

Form ADV, Part II

BIRMINGHAM CAPITAL

M A N A G E M E N T

2 Perimeter Park South • Suite 235-East • Birmingham, AL 35243-3253
Phone: 205/967-7062 • Fax: 205/967-7013

Birmingham Capital Management

Form ADV Part II

**2 Perimeter Park South, Ste. 235 East
Birmingham, Alabama 35243
(205)-976-7062**

Contacts:

**H. Thomas Smith
William H. Couchman**

Under SEC Rule IA-3060, advisers must provide new and prospective clients with narrative brochures that are organized in a consistent, uniform manner and that include plain English disclosures of the adviser's business practices, fees, conflicts of interest, and disciplinary information. Advisory firms also must provide information about the qualifications of those employees who will provide the advisory services to that client. This brochure provides such information. If you have any questions about the contents of this brochure, please contact us at the address or telephone number listed above. The information contained in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Birmingham Capital Management is also available on the SEC's website at www.advisorinfo.sec.gov. The information contained herein is accurate as of **February 1, 2013**.

Birmingham Capital Management

Form ADV II

Table of Contents

Page 3.	Birmingham Capital's Advisory Business
Page 4.	Fee Structure and Compensation
Page 5.	Types of Clients
Pages 6. -7.	Investment Methodology and Risks
Page 8.	Disciplinary Actions
Page 9.	Other Activities and Affiliations
Page 10.	Code of Ethics and Conflicts of Interest
Pages 11.-13.	Brokerage Practices
Page 14.	Review of Accounts
Page 15.	Custody of Assets
Page 16.	Investment Discretion
Page 17.	Voting Proxies
Page 18.	Investment Professionals

Advisory Business & Services

Birmingham Capital Management was founded in 1983. The sole business of Birmingham Capital is to provide investment management or supervisory services for clients who want to have their assets invested in stocks and bonds. We manage portfolios of assets for our clients by making the decisions about what securities should be bought or sold for our clients based on their goals and risk tolerances, and then implementing those decisions. We are neither a financial planner nor a broker-dealer, and we do not offer investment advice on the basis of a subscription service or publication. The only fee we receive for our services is based on a percentage of the market value of the assets we manage for each client. As of December 31, 2012, we managed \$236.8 million on a fully discretionary basis.

Birmingham Capital is managed by the two principals, H. Thomas Smith and William H. Couchman. The two principals are also responsible for the investment decision-making and portfolio management for all client accounts. We also are the contacts for clients and client prospects.

Our goal is to provide investment management that is tailored to the needs of each client. We do this by maintaining a high level of communication with our clients and an on-going understanding of the needs and risk tolerances of each client. Clients may, at their discretion, communicate to us any restrictions they would like to place on specific investments or industries that they prefer not to own; and we will, to the best of our ability, incorporate those restrictions into our management of their assets.

Fee Structure and Compensation

As we noted on the previous page, the only fee we receive for our services is based on a percentage of the market value of the assets we manage for each client. At the client's discretion and instructions that fee may be deducted directly from the assets we manage, or billed directly to the client at the end of each quarter.

For our investment management services, we charge the following annual fees:

For accounts with a market value of up to \$5 million, the annual fee is $\frac{3}{4}$ of 1% of the client's net assets under management. The fee is payable quarterly in arrears (payable at the close of the quarter for management for that just-completed quarter) and is billed on the net market value of the assets under management at the close of each calendar or fiscal quarter.

For amounts greater than \$5 million, an annual fee of $\frac{3}{4}$ of 1% will be charged on the first \$5 million, and an annual fee of $\frac{1}{2}$ of 1% will be charged on the remainder of the assets above \$5 million. Again, the fee will be payable quarterly. Birmingham Capital's fees may be negotiable depending on the circumstances of each individual case.

An exception may be made to the practice of collecting fees in arrears when a client or a broker/dealer who may be acting as a financial advisor to the client requests that our fees be charged quarterly in advance. In such cases, if an account is terminated in the middle of a quarter, since the fee would already have been collected for that quarter, we will refund that unearned fee pro rata for the portion of the quarter for which we did not manage the assets. Our standard contract does require a 30-day advance notification if the client wishes to terminate the contract.

Since we cannot act as a custodian for client funds, and since we are not a broker-dealer, clients may also pay other fees to other service providers such as custodians, brokers, or mutual funds. Client accounts will incur the cost of trades (such as brokerage commissions) in the course of our management of those accounts. More information is available on this subject in the sections of this brochure subtitled **Investment Methodology (p. 6)** and **Brokerage Practices (p. 11)**.

Birmingham Capital does not accept performance-based fees.

Types of Clients

We provide our services for a variety of clients, including pension and profit sharing plans, corporations who wish to invest a portion of their corporate assets, endowments and foundations, trusts of various types, and high net worth individuals. Birmingham Capital generally imposes a new account minimum asset value of \$750,000. This figure is subject to negotiation.

Investment Methodology and Risks

Birmingham Capital employs an investment style that can best be characterized as a large capitalization value approach. What this means is that the majority of the stocks that would be purchased or held in our clients' portfolios would be the stocks of very large, generally well-known companies who are leaders in their field or industry. Furthermore, we seek to purchase our portfolio holdings at what we believe is a "value" price, meaning that we try to be attentive to how much we pay for a holding. Our belief is that overpaying for securities that have high market expectations is counterproductive to the long term enhancement of asset values. This is where the "value" part of our description is derived. Our research method can best be described as "fundamental." What this means is that we evaluate the attractiveness of a security based most significantly on the fundamentals of the underlying company, and not on the basis of market trends or charts. Our information for these evaluations comes from a variety of sources, including but not limited to financial periodicals, inspection of documents issued by companies (annual reports, 10Q's, SEC filings), research materials provided by others (brokerage firms or other such providers), corporate rating services (such as Moody's), and company press releases or other information that we may lawfully obtain from company sources.

When we purchase a security for a client's portfolio, and in particular an equity security, our intention is usually to hold it for an extended period of time (over a year, and usually well beyond that). On occasion the holding period may be less than a year, but such instances are rare. Generally speaking, we have a low turnover rate in our portfolios because of this focus on longer term holdings.

In our equity, or common stock investing, we generally purchase individual securities for our clients' portfolios, and we focus our attention on exchange-listed securities, most of which will be U.S. corporations. We do use the securities of foreign corporations on occasion (and they will trade on U.S. exchanges as ADR's, just like U.S. stocks do), but for the most part, our equity investments will be in U.S. companies. We may on rare occasions use a mutual fund when it is advantageous to the client to do so, primarily to achieve diversification within a particular sector. It should be noted, however, that when a mutual fund is used, the client may be paying a "double fee" in that the mutual fund will likely be charging an unseen fee which is deducted from the fund value, and the client will also be paying our fee for asset management.

In our fixed income investing, for the most part we use corporate, government, or municipal debt securities issued by U.S. companies, the U.S. government, or states and municipalities within the U.S. We may on rare occasions use the debt securities of a foreign company as we would occasionally buy the common stock of a foreign company.

For the temporary investment of cash within portfolios, we generally use a short term investment vehicle managed by the custodian of the client's assets. These investment vehicles will in turn employ certificates of deposit issued by U.S. banks, the commercial

paper of U.S. corporations, or treasury bills issued by the U.S. government, all with maturities of less than one year and generally less than 90 days.

As a general rule, we do not use options, futures, or derivatives in managing our clients' funds. We do not sell "short" (selling a stock one does not own, and attempting to buy it back later at a lower price) or trade on "margin" (borrowed money). We may on rare occasions invest our clients' funds in a partnership security or an REIT if it is in our clients' interest to achieve their goals, but these will be limited to securities that are listed and traded on U. S. exchanges.

Investing in securities, whether stocks or bonds, entails the risk of loss. Investing in stocks entails the risk of material loss. Clients and prospective clients must be financially able to bear the possibility of such losses.

Disciplinary Actions

As a part of the information included in this brochure, we are required to disclose any disciplinary action taken on the part of any regulatory or law enforcement agency against either our firm or any employee of our firm. Neither Birmingham Capital nor any employee of Birmingham Capital has ever been subject to any disciplinary action or any criminal or civil action by any overseeing agency.

Other Activities and Affiliations

No employee of Birmingham Capital Management, nor any related person, is engaged in any business, activity, or relationship that would be material to our advisory business or to our clients. None of our employees or related persons receives any compensation from any other source that is in any way related to our business or our clients.

Code of Ethics and Conflicts of Interest

SEC rule 204A-1 requires that all investment management organizations that are registered with the SEC adopt and maintain a Code of Ethics that outlines the core values and objectives of the firm in relation to both the standard and the spirit of the laws that govern our business. Our Code also explains the priorities that we incorporate into our business practices in order to protect the interests of our clients and maintain the integrity of our organization. Our Code of Ethics statement is available to clients and/or prospects upon request.

Some of the practices of our firm, as well as just about any other firm in the same business, carry the potential for creating conflicts of interest between those practices and the interests of the clients. Our objective, as outlined in the Code of Ethics referenced above, is to avoid the appearance of such conflicts of interest, and to place the interests of our clients ahead of our own. Below, we will describe some areas where the potential for conflicts exists, and what we do to try to avoid those conflicts.

Birmingham Capital may, from time to time, purchase or sell securities for its employee savings plan that it is also purchasing or selling for its clients. Also, our employees or related persons may, from time to time, purchase or sell securities for their own interest that are also being purchased or sold in client accounts. In such cases, our policy is to always give priority to activities for client accounts. In other words, our employees will not knowingly execute trades for their own accounts immediately prior to executing trades for client accounts in the same security (a practice known as “front-running”). This will be particularly important in cases where we are planning to purchase one or more securities for a large number of clients, and in some meaningful size (thousands or tens of thousands of shares). In cases where only a small number of shares are potentially involved, as might happen if we were purchasing a security for only one or two accounts, it is unlikely that any material advantage or disadvantage might be created because of the size of the companies we invest in and the liquidity of the trading in those shares. Nonetheless, it is our policy to avoid any appearance of conflicts of interest in the purchase or sale of securities. Also to that end, no Birmingham Capital employee or related person is a general partner or owner in any business in which our clients may be solicited to invest, nor any business from whom we might purchase goods or services.

Birmingham Capital does not act as a broker/dealer. In other words, we do not have an arm of our company that can execute trades and charge a commission. We generally have no conflict of interest in the selection of brokers chosen to execute trades for our clients’ accounts. However, more specific information is available on this topic in the section of this brochure subtitled **Brokerage Practices**, including a discussion of how the selection of certain brokers may involve higher commissions and how this benefits our clients. Birmingham Capital is not compensated by any third party, broker, or custodian for recommending or using the services of that third party.

Brokerage Practices

As was mentioned in the section above, Birmingham Capital does not act as a broker/dealer, so when we decide to execute a purchase or sale in a client's account, we must choose the appropriate broker to execute the transaction. Discretion in the selection of the executing broker and the commission rate to be paid on a particular trade may vary depending on whether the client is a non-sponsored client or a sponsored client, and on the basis of what additional services a particular broker may offer that are of benefit to all of our clients.

A non-sponsored client is one who comes to Birmingham Capital directly, without the aid or recommendation of a third party securities broker acting as a middleman or advisor. In the case of non-sponsored clients, the selection of brokers and/or custodians, and the negotiation of commission rates will primarily be our responsibility, although the client may wish to provide input. If the client wants us to, we may suggest a choice of several brokers and/or custodians that we have a relationship with, and that have demonstrated that they provide a cost-effective and reliable service. The client may choose to select one of those brokers and /or custodians that we suggest, or they may choose their own independent of our suggestions.

There are several factors that weigh in the selection of brokers and negotiation of commission rates. We will consider the execution capabilities of the broker relative to the anticipated size of the transactions in the client account. Most security transactions, particularly those that involve purchases and sales of stocks, and that involve trades of only a few hundred or even thousands of shares (as a general rule, less than 10,000 shares) are executed by securities exchange computers that simply match orders and do not require the working attention of a broker. In such cases, there is very little difference in the execution capabilities between brokerage firms. If we anticipate that a client's account might involve transactions of a greater size, broker selection will be more important, and the selection of a brokerage firm with more advanced capabilities in "working an order" will be a consideration.

We will also consider the commission rates that will be charged relative to the anticipated size and frequency of the transactions. Additionally we will consider the record-keeping and transaction accounting capabilities of the broker, as that can have a significant impact on the client's overall satisfaction with the investment product. The objective is to obtain a high overall quality of service from the broker, and not necessarily the lowest possible commission rate. The single-minded objective of finding the lowest possible commission rate or cost per trade may often come at the expense of other factors that may in fact be more important to the overall satisfaction level of the client with the broker selected.

One very important factor that affects our ability to obtain important information about the industries and companies we invest in is the availability of reliable research products. Larger brokerage firms often have research capabilities that are available to us through

the use of brokerage commissions. When we receive research products from such brokerage firms, our clients directly benefit because we do not have to independently produce or pay for that research. We are not speaking here of what will later be described as “soft dollar” services. In this case, we are discussing research that larger brokerage firms make generally available to investment managers who from time to time execute trades with those brokerage firms, but with no set expectation for the amount of brokerage that may be generated. In other words, we aren’t “contracting” with them for a set amount of brokerage commissions in exchange for a specified research product. We will discuss that arrangement below.

Therefore it may be the case that the use of certain brokers will be determined on the basis of their ability to provide research services to Birmingham Capital. In those cases, brokerage commissions are not only paying for execution, but also for research services. In such cases it is not reasonable to expect that the commission rate paid will be the lowest absolute rate available. Such research services are of value to all Birmingham Capital clients because they provide a basis for our security selections and the timing of our trades. These services may include company and industry reports, market or economic evaluations or forecasts, and statistical information that is critical to our ability to evaluate investment opportunities.

Since all clients benefit from the use of research services that may be paid for by brokerage commissions, there may be no direct correlation between the benefits received by any one client and the brokerage commissions that come from transactions from that or any other portfolio. In other words, any number of accounts may participate in trading that generates commissions that help to pay for research services. As a result, BCM recognizes, and advises clients, that our objective in negotiating commissions with any particular broker may not always be the obtaining of the absolute lowest commission rate.

As a result of all these factors, we will place orders for the purchase and sale of securities with the primary objective of obtaining a competitive commission rate, an efficient execution of the trade, and the possibility that certain brokers are providing vital research products and information. We will insist on a high standard of quality in evaluating execution capabilities, and will occasionally test broker execution capabilities. We will deal only with brokers who can meet those standards of quality execution.

A sponsored client is a client who has been brought to us or introduced to us by a third party securities broker, usually someone with whom the client has had a prior relationship. Birmingham Capital does not compensate, directly or indirectly, any person or organization for client referrals. In the case of a sponsored client, the introducing broker will usually also serve as the custodian of the client’s assets.

As was mentioned earlier, we may also from time to time execute trades with certain brokers with whom we have contracted to obtain specific research materials in exchange for brokerage commissions. This is known as a “soft dollar” arrangement. We use these

types of commissions to purchase products and services that aid in investment decision-making and trade executions. Specifically, during the past year, we have used soft dollar commissions to purchase our securities quotation and trading service supplied by Telemet. The commission rates we receive by trading with the broker we use for this type of trading are very competitive, but we cannot guarantee that they are the lowest possible rates. Again, all of our clients are receiving the benefits of this service, and should expect that there might be a higher commission rate involved, and we do not attempt to proportionately allocate those benefits only to the accounts that might have paid the commissions.

Sponsored clients, which are clients that come to us on the advice of a third party such as their broker, will almost always direct us to execute trades with the broker who introduced us to the client, and who in most cases has custody of their assets. In such cases Birmingham Capital does not accept responsibility for execution capabilities nor commission rates. We will assume that the sponsored client and the sponsoring broker have accomplished those negotiations themselves, and that they are satisfactory to the client. In such cases, the client should realize that they are likely paying higher transaction costs or custodial fees than might be available through other brokers.

Finally, it may be our practice from time to time, especially in cases where we plan to purchase or sell a particular security for a large number of client portfolios, to aggregate or combine all the trades into one large trade with one broker. We can only do this if the clients have not expressed a preference for a particular broker or if the custodial situations allow it. In those cases, it might be advantageous to the accounts involved to aggregate, in that they could potentially receive a lower commission rate than if the trades had been done one at a time in individual accounts. We will use our best judgment to determine when it might be advantageous to our clients to do this.

Review of Accounts

Client portfolios at Birmingham Capital will be managed by one or both of the firm's principals and founders, H. Thomas Smith and William H. Couchman. Tommy and Bill have extensive backgrounds in money management. Tommy (born 03/06/40) has been a professional investor since 1969, including 3 years at Integon Corporation and 11 years at AmSouth Bank in the Trust Investment Department. Bill (born 07/03/52) has been in the investment management business since 1976, including nearly 8 years at AmSouth Bank in the Trust Investment Department. Both Tommy and Bill have advanced degrees in business, and both are Chartered Financial Analysts (see the section subtitled **Investment Professionals, p. 18**).

Client accounts are reviewed by one or both of the principals on at least a monthly basis to insure that the holdings are consistent with previously stated client objectives. Accounts may be reviewed more frequently as securities are bought or sold in accounts or as portfolio strategies may change. Individual accounts may also be reviewed more frequently if there are changes in the client's objectives. Accounts are generally managed by the principals as a team, but one of the principals will usually be designated as the primary contact on each account.

The principals will meet with clients and/or client representatives (such as financial advisors) periodically to discuss client objectives, strategies, portfolio changes, and performance. Should modifications in client objectives occur, those changes will be immediately noted on the client profile. There is no formal scheduling of such meetings unless the client requests that such be the case. We will attempt to schedule and conduct such meetings at least annually, subject to the client's availability. Meetings may be more frequent if the client requests such.

Custody of Assets

Birmingham Capital does not have the authority to act as a custodian for client funds. Prospective or current clients may direct us to use a custodian of their choice. If a prospective client has no preference with regard to a custodian, we may suggest a set of alternatives with regard to the choice of an appropriate custodian. If the prospective client still has no preference, we will exercise the authority to choose an appropriate custodian for the client's funds. Prospective clients should be aware that some custodians may charge a custodial fee that the client must pay in addition to our management fee.

Any custodian that we may choose on behalf of a client will send the client a statement of their account at least quarterly, which will list all transactions for the time period covered, as well as a market valuation for the assets. Clients should carefully review these statements, as they represent the official picture of the account's transactions, asset values, and potential tax liabilities. We also utilize an accounting system for account management, and if a client requests it, we will furnish a monthly or quarterly statement from our internal accounting system. Even though we balance our statements monthly with those provided by custodians, clients should nonetheless carefully compare our statements with those of their custodian.

Investment Discretion

All prospective clients who wish to hire Birmingham Capital must execute an investment management agreement which gives us, in effect, a power-of-attorney to execute securities transactions in a specified account. The management agreement does not give us authority to direct the custodian to transfer assets into or out of a client's account without the client's consent or direction. The only exception is that the client may also give us standing authority to bill the custodian for our investment management services, and the custodian can then pay our management fee from the account we manage. In any such case, we will also send the client a copy of the invoice sent to the custodian so that the client can see the asset values and amount billed.

We will generally exercise full discretionary authority with regard to the selection of securities to be bought or sold within a client's account. In other words, it will not be our practice to seek client approval prior to any particular transaction. It will be the client's responsibility to notify us if they wish to create any limitations on that discretionary authority, such as the identification of particular securities or types of businesses that they do not wish to own. Unless the investment management agreement or a written notification specifies otherwise, we will assume full discretionary authority in the selection of securities to be bought and sold in such client's account.

Voting Proxies

If the client wishes for us to do so, we will accept responsibility for voting the proxies for securities held in the client's account. Clients and prospective clients should know that we do not hold ourselves out to be "Activists" in proxy voting. It is generally not our goal to actively seek to influence decisions that the boards of directors of companies in whom we own shares for our clients might make. Consequently, our normal practice with regard to proxy voting will be to vote with company management. There may be an exception to that practice if, in our judgment, a proxy item that is up for a vote appears to us to give company management some sort of advantage over shareholders. As an example, in times past it might have been the case that managements might ask shareholders to approve a provision that allowed certain company managers to purchase shares of their own stock in the market at a price discounted to the current trading value. If we see such a proposal on a proxy ballot, we might vote against it because we might consider it to be disadvantageous to shareholders in favor of management. We would hasten to add, however, that in the current era of higher scrutiny of management practices, such situations are very rare.

Clients may wish to vote their own proxies, in which case we will make that provision available to them by giving the custodian appropriate instructions with regard to who receives the proxies when they are issued. Clients may also direct us as to how to vote on a particular matter that may appear in a proxy by giving us written instructions for such a vote for securities in their account.

Clients may request from us a copy of our voting policies and procedures, as well as information about our voting record for proxies in their account.

Investment Professionals

We are required to provide clients and prospective clients with information about our employees who are involved in the formulation of investment advice for our clients and who have direct client contact, and, for employees who have discretionary authority over our clients' assets.

As we stated in the section subtitled **Review of Accounts (p. 14)**, all client contact and portfolio supervision is done by one or both of our founders and principals, H. Thomas Smith and William H. Couchman. Tommy and Bill both have advanced college degrees. Tommy has degrees from Wake Forest University (Bachelors) and the University of North Carolina (MBA); and Bill has degrees from the University of Alabama (Bachelors and Masters). Tommy (born 03/06/40) has been a professional investor since 1969, including 3 years at Integon Corporation and 11 years at AmSouth Bank in the Trust Investment Department. Bill (born 07/03/52) has been in the investment management business since 1976, including nearly 8 years at AmSouth Bank in the Trust Investment Department. Both Tommy and Bill are Chartered Financial Analysts*.

*The Chartered Financial Analyst (CFA) designation is conferred on investment professionals who have completed a 3-year study and testing program designed to enhance their knowledge of a variety of aspects of investment research and portfolio management. CFA's are members of the national Association for Investment Management and Research.

