risk (IRR) is the exposure of a banking organization's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of IRR could pose a significant threat to our earnings and capital base. Accordingly, effective risk management that maintains IRR at prudent levels is essential to the Corporation's safety and soundness. The Board of Directors has instituted a policy setting limits on the amount of interest rate risk that may be assumed. Management provides information to the Board of Directors on a quarterly basis detailing interest rate risk estimates and activities to control such risk.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control IRR and the organization's quantitative level of exposure. When assessing the IRR management process, the Corporation seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain IRR at prudent levels with consistency and continuity. Evaluating the quantitative level of IRR exposure requires the Corporation to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality. This detailed analysis is performed on a quarterly basis, but is managed daily. The Bank continues to be in a liability sensitive position and management continues to work toward creating a more closely matched portfolio to minimize any potential impact that changing rates could have on earnings in the short term. The institution is well positioned to minimize the impact of rate changes, with the rate shock analysis showing that over the long term, rate changes pose only a minimal risk to our economic value of equity (EVE ratio).

The Corporation has not experienced a material change in its financial instruments that are sensitive to changes in interest rates since December 31, 2011, which information can be located in the Corporation's annual report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2012, we conducted an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures, as such term is defined under Exchange Act Rules 13a-15(e) and 15d-15(e).

Table of Contents

Based on this evaluation, the Corporation's chief executive officer and chief financial officer concluded that, as of March 31, 2012, such disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to the Corporation's management, including the Corporation's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, the Corporation's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance. The Corporation's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There were no changes in the Corporation's internal controls over financial reporting during the period ended March 31, 2012 that materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no known pending legal proceedings to which the Corporation or the Bank is a party or to which any of its properties are subject; nor are there material proceedings known to the Corporation, in which any director, officer or affiliate or any principal shareholder is a party or has an interest adverse to the Corporation or the Bank.

ITEM 1A. RISK FACTORS.

This item is not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

This item is not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

This item is not applicable.

ITEM 4. [Reserved]

ITEM 5. OTHER INFORMATION.

This item is not applicable.

Table of Contents

ITEM 6. EXHIBITS.

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data File.

Table of Contents

SIGNATURES

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

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.

Date: May 4, 2012

By: /s/ Robert E. Farr
Robert E. Farr
Chief Executive Officer

Date: May 4, 2012

By: /s/ Thomas H. Dorr
Thomas H. Dorr
Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation.
31.1	Certification pursuant to Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act
31.2	Certification pursuant to Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act
32.1	Certification pursuant to Rules 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act and 18 U.S.C. §1350
101	Interactive Data File.