

Village Bank & Trust Financial Corp.  
Form 10-Q  
May 15, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
 QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.  
(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of  
incorporation or organization)

16-1694602  
(I.R.S. Employer  
Identification No.)

15521 Midlothian Turnpike, Midlothian,  
Virginia  
(Address of principal executive offices)

23113  
(Zip code)

804-897-3900  
(Registrant's telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller Reporting Company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date.

4,251,795 shares of common stock, \$4.00 par value, outstanding as of May 8, 2012

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## PART I – FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Balance Sheet  
March 31, 2012 (Unaudited) and December 31, 2011

	March 31, 2012	December 31, 2011
Assets		
Cash and due from banks	\$ 41,056,595	\$ 55,557,541
Federal funds sold	1,540,477	7,228,475
Total cash and cash equivalents	42,597,072	62,786,016
Investment securities available for sale	35,359,604	30,163,292
Loans held for sale	17,191,828	16,168,405
Loans		
Outstandings	411,927,432	427,870,716
Allowance for loan losses	(14,361,953 )	(16,071,424 )
Deferred fees	805,495	767,775
	398,370,974	412,567,067
Premises and equipment, net	26,527,119	26,826,524
Accrued interest receivable	1,899,781	2,046,524
Bank owned life insurance	6,115,697	6,065,305
Other real estate owned	14,590,465	9,177,167
Restricted equity securities	2,986,643	2,989,286
Other assets	9,727,383	12,914,733
	\$ 555,366,566	\$ 581,704,319
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$ 66,383,144	\$ 66,534,956
Interest bearing	399,009,915	418,986,096
Total deposits	465,393,059	485,521,052
Long-term debt - trust preferred securities	8,764,000	8,764,000
Federal Home Loan Bank advances	36,750,000	37,750,000
Other borrowings	5,207,569	5,778,661
Accrued interest payable	666,771	592,283
Other liabilities	4,275,321	7,050,681
Total liabilities	521,056,720	545,456,677
Stockholders' equity		
Preferred stock, \$4 par value, \$1,000 liquidation preference		
1,000,000 shares authorized, 14,738 shares issued and outstanding	58,952	58,952

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Common stock, \$4 par value - 10,000,000 shares  
authorized;

4,238,416 shares issued and outstanding at  
March 31, 2012

4,243,378 shares issued and outstanding at  
December 31, 2011

Additional paid-in capital

Retained earnings

Common stock warrant

Discount on preferred stock

Accumulated other comprehensive loss

Total stockholders' equity

17,007,180

40,700,099

(23,516,385 )

732,479

(309,744 )

(362,735 )

34,309,846

16,973,512

40,732,178

(21,895,557 )

732,479

(346,473 )

(7,449 )

36,247,642

\$ 555,366,566

\$ 581,704,319

See accompanying notes to consolidated financial  
statements

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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Operations  
Three Months Ended March 31, 2012 and 2011  
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Interest income		
Loans	\$ 5,899,208	\$ 7,040,768
Investment securities	150,349	300,326
Federal funds sold	20,932	18,323
Total interest income	6,070,489	7,359,417
Interest expense		
Deposits	1,358,238	2,038,876
Borrowed funds	290,986	282,691
Total interest expense	1,649,224	2,321,567
Net interest income	4,421,265	5,037,850
Provision for loan losses	1,735,000	1,003,000
Net interest income after provision for loan losses	2,686,265	4,034,850
Noninterest income		
Service charges and fees	507,643	372,950
Gain on sale of loans	1,750,663	1,372,678
Gain on sale of securities	164,207	63,125
Rental income	176,496	151,937
Other	89,644	94,518
Total noninterest income	2,688,653	2,055,208
Noninterest expense		
Salaries and benefits	3,098,224	3,050,116
Occupancy	546,367	493,224
Equipment	205,364	220,070
Supplies	91,902	116,159
Professional and outside services	635,382	566,354
Advertising and marketing	76,063	122,839
Expenses related to foreclosed real estate	1,118,775	462,316
Other operating expenses	1,003,221	866,860
Total noninterest expense	6,775,298	5,897,938
Net income (loss) before income taxes	(1,400,380 )	192,120
Income tax expense	-	109,400
Net income (loss)	(1,400,380 )	82,720
	220,449	218,058

Preferred stock dividends and amortization of discount

Net income (loss) available to common shareholders	\$	(1,620,829 )	\$	(135,338 )
Earnings (loss) per share, basic	\$	(0.38 )	\$	(0.03 )
Earnings (loss) per share, diluted	\$	(0.38 )	\$	(0.03 )

See accompanying notes to consolidated financial statements.



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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Comprehensive Income (Loss)  
(unaudited)

	For the three months ended March 31,					
	Amount	2012 Tax Expense (Benefit)	Total	Amount	2011 Tax Expense (Benefit)	Total
Net Income	(1,400,380)	-	(1,400,380)	192,120	109,400	82,720
Other comprehensive income:						
Unrealized holding gains arising during the period	(377,355 )	(128,301)	(249,054 )	(78,192 )	(26,585 )	(51,607)
Reclassification adjustment for gains realized in income	(164,207 )	(55,830 )	(108,377 )	(63,532 )	(21,601 )	(41,931)
Minimum pension adjustment	3,250	1,105	2,145	3,250	1,105	2,145
Total other comprehensive income	(538,312 )	(183,026)	(355,286 )	(138,474)	(47,081 )	(91,393)
Total comprehensive income	(1,938,692)	(183,026)	(1,755,666)	53,646	62,319	(8,673 )

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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Stockholders' Equity  
Three Months Ended March 31, 2012 and 2011  
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Warrant	Accumulated		Total
						Discount on Preferred Stock	Other Comprehensive Income (loss)	
Balance, December 31, 2011	\$58,952	\$16,973,512	\$40,732,178	\$(21,895,557)	\$732,479	\$(346,473)	\$(7,449 )	\$36,247,642
Amortization of preferred stock discount	-			(36,729 )	-	36,729	-	-
Preferred stock dividend	-	-		(183,719 )	-	-	-	(183,719 )
Issuance of common stock	-	33,668	(33,668 )	-	-	-	-	-
Stock based compensation			1,589					1,589
Minimum pension adjustment (net of income taxes of \$2,917)	-	-	-	-	-	-	2,145	2,145
Net income	-	-	-	(1,400,380 )	-	-	-	(1,400,380 )
Change in unrealized gain on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	(357,431)	(357,431 )
Balance, March 31, 2012	\$58,952	\$17,007,180	\$40,700,099	\$(23,516,385)	\$732,479	\$(309,744)	\$(362,735)	\$34,309,846
Balance, December 31, 2010	\$58,952	\$16,953,664	\$40,633,581	\$(9,192,552 )	\$732,479	\$(492,456)	\$(373,474)	\$48,320,194

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Amortization of preferred stock discount	-	-	(36,357 )	-	36,357	-	-
Preferred stock dividend	-	-	(181,701 )	-	-	-	(181,701 )
Issuance of common stock	-	19,848	(19,848 )	-	-	-	-
Stock based compensation			29,612				29,612
Minimum pension adjustment (net of income taxes of \$2,917)	-	-	-	-	-	2,145	2,145
Net income	-	-	-	82,720	-	-	82,720
Change in unrealized gain on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	(93,538 ) (93,538 )
Balance, March 31, 2011	\$58,952	\$16,973,512	\$40,643,345	\$(9,327,890 )	\$732,479	\$(456,099)	\$(464,867) \$48,159,432

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Cash Flows  
Three Months Ended March 31, 2012 and 2011  
(Unaudited)

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$(1,400,380 )	\$82,720
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	344,244	350,499
Deferred income taxes	1,104	(3,710,085 )
Valuation allowance	476,129	-
Provision for loan losses	1,735,000	1,003,000
Write-down of other real estate owned	670,023	362,237
Gain on securities sold	(164,207 )	(63,125 )
Gain on loans sold	(1,750,663 )	(1,372,678 )
(Gain) loss on sale of other real estate owned	4,355	(6,467 )
Stock compensation expense	1,589	29,612
Proceeds from sale of mortgage loans	64,848,047	55,513,663
Origination of mortgage loans for sale	(64,120,807)	(42,898,800)
Amortization of premiums and accretion of discounts on securities, net	39,306	26,737
(Increase) decrease in interest receivable	146,743	(189,750 )
Increase in bank owned life insurance	(50,392 )	(46,187 )
(Increase) decrease in other assets	2,899,037	4,840,536
Increase in interest payable	74,487	49,911
Decrease in other liabilities	(2,959,078 )	(609,823 )
Net cash provided by operating activities	794,537	13,362,000
<b>Cash Flows from Investing Activities</b>		
Purchases of available for sale securities	(20,764,694)	(54,960,337)
Proceeds from the sale or calls of available for sale securities	14,277,005	803,100
Proceeds from maturities and principal payments of available for sale securities	874,715	25,838,844
Net decrease in loans	5,847,047	7,211,973
Proceeds from sale of other real estate owned	526,370	555,152
Purchases of premises and equipment	(44,839 )	(329,962 )
Net cash provided by (used in) investing activities	715,604	(20,881,230)
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in deposits	(20,127,993)	5,947,124
Net increase (decrease) in Federal Home Loan Bank Advances	(1,000,000 )	10,000,000
Net increase (decrease) in other borrowings	(571,092 )	1,076,069
Net cash provided by (used in) financing activities	(21,699,085)	17,023,193
Net increase (decrease) in cash and cash equivalents	(20,188,944)	9,503,963
Cash and cash equivalents, beginning of period	62,786,016	12,012,311
Cash and cash equivalents, end of period	\$42,597,072	\$21,516,274

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Supplemental Schedule of Non Cash Activities

Real estate owned assets acquired in settlement of loans	\$6,614,046	\$7,097,681
Dividends on preferred stock accrued	\$183,719	\$-

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary  
Notes to Condensed Consolidated Financial Statements  
Three Months Ended March 31, 2012 and 2011  
(Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the “Company”) is the holding company of Village Bank (the “Bank”). The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three month period ended March 31, 2012 is not necessarily indicative of the results to be expected for the full year ending December 31, 2012. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission.

Note 2 - Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statements of financial condition and revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and the related provision.

Note 3 – Earnings (loss) per common share

The following table presents the basic and diluted earnings per share computations:

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	Three Months Ended March 31,	
	2012	2011
Numerator		
Net income (loss) - basic and diluted	\$ (1,400,380)	\$ 82,720
Preferred stock dividend and accretion	220,449	218,058
Net income (loss) available to common shareholders	\$ (1,620,829)	\$ (135,338 )
Denominator		
Weighted average shares outstanding - basic	4,249,336	4,241,945
Dilutive effect of common stock options and restricted stock awards	-	-
Weighted average shares outstanding - diluted	4,249,336	4,241,945
Earnings (loss) per share - basic and diluted		
Earnings (loss) per share - basic	\$ (0.38 )	\$ (0.03 )
Effect of dilutive common stock options	-	-
Earnings (loss) per share - diluted	\$ (0.38 )	\$ (0.03 )

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. Stock options for 264,530 and 310,205 shares of common stock were not included in computing diluted earnings per share for the three months ended March 31, 2012 and 2011, respectively, because their effects were anti-dilutive. Warrants for 499,029 shares of common stock were not included in computing earnings per share in 2012 and 2011 because their effects were also anti-dilutive.

#### Note 4 – Investment securities

At March 31, 2012 and December 31, 2011, all of our securities were classified as available for sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands).

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	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield	
March 31, 2012							
US Government Agencies							
Five to ten years	\$4,000	\$4,055	\$-	\$(128 )	\$3,927	2.22	%
More than ten years	7,000	7,483	-	(245 )	7,238	2.96	%
	11,000	11,538	-	(373 )	11,165	2.70	%
Mortgage-backed securities							
One to five years	7	7	-	-	7	0.01	%
More than ten years	20,029	20,785	31	(42 )	20,774	2.09	%
Total	20,036	20,792	31	(42 )	20,781	2.09	%
Other investments							
More than ten years	3,298	3,427	-	(13 )	3,414	1.44	%
Total investment securities	\$34,334	\$35,757	\$31	\$(428 )	\$35,360	1.62	%
December 31, 2011							
US Government Agencies							
More than ten years	\$2,000	\$2,000	\$1	\$-	\$2,001	3.81	%
Mortgage-backed securities							
One to five years	11	11	-	-	11	0.01	%
More than ten years	19,870	20,621	220	(49 )	20,792	1.83	%
Total	19,881	20,632	220	(49 )	20,803	1.83	%
Other investments							
More than ten years	7,356	7,386	-	(27 )	7,359	0.55	%
Total investment securities	\$29,237	\$30,018	\$221	\$(76 )	\$30,163	1.65	%

Investment securities available for sale that have an unrealized loss position at March 31, 2012 and December 31, 2011 are detailed below.

	Securities in a loss Position for less than 12 Months		Fair Value (Loss)	Securities in a loss Position for more than 12 Months		Total Unrealized Losses
	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses	
March 31, 2012						
Investment Securities available for sale						
US Treasuries						