PREFERRED APARTMENT COMMUNITIES INC
Form 424B5
March 08, 2017

Maximum of 1,500,000 Units consisting of 1,500,000 Shares of Series A Redeemable Preferred Stock and Warrants to Purchase 30,000,000 Shares of Common Stock
(Liquidation Preference $1,000 per share of Series A Redeemable Preferred Stock (subject to adjustment))
We are offering a maximum of 1,500,000 shares of our Series A Redeemable Preferred Stock, par value $0.01 per share, referred to as our Series A Redeemable Preferred Stock, and warrants, referred to as the Warrants, to purchase a maximum of 30,000,000 shares of our common stock in this offering. This prospectus also covers the shares of common stock that are issuable from time to time upon exercise of the Warrants and that may be issuable upon redemption of the Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock and the Warrants will be sold in units, or Units, with each Unit consisting of (i) one share of Series A Redeemable Preferred Stock with an initial stated value of $1,000 per share, and (ii) one Warrant to purchase 20 shares of common stock, exercisable by the holder at an exercise price that is set at a 20% premium to the current market price per share of our common stock determined using the closing price of our common stock immediately preceding the issuance of such Warrant, subject to a minimum exercise price of $19.50 per share (subject to adjustment). Each Unit will be sold at a public offering price of $1,000 per Unit. Units will not be issued or certificated. The shares of Series A Redeemable Preferred Stock and the Warrants are immediately detachable and will be issued separately. The Warrants are not exercisable until one year from the date of issuance and expire four years from the date of issuance. The Series A Redeemable Preferred Stock ranks senior to our common stock with respect to payment of dividends and distribution of amounts upon liquidation, dissolution or winding up. Holders of our Series A Redeemable Preferred Stock will have no voting rights. On November 18, 2011, the Securities and Exchange Commission, or SEC, declared effective our registration statement on Form S-11 (Registration Statement No. 333-176604), as the same may be amended from time to time, or the Primary Series A Registration Statement, for the offering of Units. The offering under the Primary Series A Registration Statement is referred to herein as the Primary Series A Offering. The Primary Series A Offering expired on December 31, 2013 and 89,408 Units were issued and sold under the Primary Series A Registration Statement. On October 11, 2013, the SEC declared effective our registration statement on Form S-3 (Registration Statement No. 333-183355), as the same may be amended from time to time, or our First Follow-On Series A Registration Statement, for an offering of up to an additional 900,000 Units. The offering under the First Follow-On Series A Registration Statement is referred to herein as the First Follow-On Series A Offering. The offering under this prospectus is a follow-on offering to the First Follow-On Series A Offering and, except as described in this prospectus, the terms of the First Follow-On Series A Offering are substantially similar to the offering under this prospectus.
Our common stock trades on the NYSE under the symbol "APTS." On March 6, 2017, the last reported sale price of our common stock on the NYSE was $13.61 per share. There is no established trading market for our Series A Redeemable Preferred Stock or any of the Warrants and we do not expect a market to develop. We do not intend to apply for a listing of the Series A Redeemable Preferred Stock or any of the Warrants on any national securities exchange.
Investing in our securities involves significant risks. You should carefully read and consider "Risk Factors" included in our most recent Annual Report on Form 10-K and any subsequent periodic securities reports, on page 14 of this prospectus and in any additional prospectus or any prospectus supplement before investing in our securities.

We impose certain restrictions on the ownership and transfer of our capital stock. You should read the information under the section entitled "Description of Capital Stock and Securities Offered — Restrictions on Ownership and Transfer" in this prospectus for a description of these restrictions.
Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Unit	Maximum Offering
Public offering price	$1,000.00	$ 1,500,000,000 (1)
Selling commissions(2)(3)	$70.00	$105,000,000
Dealer manager fee(2)(3)	$30.00	$45,000,000
Proceeds, before expenses, to us	$900.00	$1,350,000,000

(1) Initial gross proceeds. If the Warrants are exercised in full at the minimum exercise price of $19.50 per share of common stock, the Company will receive additional gross proceeds equal to $585.0 million.

(2) Selling commissions and the dealer manager fee will equal up to and including 7% and 3% of aggregate gross proceeds, respectively. Each is payable to our dealer manager. We or our affiliates also may provide permissible forms of non-cash compensation to registered representatives of our

dealer manager and the participating broker-dealers. The value of such items will be considered underwriting compensation in connection with this offering, and the corresponding payments of our dealer manager fee will be reduced by the aggregate value of such items. The combined selling commissions, dealer manager fee and such non-cash compensation for this offering will not exceed 10% of the aggregate gross proceeds of this offering, which is referred to as FINRA's 10% cap. Our dealer manager will repay to us any excess payments made to our dealer manager over FINRA's 10% cap if this offering is abruptly terminated before reaching the maximum amount of offering proceeds.

(3) We expect our dealer manager to authorize other broker-dealers that are members of FINRA, which we refer to as participating broker-dealers, to sell our Units. Our dealer manager may reallow all or a portion of its selling commissions attributable to a participating broker-dealer. In addition, our dealer manager also may reallow a portion of its dealer manager fee earned on the proceeds raised by a participating broker-dealer, to such participating broker-dealer as a non-accountable marketing or due diligence allowance. The amount of the reallowance to any participating broker-dealer will be determined by the dealer manager in its sole discretion.

The dealer manager of this offering is Preferred Capital Securities, LLC, or PCS, our affiliate. The dealer manager is not required to sell any specific number or dollar amount of Units, but will use its "reasonable best efforts" to sell the Units offered. The minimum permitted purchase is generally $5,000, but purchases of less than $5,000 may be made in the discretion of the dealer manager. We expect to sell up to 1,500,000 Units in this offering by February 14, 2019, which may be extended through February 14, 2020, in our sole discretion. If we extend the offering period beyond February 14, 2019, we will supplement this prospectus accordingly, if required. We may terminate this offering at any time or may offer Units pursuant to a new registration statement.

We will sell Units through Depository Trust Company, or DTC, DTC settlement, or DTC Settlement; or, under special circumstances, through Direct Registration System settlement, or DRS Settlement. See the section entitled "Plan of Distribution" in this prospectus for a description of these settlement methods.

PREFERRED CAPITAL SECURITIES, LLC,
as Dealer Manager
The date of this prospectus is March 8, 2017

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We have not authorized any dealer, salesperson or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which it relates, nor does this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus is accurate on any date subsequent to the date set forth on its front cover or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus is delivered or securities are sold on a later date.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we have filed with the Securities and Exchange Commission, or the SEC. The exhibits to our registration statement and documents incorporated by reference contain the full text of certain contracts and other important documents that we have summarized in this prospectus or that we may summarize in any amendment or prospectus supplement. Since these summaries may not contain all the information that you may find important in deciding whether to purchase the securities we offer, you should review the full text of these documents.

The registration statement and the exhibits and other documents can be obtained from the SEC as indicated under the sections entitled "Where You Can Find More Information about Preferred Apartment Communities" and "Incorporation of Certain Documents By Reference."

Unless otherwise indicated or the context requires otherwise, including with respect to the securities offered by this prospectus as described in "Description of Capital Stock and Securities Offered," in this prospectus or any prospectus supplement hereto, references to the "Company," "we," "us" and "our" mean Preferred Apartment Communities, Inc. and its consolidated subsidiaries, including, without limitation, Preferred Apartment Communities Operating Partnership, L.P., a Delaware limited partnership of which we are the sole general partner, or our Operating Partnership, and "our Manager" refers to Preferred Apartment Advisors, LLC, a Delaware limited liability company, which is our external manager and advisor and a related party.

MARKET AND INDUSTRY DATA AND FORECASTS

In this prospectus, we present certain economic and industry data and forecasts derived from cited third party sources, which data and forecasts are publicly available for free or upon payment as part of a subscription service. None of such data and forecasts was prepared specifically for us. No third party source that has prepared such information has reviewed or passed upon our use of the information in this prospectus, and no third party source is quoted or summarized in this prospectus as an expert. All statements contained in this prospectus in connection with or related to such data and forecasts are attributed to us, and not to any such third party source or any other person.

CAUTIONARY STATEMENT
REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this prospectus and the information incorporated by reference into this prospectus that are not historical factual statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act; Section 27A of the Securities Act of 1933, as amended, or the Securities Act; and pursuant to the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "goals," "guidance," "trends," "intend," "should," "could," "may" or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- our business and investment strategy;
- our projected operating results;
- actions and initiatives of the U.S. Government and changes to U.S. Government policies and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic areas;
- economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements, including through the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac;
- financing and advance rates for our target assets;
- our expected leverage;
- changes in the values of our assets;
- our expected portfolio of assets;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;
- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes, or REIT;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future;
- competition in the markets we compete in;
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy;
- weakness in the national, regional and local economies, which could adversely impact consumer spending and retail sales and in turn tenant demand for space and could lead to increased store closings;
- changes in market rental rates;

- changes in demographics (including the number of households and average household income) surrounding our shopping centers;
- adverse financial conditions for grocery anchors and other retail, service, medical or restaurant tenants;

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- continued consolidation in the retail and grocery sector;
- excess amount of retail space in our markets;
- reduction in the demand by tenants to occupy our shopping centers as a result of reduced consumer demand for certain retail formats;
- the growth of online retailers and super-centers and warehouse club retailers, such as those operated by Wal-Mart and Costco, and their adverse effect on traditional grocery chains;
- our ability to aggregate a critical mass of grocery-anchored shopping centers or to spin-off, sell or distribute them;
- the impact of an increase in energy costs on consumers and its consequential effect on the number of shopping visits to our centers; and
- consequences of any armed conflict involving, or terrorist attack against, the United States.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. For more information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see "Risk Factors." If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PROSPECTUS SUMMARY

This summary highlights selected information about us, but does not contain all the information that may be important to you. This prospectus includes specific terms of the offering and information about our business and financial data. You should read carefully this entire prospectus, including the matters set forth under the caption "Risk Factors," and the information incorporated by reference in this prospectus before making an investment decision.

Our Company

We were formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities, and we may make real estate loans, provide deposit arrangements or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, we may acquire or originate senior mortgage loans, subordinate loans or real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest a lesser portion of our assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, membership or partnership interests in other income-producing property types as determined by Preferred Apartment Advisors, LLC, a Delaware limited liability company, or our Manager, as appropriate for us. Our investment guidelines limit our investment in these non-multifamily assets to 20% of our assets, subject to increases unanimously approved by our Board of Directors. On December 12, 2016, our Board of Directors temporarily suspended this 20% limit. Our Board of Directors will review and discuss the reinstatement of the 20% limit following a spinoff, sale or distribution of our grocery-anchored shopping centers, if any such transaction occurs. We have no employees of our own; our Manager provides all managerial and administrative personnel to us pursuant to the Sixth Amended and Restated Management Agreement, effective as of June 3, 2016, among the Company, Preferred Apartment Communities Operating Partnership, L.P., a Delaware limited partnership, or our Operating Partnership, and our Manager. As referred to herein, the Sixth Amended and Restated Management Agreement, as it has been or may be amended, is referred to as the Management Agreement. We have elected to be taxed as a real estate investment trust under the Internal Revenue Code of 1986, as amended, commencing with the tax year ended December 31, 2011. Our Manager has not offered prior programs or REITs which disclosed in the offering materials a date or time period at which the program or REIT might be liquidated.

Our consolidated financial statements include the accounts of the Company and our Operating Partnership. We control our Operating Partnership through our sole general partnership interest in the Operating Partnership, and we conduct substantially all of our business through our Operating Partnership.

Competitive Strengths

We believe that we distinguish ourselves from many of our competitors through the following competitive advantages:

- experienced management team with significant expertise in real estate and real estate-related debt investments and capital markets;
- access to a pipeline of investment opportunities;
- benefits from our relationship with our Manager and its affiliates; and
- dedicated asset management team.

Investment Strategy

We seek to maximize returns for our stockholders by taking advantage of the current environment in the real estate market and the United States economy. We intend to employ efficient management techniques to grow income and create asset value. Our investment strategies may include, without limitation, the following:

- Acquiring Class "A" multifamily assets in performing and stable markets throughout the United States; these multifamily assets, we believe, will generate sustainable and growing cash flow from operations sufficient to allow us to cover the dividends that we expect to declare and pay, and, we believe, will have the potential for capital appreciation. These multifamily assets will generally be located in metropolitan statistical areas, or MSAs, with at

least one million people, which we expect will generate job growth and where we believe new multifamily development of comparable properties is able to be absorbed at attractive rental rates.

- Acquiring Class “A” multifamily assets dedicated to student housing at universities around the United States. These assets will be located near the applicable campus. We will endeavor to acquire assets with demonstrated track records of occupancy and rental rates. The universities served by these assets should generally be larger schools typically demonstrating increasing enrollment and market trends that indicate new development is being or should be absorbed at attractive rental rates.

- Acquiring Class “A” multifamily assets that are intended to be financed with longer-term, assumable, fixed-rate debt typically provided by the Federal Housing Administration or FHA and Department of Housing and Urban Development or HUD programs.

- Acquiring Class “A” multifamily assets that present an opportunity to implement a value-add program whereby the properties can be upgraded or improved physically to better take advantage of the increased rental rates that we believe the relevant markets will command.

- Acquiring grocery-anchored shopping centers that are typically anchored by one of the market dominant or specialty grocers in the trade area. We will endeavor to acquire shopping centers with a track record of strong, increasing sales per square foot at the anchor store. We will also target on a select basis a specialty grocer, such as Whole Foods, Sprouts, Fresh Market, or Trader Joes, in a market where they have a high sales per square foot store.

- Acquiring Class "A" office assets. We will endeavor to acquire well leased, high credit, low risk, Class "A" office buildings.

- Originating real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties, other multifamily related assets and, to a lesser extent, non-multifamily related assets.

- It is our policy to acquire any of our target assets primarily for income, and only secondarily for possible capital gain. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily properties and to a lesser extent, non-multifamily related assets, and we may make real estate loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties.

- We also may invest in real estate related debt, including, but not limited to, newly or previously originated first mortgage loans on multifamily properties and, to a lesser extent, non-multifamily related assets that meet our investment criteria, which are performing or non-performing, newly or previously originated second position loans on multifamily properties and, to a lesser extent, non-multifamily assets that meet our investment criteria (second or subsequent mortgages), which are performing or non-performing, and tranches of securitized loans (pools of collateralized mortgaged-backed securities) on multifamily properties and, to a lesser extent, non-multifamily related assets that meet our investment criteria, which are performing or non-performing. In connection with our investments in second position loans, we may negotiate the inclusion of exclusive purchase options on the to-be-developed properties. These purchase options may include a fixed purchase price set at the time we enter into the loan, or a purchase price which is calculated as a certain discount from market capitalization rates determined at the date of exercise of such purchase option.

Any asset acquisitions from affiliated third parties have been, and will continue to be, subject to approval by our conflicts committee comprised solely of independent directors. Our Manager's investment committee will periodically review our investment portfolio and its compliance with our investment guidelines and policies. Our Manager will provide our Board of Directors an investment report at the end of each quarter in conjunction with its review of our

quarterly results. Our investment guidelines, the assets in our portfolio, the decision to utilize leverage, and the appropriate levels of leverage are periodically reviewed by our Board of Directors as part of their oversight of our Manager. Our Board of Directors may amend or revise our investment guidelines without a vote of the stockholders.

Marketing and Branding Strategy

Our Manager has branded, and intends to brand, all apartment communities owned by us as “A Preferred Apartment Community”, which we believe signifies outstanding brand and management standards, and has obtained rights to the trademark, including federal registration of the trademark with the United States Patent and Trademark Office, to help secure our brand. We believe our brand will enhance each individual property's presence in relation to other properties within that marketplace.

On September 17, 2010, we entered into a trademark license and assignment agreement pursuant to which we granted an exclusive, worldwide, fully-paid, royalty-free license of all our trademarks to our Manager and agreed to assign all of our trademarks to our Manager upon the applications related to our trademarks being successfully converted to use-based applications with the United States Patent and Trademark Office. Pursuant to this agreement, in March 2012, we assigned these trademarks to our Manager and concurrently entered into a royalty-free license agreement for these trademarks with us as licensee. Similarly, in March 2012, our Manager entered into a royalty-free license agreement with us as licensee with respect to all other intellectual property of the Manager. In the event of termination of the Management Agreement, all rights to our name will be transferred to us.

We have implemented what we believe to be an innovative and unique marketing and branding strategy at each multifamily community that we own by implementing the PAC Concierge, PAC Rewards and PAC Partners programs. We intend to implement this same marketing and branding strategy at each multifamily community we acquire.

Our PAC Concierge Program is a complimentary service for residents designed to offer them the type of personal concierge services that one might expect at a high end resort. The concierge services are provided by a professionally trained third party team and is available to our residents 24/7 by telephone, email or web access through our unique resident web portal. Our PAC Rewards program, once communities are enrolled in the program, allows residents to accumulate and redeem reward points for services and upgrades. Residents may accumulate Preferred Rewards, for example, when they sign their lease, pay their rent online, renew their leases, or when a resident's referral signs a new lease. Our PAC Partners program establishes reciprocal relationships between a Preferred Apartment Community and neighborhood businesses to provide our residents with benefits such as discounts, perks and other incentives as an enticement to frequent those businesses and to support the local community.

Risk Management

Risk management is a fundamental principle in the development of our portfolio of assets and in the management of each investment. Diversification of our portfolio by investment size and location is critical in our attempt to manage portfolio-level risk. It is our policy that no single asset will exceed 15% of our total assets and that we will not have more than 25% of our total assets invested in any single MSA, unless otherwise approved by our Board of Directors. Due to our Board of Director’s temporary suspension of the limitation on investments in non-multifamily assets, there is no current limitation on (i) the percentage of assets of any one type of investment which we may invest in, and (ii) in the case of securities, the percentage of securities of any one issuer which we may acquire.

Investment Committee

Our Manager has an investment committee that meets periodically, at least every quarter, to discuss investment opportunities. The investment committee periodically reviews our investment portfolio and its compliance with our investment guidelines described above, and our Manager provides our Board of Directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. From time to time, as it deems appropriate or necessary, our Board of Directors also will review our investment portfolio and its compliance with our investment

guidelines and the appropriateness of our investment guidelines and strategies.

Management Agreement

We are externally managed and advised by our Manager. Our Manager is subject to the supervision and oversight of our Board of Directors at all times and has only such functions and authority as we delegate to it. We do not have any employees.

Pursuant to the Management Agreement, our Manager provides us with a management team and appropriate support personnel to implement our business strategy and perform certain services for us, subject to oversight by our Board of Directors. Our Manager is responsible for, among other duties, (1) performing and administering all our day-to-day operations, (2) determining investment criteria in conjunction with our Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, sales and financings, (4) performing asset management duties, (5) performing property management duties, and (6) performing financial and accounting management.
The following table summarizes the fees and expense reimbursements that we will pay to our Manager (or persons affiliated with or related to our Manager, including our officers):

Type of Compensation	Determination of Amount
	Offering, Acquisition and Operation Stage
Loan Origination Fees	Fees payable to our Manager in the amount of 1.0% of the amount that may be advanced for a real estate related loan or other investment that is a loan, along with reimbursement of acquisition expenses actually incurred by the Manager or any of its affiliates in connection with such loan originations (other than those paid by the borrower). The amount originated shall equal the maximum amount that may be advanced for a real estate related loan or other investment that is a loan, inclusive of expenses related thereto (other than those paid by the borrower), but exclusive of loan origination fees.
Acquisition Expenses [1]	We will reimburse our Manager for expenses actually incurred (including personnel costs) related to selecting, evaluating and making investments on our behalf, regardless of whether we actually make the related investment. Personnel costs associated with providing such services will be determined based on the amount of time incurred by the applicable employee of our Manager and the corresponding payroll and payroll related costs incurred by our Manager. In addition, we also will pay third parties, or reimburse our Manager or its affiliates, for any investment-related expenses due to third parties, including, but not limited to, legal fees and expenses, travel and communications expenses, costs of appraisals, accounting fees and expenses, third-party brokerage or finder's fees, title insurance expenses, survey expenses, property inspection expenses and other closing costs, regardless of whether we make the related investment.
Asset Management Fee[2]	We will pay our Manager a monthly fee equal to one-twelfth of 0.50% of the total value of our assets (including cash or cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization, impairment charges and cumulative acquisition costs charged to expense in accordance with generally accepted accounting principles, or GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs) and as adjusted for appropriate closing dates for individual asset acquisitions. This fee will be payable monthly in cash or shares of our common stock, at the option of the Manager. This fee will be appropriately pro rated for any partial month.
Multifamily Property Management and Leasing Fee[2]	We will pay our Manager a monthly fee equal to 4% of the monthly gross revenues of our multifamily properties managed, for services in connection with the rental, leasing, operation and management of our multifamily properties and the supervision of any third parties that are engaged by our Manager to provide such services. Our Manager may subcontract the performance of its multifamily property management and leasing services duties to third parties or affiliates and pay all or a portion of its multifamily property management fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted property management and leasing duties. The property management and leasing fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.

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Retail Management Fee(2)	We will pay our Manager a monthly fee equal to 4% of the gross revenues managed per month, for services in connection with the operation and management of our retail real estate assets and the supervision of any third parties that are engaged by our Manager to provide such services. Our Manager may subcontract the performance of its retail property management duties to third parties or affiliates and pay all or a portion of its retail management fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted retail property management duties. The retail management fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.
Retail Leasing Fees	We will pay our Manager a commission with respect to a new lease for a retail real estate asset equal to the greater of (A) four dollars per square foot and (B) 4% of the aggregate base rental payments to be paid by tenant for the first ten years of the original lease term. In the event of co-broker participation in a new lease for a retail real estate asset, the leasing commission determined for a new lease, with respect to such lease, will be increased by 50% which increased commission amount will be shared between our Manager and such co-broker on a split basis mutually acceptable to our Manager and such co-broker, provided that our Manager's share shall not exceed 100% o the amount our Manager would have received without outside broker involvement, nor be less than 50% of the increased amount. We will pay a commission to our Manager with respect to a negotiated renewal of an existing lease for a retail real estate asset equal to the greater of (A) two dollars per square foot and (B) 2% of the aggregate base rental payments to be paid by tenant for the first ten years of the newly renewed term. In no event shall the retail leasing fees paid to our Manager exceed customary market rates. Our Manager may subcontract the performance of its retail leasing duties to third parties or affiliates and pay all or a portion of its retail leasing fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted retail leasing duties. The retail leasing fee will be payable upon the earlier to occur of rent commencement or tenant's opening for business.
Office Management Fee(2)	We will pay our Manager a monthly fee equal to 4% of the gross revenues managed per month, for services in connection with the operation and management of our office real estate assets and the supervision of any third parties that are engaged by our Manager to provide such services. Our Manager may subcontract the performance of its office property management duties to third parties or affiliates and pay all or a portion of its office management fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted office property management duties. The office management fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.
Office Leasing Fees	We will pay our Manager a commission with respect to a new lease for an office real estate asset equal to 50% of the first month's gross rent plus 2% of the remaining fixed gross rent of the guaranteed lease term. In the event of co-broker participation in a new lease for an office real estate asset, the leasing commission determined for a new lease, with respect to such lease, will be 150% of the first month's gross rent plus 6% of the remaining fixed gross rent of the guaranteed lease term. We will pay a commission to our Manager with respect to a negotiated renewal of an existing lease for an office real estate asset equal to 2% of the fixed gross rent of the guaranteed lease term or, in the event of a co-broker, 6% of the fixed gross rent of the guaranteed lease term. In no event shall the office leasing fees paid to our Manager exceed customary market rates. Our Manager may subcontract the performance of its office leasing duties to third parties or affiliates and pay all or a portion of its office leasing fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted office leasing duties. The office leasing fee will be payable upon the earlier to occur of rent commencement or tenant's opening for business.

General and Administrative Expenses Fee[(1)(2)(3)]	We will pay our Manager a monthly fee equal to 2% of our monthly gross revenues in connection with the administration of our day-to-day operations and the performance and supervision of the performance of such other administrative functions necessary for our management.

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Disposition Fee on Sale of Assets	We will pay our Manager a commission upon the sale of one or more of our properties or other assets in an amount equal to 1% of the sale price of the asset.
Construction Fee, Development Fee and Landscaping Fee	We will pay our Manager a construction fee, development fee and landscaping fee at market rates customary and competitive in light of the size, type and location of the asset in connection with the construction, development or landscaping of a property.
Loan Coordination Fee	We will pay to our Manager a loan coordination fee equal to 1.6% of any assumed, new or supplemental debt incurred in connection with an acquired property, or of 63% of the purchase price if the asset is not leveraged. In connection with the payment of any loan coordination fee, the amount of that loan coordination fee will be reduced by the aggregate amount of all loan coordination fees and loan origination fees previously paid on the same real estate or real estate-related asset. We will pay to our Manager or its permitted assignees the loan coordination fee promptly upon the closing of the financing or refinancing.
Accrued Fees Upon Termination	In the event we terminate the Management Agreement without cause or the Manager terminates the Management Agreement for cause, or upon our liquidation, we are required to pay to our Manager a termination payment, or the Termination Payment, equal to the recurring fees paid or owing relating to the prior 12-month period multiplied by (a) 3.0, if the effective date of termination is on or prior to December 31, 2017, or (b) 2.5, if the effective date of termination is on or after January 1, 2018. If our Manager is sold to an unaffiliated third party without the consent of our independent directors, or if our Manager assigns the Management Agreement, in whole or in part, without the consent of a majority of our independent directors and the Operating Partnership, our Manager will not be entitled to the Termination Payment.

(1) Amounts paid in respect of acquisition expenses and the general and administrative expenses fee include our portion of any expenses incurred by our Manager on behalf of joint ventures in which we are a participant.
(2) The total amount of the asset management, multifamily property management and leasing, retail management, office management and general and administrative fees and expenses paid or reimbursed to our Manager will be capped at 1.5% of total value of our assets (including cash and cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization, impairment charges and cumulative acquisition costs charged to expense in accordance with GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs).
(3) In addition to the general and administrative expenses fee, we may reimburse our Manager for certain costs and expenses it incurs in connection with the services it provides to us, including, but not limited to, personnel costs. See the note to our financial statements entitled "Related Party Transactions" included in our most recent Annual Report on Form 10-K, any subsequent Quarterly Reports on Form 10-Q and SEC reports on Form 8-K, which are incorporated, or deemed to be incorporated, by reference into this prospectus for details relating to these additional costs and expenses.

The Offering

Issuer	Preferred Apartment Communities, Inc.
Series A Redeemable Preferred Stock offered by us	A maximum of 1,500,000 shares of Series A Redeemable Preferred Stock will be offered as part of the Units through our dealer manager in this offering on a reasonable best efforts basis.

Ranking. The Series A Redeemable Preferred Stock ranks senior to our common stock with respect to the payment of dividends and rights upon liquidation, dissolution or winding up. Investors in the Series A Redeemable Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Redeemable Preferred Stock receive a return of their capital.
Stated Value. Each share of Series A Redeemable Preferred Stock will have an initial "Stated Value" of $1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our Series A Redeemable Preferred Stock, as set forth in the articles supplementary setting forth the rights, preferences and limitations of the Series A Redeemable Preferred Stock, or the Articles Supplementary.

Dividends. Holders of Series A Redeemable Preferred Stock are entitled to receive, when and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. We paid the initial dividend on our Series A Redeemable Preferred Stock in May 2012 to stockholders of record as of April 30, 2012, and thereafter have consistently paid monthly dividends on the Series A Redeemable Preferred Stock. We expect to continue to pay dividends on the Series A Redeemable Preferred Stock monthly, unless our results of operations, our general financial condition, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.
Redemption at the Option of a Holder. During the period beginning on the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the first anniversary of such original issuance, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially $1,000 per share, less a 13% redemption fee, plus any accrued but unpaid dividends.
During the period beginning one year from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the third anniversary of such original issuance, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially $1,000 per share, less a 10% redemption fee, plus any accrued but unpaid dividends.
During the period beginning three years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the fourth anniversary of such original issuance, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially $1,000 per share, less a 5% redemption fee, plus any accrued but unpaid dividends.
During the period beginning four years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the fifth anniversary of such original issuance, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, initially $1,000 per share, less a 3% redemption fee, plus any accrued but unpaid dividends.

Beginning five years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, initially $1,000 per share, plus any accrued but unpaid dividends.

In addition, subject to restrictions, beginning on the date of original issuance and ending two years thereafter, we will redeem such shares of Series A Redeemable Preferred Stock of a holder who is a natural person upon his or her death at the written request of the holder's estate at a redemption price equal to the Stated Value, initially $1,000 per share, plus accrued and unpaid dividends thereon through and including the date of redemption, less all dividends previously paid to the holder or the estate.

If a holder of Series A Redeemable Preferred Stock, or a holder's estate upon death of a holder, causes the Company to redeem such shares of Series A Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price per share of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

Optional Redemption by the Company. After ten years from the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed, we will have the right (but not the obligation) to redeem such shares of Series A Redeemable Preferred Stock at 100% of the Stated Value, initially $1,000 per share, plus any accrued but unpaid dividends. If we choose to redeem any shares of Series A Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price per share of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

Our obligation to redeem any of the shares of Series A Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption.

Liquidation. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Series A Redeemable Preferred Stock, the holders of shares of Series A Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per share, plus an amount equal to any accrued but unpaid dividends.

Warrants offered by us

A maximum offering of Warrants to purchase up to 30,000,000 shares of common stock will be offered as part of the Units through our dealer manager in this offering on a reasonable best efforts basis.

The Warrants will be exercisable beginning one year from the date of original issuance and ending four years from the date of such issuance.

The initial exercise price will be at a 20% premium to the current market price per share of our common stock on the date of issuance of the Warrant, subject to a minimum exercise price of $19.50 per share. The current market price will be determined using the closing price of our common stock immediately preceding the issuance of the Warrant.

210 2010 286
2011 292
2012 298

2013	304
Thereafter	3,365
Total	$ 4,755

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BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 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 well-capitalized as of March 31, 2009. At March 31, 2009, 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, 2009 are presented in the following table (000s omitted):

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2009						
Total risk-based capital (to risk weighted assets)						
Bank of Birmingham	$9,122	15.0%	$4,862	8.0%	$6,077	10.0%
Tier I capital (to risk weighted assets)						
Bank of Birmingham	$8,379	13.8%	$2,431	4.0%	$3,646	6.0%
Tier I capital (to average assets)						
Bank of Birmingham	$8,379	12.0%	$2,799	4.0%	$3,499	5.0%
As of December 31, 2008						
Total risk-based capital (to risk weighted assets)						
Bank of Birmingham	$9,345	16.6%	$4,491	8.0%	$5,614	10.0%
Tier I capital (to risk weighted assets)						
Bank of Birmingham	$8,635	15.4%	$2,246	4.0%	$3,369	6.0%
Tier I capital (to average assets)						
Bank of Birmingham	$8,635	12.8%	$2,695	4.0%	$3,369	5.0%

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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 and 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.

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BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
OVERVIEW
The Corporation is a Michigan corporation that was incorporated on February 26, 2004 to organize and serve as the holding company for a Michigan state bank, Bank of Birmingham (the Bank) in Birmingham, Michigan. The Bank is a full service commercial bank headquartered in Birmingham, Michigan, with a full service branch banking office in Bloomfield Township, Michigan. It serves the communities of Birmingham, Bloomfield, Bingham Farms, Franklin and Beverly Hills and the neighboring communities. The Corporation completed the first phase of its stock offering on July 25, 2006 and capitalized the Bank on that date. The Bank opened for business on July 26, 2006 in a modular facility at the site of its future branch at 4145 W. Maple in Bloomfield Township. The modular facility served as the Bank s temporary main office until leasehold improvements at the permanent main office facility at 33583 Woodward Avenue in Birmingham were completed and the office opened for business at the end of August 2006. Remodeling then commenced at the Bloomfield facility and it opened for business on February 20, 2007. The Bank serves businesses and consumers across Oakland and Macomb counties with a full range of lending, deposit, and Internet banking services.
The results of operations depend largely on net interest income. Net interest income is the difference in interest income the Corporation earns on interest-earning assets, which comprise primarily commercial business, commercial real estate and residential real estate loans and the interest the Corporation pays on our interest-bearing liabilities, which are primarily deposits and borrowings. Management strives to match the re-pricing characteristics of the interest earning assets and interest bearing liabilities to protect net interest income from changes in market interest rates and changes in the shape of the yield curve.
The results of our operations have also been affected by local and general economic conditions. The largest geographic segment of our customer base is in Oakland County, Michigan. The economic base of the County continues to diversify from the automotive service sector. This trend should lessen the impact on the County of future economic downturns in the automotive sector of the economy. Oakland County s proximity to major highways and affordable housing has continued to spur economic growth in the area. Changes in the local economy may affect the demand for commercial loans and related small to medium business related products. The competitive environment among other financial institutions and financial service providers and the Bank in the Oakland and Macomb counties of Michigan may affect the pricing levels of various deposit products.
General economic conditions have worsened for banks in general and particularly in Michigan as the U.S. economic picture has place us into a recession. Michigan and the Detroit area in particular have been hit fairly hard. Michigan has one of the highest foreclosure rates and unemployment rates in the country. While Oakland county is not immune to these issues, the demographics of the Birmingham Bloomfield area somewhat lessen the impact as the residents of the area tend to be more business owners and professionals. The Bank has been very prudent in our lending practices and those efforts continue to show a very clean loan portfolio through the first quarter of the year. During April 2009, we placed two credits on non-accrual status, one for $18,277 and the second for $817,018. The first is a probate matter, and the second involves a collateral dependent commercial real estate property. This property is well collateralized and management does not expect to sustain a loss related to this account.

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BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
PLAN OF OPERATION

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 Bank also operates a branch office at 4145 West Maple Road, near the intersection of Telegraph Road in Bloomfield Township, MI, which is approximately 5 miles from the main office. The branch office occupies approximately 2,815 square feet in a one story office building. The Bank has executed lease agreements with respect to each of its banking locations. The main office lease commenced in October 2005 and the Bank has exercised its first renewal option resulting in the lease being extended until October 2025, and the branch office lease commenced in March 2006 and runs through February 2016. Each of the leases has a ten year renewal option.

At this time, neither the Corporation nor the Bank intends to own any of the properties from which the Bank will conduct banking operations. The Bank used approximately $2.9 million of the proceeds of the Company s initial public offering to purchase furniture, fixtures and equipment at the two locations. The Bank has 20 full-time equivalent employees to staff its banking offices.

The Bank will continue to use the remainder of its capital for customer loans, investments and other general banking purposes. We believe that the Corporation s initial offering proceeds will enable the Bank to maintain a leverage capital ratio, which is a measure of core capital to average total assets, in excess of 8% for the first three years of operations as required by the FDIC. The Corporation does anticipate that it will require $4.0 to $6.0 million in additional equity during the next 36 months of operations in order to continue to grow while meeting regulatory capital requirements. Management is exploring the capital markets with the aid of consultants to determine how and when it may raise the additional equity.

FINANCIAL CONDITION

At March 31, 2009, the Corporation s total assets were $73.0 million, an increase of $5.7 million or 8.5% from December 31, 2008. Cash and cash equivalents increased by $3.5 million or 74.8%. Investment securities available for sale decreased $250,000 or 6.4% from December 31, 2008 to March 31, 2009. Loans, net of the allowance for loan losses, increased by $2.6 million or 4.6% from December 31, 2008 to March 31, 2009. Total deposits increased by $6.1 million or 10.5% from December 31, 2008 to March 31, 2009. Basic and diluted loss per share for the three months ended March 31, 2009 were $(0.17) per share and $(0.17) per share, respectively. Basic and diluted loss per share for the three months ended March 31, 2008 were $(0.35) per share and $(0.35) per share, respectively.

Cash and Cash Equivalents

Cash and cash equivalents increased $3.5 million or 74.8% to $8.2 million at March 31, 2009 up from $4.7 million at December 31, 2008. Federal funds sold decreased $1.5 million or 42.9% to $2.0 million at March 31, 2009. The decrease in Federal funds sold is due to the shifting of excess funds to other accounts which earn somewhat higher interest rates.

Investments

Total investment securities available-for-sale decreased $250,000 or 6.4% to $3.6 million at March 31, 2009, compared to $3.9 million at December 31, 2008. The decrease in investment securities is primarily attributable to the sale of a corporate security and the maturity of a U.S. Government agency security, resulting in an approximate decrease of $1.0 million, offset by $790,000 in U.S. Government agency security purchases. The remaining decrease was due to repayments on mortgage backed securities. The Corporation had no held-to-maturity securities as of March 31, 2009 or December 31, 2008.

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BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
Loans, Credit Quality and Allowance for Loan Losses

During the first three months of 2009, loans, net of the allowance for loan losses, increased $2.6 million or 4.6%, to $58.7 million at March 31, 2009 up from $56.1 million at December 31, 2008. The largest single category increase within loans, as noted in Note 4 to the financial statements, was equity lines of credit which increased by $1.6 million or 15.0% to $11.9 million at March 31, 2009. Commercial real estate increased by $1.1 million or 4.9% to $24.2 million at the current quarter end. These loans are for the most part owner occupied properties. These increases are due in part to increased draws on existing lines as well as continued business development efforts. Commercial non real estate loans increased approximately $970,000 or 11.8% to $9.2 million at March 31, 2009. The increase is due to new loan production.

The allowance for loan losses was $743,500 or 1.25% of loans at March 31, 2009. There were no loan charge offs or recoveries during the three month periods ended March 31, 2009 or 2008. The Corporation had no nonperforming loans, which consist of non-accruing loans and loans past due 90 days or more and still accruing interest, at March 31, 2009, but as previously stated two accounts totaling $835,295 were placed on non-accrual status during April 2009. Commercial loans are reported as being in nonaccrual 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 stay on accrual status. However, if the loan is not brought current before becoming 120 days past due, the loan is reported as nonaccrual. A nonaccrual 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.

The primary risk element considered by management regarding each consumer and residential real estate loan is lack of timely payment. 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 annual financial statements from its commercial loan customers and periodically reviews existence of collateral and its value.

Management evaluates the condition of the loan portfolio on a quarterly basis to determine the adequacy of the allowance for loan losses. Management s evaluation of the allowance is further based on consideration of actual loss experience, the present and prospective financial condition of borrowers, adequacy of collateral, industry concentrations within the portfolio, and general economic conditions. Management believes that the present allowance is currently adequate, based on the broad range of considerations listed above. Management will, during 2009, increase its planned provision to raise the reserve to around 1.30% of total loans due to the continued unstable economic environment that we are operating within.

Although management believes that the allowance for loan losses is adequate to absorb losses as they arise, there can be no assurance that the Corporation will not sustain losses in any given period that could be substantial in relation to the size of the allowance for credit losses. 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 significantly impacted.

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BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
Premises and Equipment

Premises and equipment was $2.2 million as of March 31, 2009 and December 31, 2008. The Corporation has no plans for significant additions over the next twelve months.

Deposits

Total deposits were $63.8 million as March 31, 2009, an increase of $6.1 million over December 31, 2008. In the deposit categories, noninterest bearing DDA deposits were $5.7 million, which were made up primarily of business accounts. NOW accounts which, except for limited circumstances, are owned by individuals were $8.1 million at March 31, 2009, while Money Market accounts were $10.4 million and Savings accounts were $7.8 million at the current quarter end. Certificates of deposit were $31.8 million at March 31, 2009. Of this amount $18.3 million was in certificates greater than $100,000. Beginning in February 2008, the Corporation began advertising its rates on certain certificates of deposits on a national certificate of deposit network, which has attracted some deposits from outside the local market. We will continue to utilize this avenue to supplement our deposit base as we continue to focus on growing our portion of the local retail and commercial deposit market. We have also chosen to participate in the MI-CD program with the State of Michigan. This program allows us to acquire State of Michigan certificate of deposit funds at below market rates to aid in the funding of our loan portfolio.

	As of March 31, 2009	
(000 s omitted)	Balance	Percentage
Noninterest bearing demand	$ 5,755	9.0%
NOW accounts	8,071	12.6
Money market	10,356	16.2
Savings	7,837	12.3
Time deposits under $100,000	13,451	21.1
Time deposits over $100,000	18,356	28.8
Total deposits	$ 63,826	100.0%

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
RESULTS OF OPERATIONS
Net Interest Income

Net interest income for the three months ended March 31, 2009 and 2008 were $543,000 and $414,000 respectively. Interest income on loans was $843,000 and $650,000 for the three months ended March 31, 2009 and 2008, respectively. The growth in interest income on loans was driven by continued growth in the loan portfolio. Deposit interest expense of $340,000 and $314,000 for the three month periods ended March 31, 2009 and 2008, respectively, increased due to the growth in savings accounts and certificates of deposit.

The following table shows the Corporation s consolidated average balances of assets, liabilities, and equity. The table also details the amount of interest income or interest expense and the average yield or rate for each category of interest-earning asset or interest-bearing liability and the net interest margin for the three months ended March 31, 2009 and 2008, respectively.

	Three Months Ended March 31,					
	2009			2008		
	Average Balance (000 s)	Interest	Average Yield/ Rate	Average Balance (000 s)	Interest	Average Yield/ Rate
Interest-earning assets						
Loans	$ 58,414	$ 842,821	5.77%	$ 39,805	$ 650,141	6.53%
Securities	3,378	37,406	4.43%	2,086	29,145	5.59%
Federal funds sold	2,395	891	0.15%	5,937	48,300	3.25%
Interest-bearing balance with Other financial institutions	2,121	1,340	.25%			
Total interest-earning assets	**66,308**	**882,458**	**5.32%**	**47,828**	**727,586**	**6.09%**
Cash and due from banks	1,971			1,258		
All other assets	1,822			2,175		
Total assets	**$ 70,101**			**$ 51,261**		
Interest-bearing liabilities						
NOW accounts	$ 7,559	21,913	1.16%	$ 8,909	59,635	2.68%
Money market	10,059	34,532	1.37%	11,640	85,985	2.95%
Savings	3,793	16,699	1.76%	332	1,318	1.59%
Time deposits	33,493	266,447	3.18%	13,930	166,804	4.79%
Total interest-bearing liabilities	**54,904**	**339,591**	**2.47%**	**34,811**	**313,742**	**3.61%**
Non-interest bearing deposits	5,782			5,683		
All other liabilities	234			206		

Total liabilities	**60,920**			**40,700**		
Shareholders equity	9,181			10,561		
Total liabilities and shareholders equity	**$ 70,101**			**$ 51,261**		
Net interest income		**$ 542,867**			**$ 413,844**	
Net spread			**2.85%**			**2.48%**
Net interest margin (1)			**3.27%**			**3.46%**
Ratio of interest-earning assets to interest-bearing liabilities	**120.77%**			**137.39%**		

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

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BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
The yield on interest-earning assets decreased for the quarter ended March 31, 2009 to 5.32% from 6.09% as compared to the same period in the prior year. Much of the decrease was due to reductions in the yield in the loan portfolio with the prime rate changes throughout 2008. The yield on loans receivable decreased to 5.77% for the three months ended March 31, 2009 from 6.53% for the same period in 2008. The Corporation s interest rate spread increased for the three months ended March 31, 2009 to 2.85% from 2.48% for the same period in 2008. The Corporation has benefited from an improvement in the spread on interest rates as reductions in the cost of deposits outpaced the reduction in loan yields. In the prior year, deposit rates were higher due to the competitive market as well as promotional rates offered to attract and build the customer base. Net interest margin decreased to 3.27% for the three months ended March 31, 2009 down from 3.46% for the same period in 2008. As loan growth continues, management expects to utilize the liquidity of the federal funds sold and interest-bearing balances with other financial institutions, in addition to local deposits, which will improve the yield on interest-earning assets, which should translate to improvement in the net interest margin.

Provision for Loans Losses
The provision for loan losses was $33,500 and $50,000 for the three months ended March 31, 2009 and 2008, respectively. The decrease from the previous comparable period in provision for loan losses was due to loans growing at a slower pace of $2.6 million for the three months ended March 31, 2009, while the increase in the loan portfolio for the same period in 2008 was $6.5 million. Due to the continuing rough economic conditions, management has decided to gradually increase the provision to build our loan loss reserve levels to a more conservative 1.30% of total loans during 2009.

Non-Interest Income
Non-interest income was $26,000 and $38,000 for the three months ended March 31, 2009 and 2008, respectively. Loan fees and charges decreased to approximately $3,200 for the three months ended March 31, 2008, down from $10,700 for the same period in 2008. This decrease is primarily due to decreases in income earned on mortgage loans originated for third parties. Other income decreased approximately $4,800 for the quarter ended March 31, 2009, down from $9,400 for the same period in 2008. This decrease is due to a decrease in the gain on sale of securities, which was approximately $1,200 for the quarter ended March 31, 2009, and approximately $6,500 for the same period in 2008. Deposit fees and charges remained stable at approximately $18,000 for the three month periods ending March 31, 2008 and 2009.

Non-Interest Expense
Non-interest expense for the three months ended March 31, 2009 and 2008 was $848,000 and $1,026,000 respectively. Salaries and benefits continued to be the largest component of non-interest expense. Salaries and benefits decreased $178,000, or 32.4%, to $371,000 for the quarter ended March 31, 2009 down from $549,000 for the same period of 2008. During the quarter ended March 31, 2008, management decreased staffing levels; therefore severance costs totaling approximately $134,000 are included in the prior quarter salaries and benefits costs. During the current period, management of the Corporation continued to examine the business trends to date and increased staffing accordingly, with the additions of a Chief Financial Officer and a Senior Loan Officer. Occupancy expenses decreased to $213,000 for the quarter ended March 31, 2009 down from $219,000 for the same period of 2008. Data processing expenses were $54,000 for the three month period ended March 31, 2009, compared to $44,000 for the same period in 2008 mainly due to loan and deposit growth and price increases from the vendor. Advertising expenses were $34,000 for the three months ended March 31, 2009, up from $23,000 as compared to the same period in 2008. In the current period, the Corporation incurred a $10,000 platinum sponsorship cost aimed at increasing business in the Corporation s principal markets. Professional fees were $81,000 for the three months ended March 31, 2009 compared to $87,000 for the same period in 2008. For the current quarter end, the Corporation recognized $15,500 for external audit expenses, $12,000 for internal audit expenses, and $14,000 for legal expenses and $5,400 for other consulting expenses. By comparison, for the same period in 2008, the Corporation incurred $24,000, $10,800, $18,000 and $-0- in external audit, internal audit, legal

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and other consulting costs, respectively. Other expenses decreased to $79,000 for the three months ended March 31, 2009 compared to $87,000 for the same period in 2008. This decrease is due in large part to loan costs having a positive variance in the current period.
Income Taxes
No income tax expense or benefit was recognized during the three month periods ended March 31, 2009 or 2008 due to the tax loss carry-forward position of the Corporation. An income tax benefit may be booked in future periods when the Corporation begins to turn a profit and management believes that profitability will be expected for the foreseeable future beyond that point.
LIQUIDITY AND CAPITAL RESOURCES; ASSET/LIABILITY MANAGEMENT
The liquidity of a bank allows it to provide funds to meet loan requests, to accommodate possible outflows of deposits, and to take advantage of other investment opportunities. Funding of loan requests providing for liability outflows and managing interest rate margins require continuous analysis to attempt to match the maturities and re-pricing of specific categories of loans and investments with specific types of deposits and borrowings. Bank liquidity depends upon the mix of the banking institution s potential sources and uses of funds. The major sources of liquidity for the Bank have been deposit growth, federal funds sold, and loans which mature within one year. 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 sufficient funds available to meet our future commitments. As of March 31, 2009, unused commitments totaled $14.3 million. As a majority of the unused commitments represent commercial and equity lines of credit, experience has shown that only a small portion of the unused commitments will normally be drawn upon. While we expect to see an increase in advances on the home equity lines of credit under these tough economic times, we believe that these usage numbers will not be excessive or have a major impact on our liquidity needs. Additionally, the Bank had $110,000 in a commercial letter of credit. A substantial portion (89%), of the Bank s time deposits of $31.8 million matures within twelve months from March 31, 2009. The Bank continues to focus on increasing its share of the local commercial and retail deposit market and extending the duration of those deposits. We have developed several alternative funding sources to supplement our deposit base in order to satisfy our liquidity needs. We utilize an online listing service that allows us to bring in deposits from outside the local marketplace and we have chosen to participate in the State of Michigan s MI-CD program, which allows us to pull in below market rate certificate of deposit dollars to aid in the funding of our loan portfolio. In addition, our application to the Federal Home Loan Bank of Indianapolis has been approved and a credit line with the Federal Reserve Bank is being established to provide additional funding sources should they be needed.
The largest uses and sources of cash and cash equivalents for the Corporation for the quarter ended March 31, 2009, as noted in the Consolidated Statement of Cash Flows, were centered primarily on the uses of cash in investing activities and the net cash provided by financing activities. The uses of cash in investing activities were largely due to the increase in loans of $2.6 million, which was offset by proceeds from the sale and maturities of investment securities and other repayments on mortgage backed securities totaling $1.0 million. Offsetting the uses of cash in investing activities, was the cash provided from financing activities which included net increases in deposits of $6.1 million. Total cash and cash equivalents at the end of March 31, 2009 was $8.2 million, which was an increase of $3.5 million from $4.7 million from December 31, 2008.
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 and critical undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is

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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, 2009. Note 7 to the financial statements are hereby incorporated by reference. At March 31, 2009, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size. The Corporation does anticipate that it will require $4.0 to $6.0 million in additional equity during the next 36 months of operations in order to continue to grow while meeting regulatory capital requirements. Management applied for and was granted in April 2009 $1.635 million in funding under the U.S. Treasury s Capital Purchase Program. The Corporation continues to explore the capital markets with the aid of consultants to determine how and when it may raise the additional equity management feels will be needed to continue to expand our business in a controlled and prudent manner.

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.

Off-Balance Sheet Arrangements

As of March 31, 2009, unused commitments totaled $14.3 million. As a majority of the unused commitments represent commercial and equity lines of credit, the Bank expects, and experience has shown that only a relatively small portion of the unused commitments will normally be drawn upon. Additionally, the Corporation had $110,000 in a commercial letter of credit.

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 process is performed on a quarterly basis, but is managed daily. The Bank continues to be in a liability sensitive position and management

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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 with the March 31, 2009 balance sheet 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, 2008, which information can be located in the Corporation s annual report on Form 10-K.

ITEM 4T. CONTROLS AND PROCEDURES

As of March 31, 2009, we carried out an evaluation, under the supervision and with the participation of the Corporation s management, including the Corporation s chief executive officer and acting 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).

Based on this evaluation, the Corporation s chief executive officer and chief financial officer concluded that, as of March 31, 2009, 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, 2009 that materially affected, or are reasonably likely to materially affect, the Corporation s internal controls over financial reporting.

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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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

This item is not applicable.

ITEM 5. OTHER INFORMATION.

This item is not applicable.

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ITEM 6. EXHIBITS.

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

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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 15, 2009 By: /s/ Robert E. Farr

Robert E. Farr
Chief Executive Officer

Date: May 15, 2009 By: /s/ Deb Thompson

Deb Thompson
Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
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	Certification pursuant to Rules 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act and 18 U.S.C. §1350

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